# Nepal-India informal trade in agricultural inputs **Evidence from a small-scale survey**

Informal trade may help accessing essential agricultural inputs, but increasing dependency on such unreliable practices can be detrimental.

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Easy availability of chemical fertilizers, access to better quality seeds and cheaper equipment across the open border in Indian markets have contributed to a thriving informal trade of agricultural inputs in Nepali villages bordering India. Although the informal trade has made accessing these essential inputs seemingly convenient for farmers, this increasing dependency on such unreliable practices can be detrimental. The unrestrained inflow of untested seeds introduces variants susceptible to diseases.[1] Similarly, dependence on the informal flow to meet domestic fertilizer requirement has left authorities responsible for maintaining the supply complacent about properly managing the domestic supply system.[2] Furthermore, unchecked flow of pesticides of questionable quality from across the border may even bring about public health crises in the future[3]. Blocking the informal flow of agricultural inputs may not be desirable or feasible without a workable alternative in place. Coordinated steps are required for policy makers to probe the drivers and extent of such practices and take the necessary actions.

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India takes a 65 per cent share of Nepal's recorded foreign trade. The 1,800 km long open border between the two countries and the shared ethnic and cultural ties make some amount of informal trade almost inevitable. Informal trade refers to the flow of commodities that are not recorded on either side of the border as they circumvent formal channels to avoid various taxes and cross-border tariff and non-tariff barriers. In fact, the agrarian border area economy means prevalence of a large volume of informal trade in agricultural commodities. Nepali farmers resort to markets across the border for cheaper and timely availability of inputs such as fertilizers, seeds, small machineries, agro-chemicals and diesel, among others, bypassing any procedural hindrances.

That rampant informal trade between the two countries has never been a secret. Although anecdotal evidences support the persistence of such trade, empirical evidence relating to the quantum and extent of such trade is scarce. Among the informally traded items, agriculture products are ranked high. A 2005 study[4] found that agricultural products constitute major proportion of India's trade with Nepal, including both formal and informal channels. Similarly, according to another study[5] also informal trade of several farm products is as large as formally recorded trade. Control over such unauthorised trade of price-controlled commodities, such as fertilizers, has always been on the agenda at different meetings of Nepal-India Inter-Governmental Committee (IGC) on Trade, Transit and Cooperation to Control Unauthorized Trade.[6] The inadequacies of Nepal's subsidized fertilizer supplier to meet domestic demand have left many in the bordering areas dependent on the markets on the Indian side. Nepal requires 500,000 tonnes to 700,000 tonnes of the chemical fertilizers[7], but statistics shows an annual official distribution of less than 300,000 tonnes[8], implying that majority of required amount is met through informal imports from India.

South Asia Watch on Trade, Economics and Environment (SAWTEE) carried out a study in collaboration with Consumer Unity & Trust Society (CUTS) International at two locations on the Nepal-India border—Kaptangunj VDC in Sunsari District and Giddha Village Development Committee (VDC) in Dhanusha District—to assess the drivers of informal trade of three agricultural inputs, namely seeds, chemical fertilizers and small agricultural machineries. Based on the findings of the small-scale survey, this research brief gauges the trend and drivers of such informal trade. Given the limited sample size and area covered, the findings may not be representative of the whole border area, yet the findings can be taken as indicative of the larger picture. Moreover, this study serves to provide an opening for further research and analysis on an issue that is talked about a lot in general, but the understanding of which is constrained by lack of facts.

## Profile of the sampled villages

Kaptangunj VDC of Sunsari District is located 30 kilometres away from Inaruwa, the district headquarters, and four kilometers from Fulkaha village in India. The proximity of Fulkaha with Kaptangunj means that farmers have an access to readily available agricultural inputs on the other side of the border. Another location of the survey – Belapatti Village in Giddha VDC of Dhanusha District – is 15 kms away from Janakpur, borders with Duhabi and Mahinathpur villages in India. The households that were part of the two rounds of survey undertaken in November 2016 and January 2017 reported an average annual income of about NPR 142,000. Many household incomes, especially in Dhanusha, were further supplemented by remittance sent by family members working as migrant labourers abroad.

Farmers in Kaptangunj plant three crops every year, paddy, wheat, and maize. Besides, sugarcane, bananas and off-season vegetables are also farmed for livelihood. The land holdings of respondents of the survey varied between an acre to 18 acres. The farmers reported that they rely mostly on the domestic supply to meet their seeds requirement for cereal crops such as rice, maize and wheat. For vegetable seeds, including potato, they depend on informal purchases from the other side of the border. In Giddha also, farmers took to three types of crops, but their average land holding size is about three acres. Here, most of the farmers bring paddy seeds from the other side of the border.

Farmers' dependency on the Indian markets for chemical fertilizers is far greater than for seeds. Most of the farmers in both places say that they buy about 70 to 80 per cent of the required fertilizers, namely urea, diammonium phosphate (DAP) and potash, from India. There Indian government subsidized fertilizers are easily available at cheaper prices and in sufficient quantities, unlike in Nepal, where fertilizer shortage has become more of a rule than an exception. In addition, they also prefer to purchase agricultural machinery such as manual or power sprayers from India, where they are cheaper.

## Extent of informal trade

To meet the research objective, the study considered three broad categories of products: seed, fertilizer and machinery. Then, it selected specific products which are brought illegally in the chosen locations from the

other side. In the case of Kaptangunj, vegetable seeds, particularly potato seeds, were selected and, in the case of Giddha, seeds of Sona Mansuli paddy. As for chemical fertilizer, DAP was found to be imported at greater quantities at both locations. Similarly, in terms of agricultural machinery, power sprayer was selected.

### *Vegetable and potato seeds*

Farmers opt to buy vegetable seeds directly from Indian markets instead of waiting for local traders to get them their chosen variety. These seeds are not available in Nepali markets at all. According to the vegetable farmers, hybrid seeds are required to grow off-season vegetables and most of these varieties are not available in Nepal. Potato is a major vegetable crop for farmers in Kaptangunj. The farmers travel as far as Punjab in India and even to Bhutan, another country, to procure potato seeds. As the required customs services are unavailable at the border in Kaptangunj, they either have to go to Biratnagar in Morang or Bhantabari in Sunsari for customs clearance. Farmers bring large quantities on trucks. About 70 per cent of the potato seeds are cleared by customs. To avoid any trouble related to sanitary and phytosanitary certification they import the seeds as edible potato. The remaining 30 per cent is brought informally from India, without any customs clearance. Even so, no customs duty is actually applicable for potatoes, except a five per cent Agriculture Development Fee. The Kaptangunj farmers say that they are willing to pay tariff for the imports, if only the mini-customs at Kaptangunj was upgraded to allow trucks to pass through it.

### *Sona Mansuli paddy seed*

There is official restriction on imports of Sona Mansuli rice seeds, because of its susceptibility to neck blast disease. Still, most farmers in Giddha plant the variety for its better productivity. They use up a half to two-thirds of their land planting Sona Mansuli . Almost 60-70 per cent of their seed requirement is met from the market across the border. They reuse the paddy from their own harvest as seed to meet the rest of the demand. Of late, many farmers have started to replace Sona Mansuli with other locally grown varieties, such as Sona Savarna and Ravi. These are considered to be as productive as the restricted variety, but are not as well known.

### *Fertilizers*

Farmers at both the locations said that they buy about 70 to 80 per cent of their fertilizers from across the border. The quantity also depends on whether the farmers are able to procure subsidized fertilizers distributed by their own government at the time of their need. Smaller quantities, up to two sacks, are ferried from across the border on bicycles or motorcycles. To ensure that the fertilizer, subsidized by the Indian government, is being taken for the farmer's own use and not for resale, Indian security force personnel at the border make farmers unseal and divide the 50 kilo sacks into two smaller packages. At times, farmers are subjected to pay NPR 25 to NPR 50 as bribe to the security forces at the border. For larger quantities, farmers hire 'carrying' services to cross the border. Such services are offered by dealers in India and may cost up to NPR 100 per sack.

> Farmers resort to markets across border for cheaper and timely availability of agricultural inputs bypassing any procedural hindrances.

### *Small agricultural machinery*

Nepali farmers also bring smaller agricultural equipment, such as power and manual sprayer from markets in India. These cost half in Indian markets, compared to markets in Nepal. Although the government in Nepal provides a 50 per cent subsidy on agricultural machineries, the process required to receive the facility takes some time.

## Drivers of informal trade in agricultural inputs

### *Timely availability*

Nepal does not impose any explicit restriction on imports of chemical fertilizer, but the government does provide financial support in the form of transport subsidy to government agencies, mainly Agriculture Inputs Company Ltd and Salt Trading Corporation. Thus, subsidized fertilizer can only be made available through these agencies. The process of calling international tender for its supply, and final distribution to farmers via farmers' groups or cooperatives, take a long time. It hardly ever completes within the stipulated time. For farmers, the window of their plantation period is narrow. A few days' delay in sowing seeds could hamper the whole crop cycle. Thus, instead of waiting for the subsidized fertilizer, the farmers cross over to the bordering markets for the Indian subsidized fertilizer, which is available there in sufficient quantity. Even if the government could supply the fertilizer on time, it is not distributed in sufficient quantities.

Similar is the case of vegetable and potato seeds in Kaptangunj. For their reliance on the potato seeds

market in Fulkaha across the border, the farmers blame the lengthy official process of getting it cleared through the far-off customs point and laboratories in Biratnagar, about 20 km away from the village. As for vegetable seeds, the domestic market does not stock the varieties that the farmers seek. They procure the required variety from across the border. Regarding the Sona Mansuli rice, which is restricted in Nepal, farmers in Giddha can easily buy its seeds from across the border.

### *Cheaper across the border*

Agricultural inputs are not only easily available across the border, but also cheaper. Even after the subsidy, the price for a kilo of DAP in Nepal is about 25 per cent higher than in India. Thus, the Kaptangunj farmers save up to NPR 5,500 on an acre if they buy all their required DAP from India. Similar is the case with other machineries, such as power sprayer, which are cheaper in India. Although Nepal provides a 50 per cent subsidy on agricultural machineries, the process is lengthy. Farmers say that instead of going through hassles and time to get the subsidy approval, they would rather purchase the same equipment from India at prices which are almost equal to the subsidised prices in Nepal.

### *Quality and productivity*

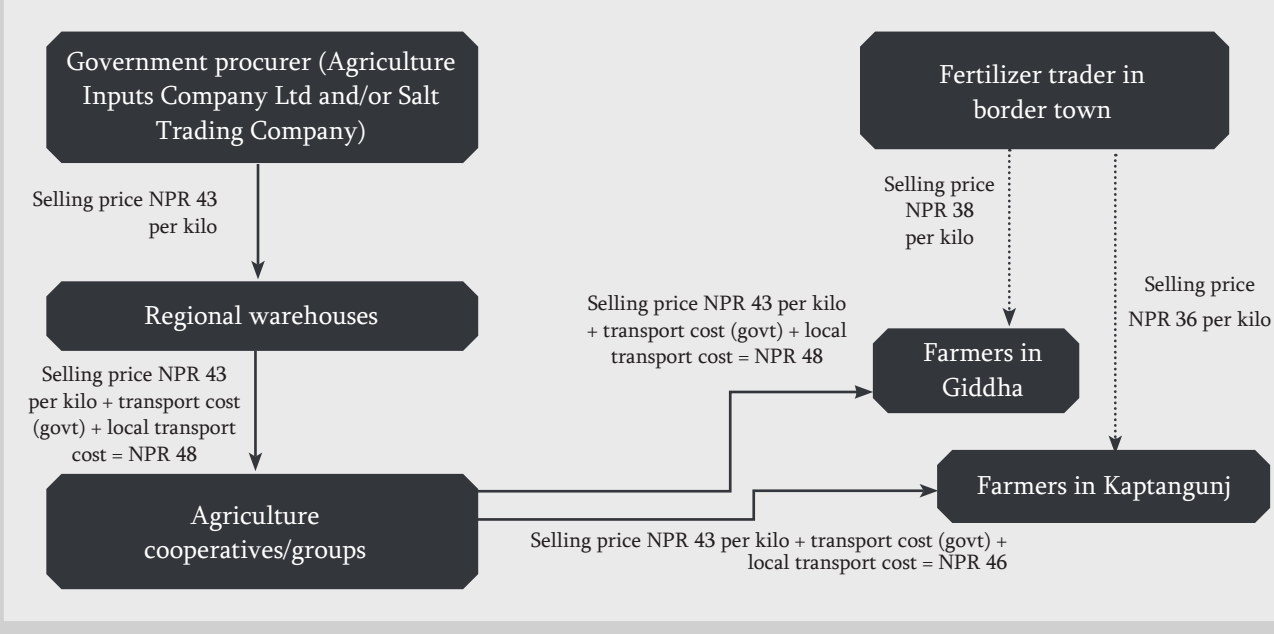
Farmers preferred to buy certain variety of seeds from the Indian side for productivity and quality. Vegetable farmers said that the varieties available in India are better in terms of productivity and reliability. The Indian seeds guarantee a minimum production. The crops' timely flowering and maturing makes them reliable. Likewise, Indian hybrid off-season vegetables provide better productivity than the Nepali varieties. As already mentioned, farmers prefer Sona Mansuli in spite of its susceptibility to diseases for its ability to provide them with a bumper harvest.

Another reason for the dependence on Indian markets is that farmers also complain about adulteration of packaged seeds when purchased from the other side of the border. As for fertilizers, some farmers considered Nepali fertilizers better in quality while some others said that Indian ones were better. Some farmers also complained about adulteration of fertilizers bought in India. Regarding agricultural machines, such as sprayers, the farmers considered Indian ones better in quality. Although, Nepali markets also sell cheaper Chinese equipment, they say that they break down frequently.

### *No hassles of paperwork and ease of payment*

The Nepali subsidy on fertilizers and seeds is already included in the market price, but for agricultural machinery the farmers are given back 50 per cent of the total price paid after presenting a valid bill of the purchase. However, the lengthy process involced in getting the refund discourage them from making claims. There could be other problems affecting their claims as well. For example, if the farmers have previously

Figure 1 || Flow of DAP (Kaptangunj and Giddha)




*Source: Primary survey held in the year 2016/17. Amount charged by cooperatives/farmers' groups for distribution is included in local transport cost.*

borrowed money from banks, and this is the case in many instances, they do not receive the subsidy amount directly. Since the refund is deposited in their bank account it goes towards repaying loan. This too seems to hamper their decision to buy subsidized equipment in Nepal. In any case, the unsubsidized price of the items in India is almost the same as their subsidized price in Nepal.

Moreover, Indian dealers have made it easy for the Nepali farmers to buy fertilizers and seeds from them. They do not need to make all the payments at the time of purchase. Many dealers are willing to receive payments after the harvest is sold. However, no such credit facility is available for farmers on the Nepali side. The distributors of fertilizers and seeds, usually cooperatives, only make a sale when paid upfront, in full amount, which discourages liquidity-constrained farmers.

### *Lack of formal customs point*

Kaptangunj farmers said that they would be more comfortable bringing the seeds via formal channels if a customs office was established at Kaptangunj-Fulkaha Border. The existing mini-customs only allows goods worth up to NPR 5,000. Trucks are not allowed to pass through that point. For customs clearance, the farmers have to travel to Bhantabari (40 km away) or Biratnagar (20 km away).

## Way forward

Though informal trade takes place because it is less costly than formal trade, for individual farmers, it also exposes them to grave risks. In the absence of formalised recognition of products brought from Indian markets, quality of such products cannot be guaranteed. The risk of seeds going bad is completely borne by the Nepali farmers themselves. The government ensures that the fertilizers and seeds it distributes work, as, in cases of failure, it is bound to compensate for the losses. The fertilizer and seeds traded informally have no such guarantee. Once the crop insurance scheme coverage becomes wider in Nepal, the role of the origin of seeds should gain further importance. No doubt, the insurance companies would want to insure against the risk of crop failure only if the quality of seeds being used is guaranteed. Similar is the case with fertilizers.

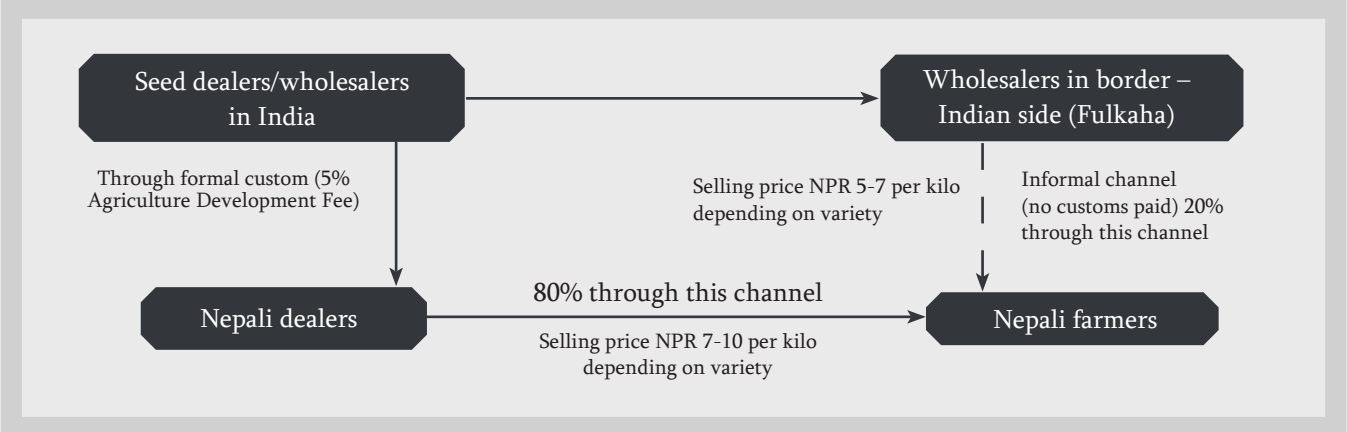
In addition, the extra-legal status of such informal trade means that farmers are exposed to different kinds of abuse at the hands of security forces. Border patrol forces verbally, and sometimes physically, abuse the farmers and occasionally confiscate their cargo, not to mention wayward officials taking irregular payments.

Besides easy availability, the attraction is also in price. Indian fertilizers are cheaper for them being heavily subsidized items. Since, Nepal-India Trade Treaty's protocol related to Article II[9] prohibits movement of subsidized goods between the countries, it may even weaken Nepal's position at the negotiating table when discussing trade related issues with India. After all, it is India that supplies 100,000 tonnes of DAP and Urea[10] under the treaty's provision in accordance with specific annual quota allocations.[11]

Given the dependency on informal trade for agricultural inputs, Nepal needs to urgently take steps to remove domestic supply bottlenecks if only to formalize the informal trade in these goods.

- Ministry of Agriculture and the body responsible for procurement of fertilizers, Agriculture Inputs Company, should start procurement of fertilizers early on to eliminate delays. The private sector can be

Figure 2 || Flow of potato seeds (Kaptangunj) from India




*Source: Primary survey held in the year 2016/17. During the time of the survey, potato seeds prices were abnormally low due to bumper harvest.*

included in the subsidy regime to ensure timely distribution.

- For seeds, tariff barrier between Nepal and India is almost non-existent, but the non-tariff measures – in the form of Sanitary and Phyto-Sanitary certification and lack of harmonization of laboratories – make farmers seek informal channels. Harmonization or mutual recognition of standards and the testing regime could encourage formal trading.
- Nepal-India Treaty of Trade also has a provision[12] in which India has agreed to assist Nepal to increase its capacity to trade through improvement in technical standards, quarantine and testing facilities and related human resource capacities. Implementing this provision could help not just to formalize imports of seeds but also help boost Nepal's agriculture exports.
- Given the open border between the countries, a mechanism should be in place that will allow Nepali citizens residing in border areas to carry goods, included on a pre-negotiated list, up to a certain value with minimal paperwork at the border points.
- Simplification of documentary and procedural requirements for farmers to obtain subsidized agricultural commodities would encourage them to buy them within Nepal.
- Strengthening the agriculture communication network to spread awareness related to subsidies and grants for farmers, availability of better substitutes, would help minimize the informal trade.
- Improved access to credit, particularly through cooperatives and microfinance institutions, can encourage farmers to purchase inputs formally from domestic dealers.
- Upgrading of mini customs offices, where economically viable, can help channelize trade to formal routes. Improving infrastructure, mostly roads, within Nepal will also help connect farmers to market centres within the country.
- Although this research does not include the study of informal trade of agro-chemicals in the form of pesticides and herbicides, this input also requires careful examination. Informal import of these chemicals translates itself into a detrimental impact not only on agriculture but also on public health, as monitoring of such use is absent.
- Further comprehensive research in the area of cross-border informal trade encompassing different commodities is necessary for better understanding of the drivers and consequences of such practices.

## Notes

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