

Chapter 3

PROBLEMS OF INDUSTRIALISATION IN NEPAL

The underdeveloped economy suffers from one of the main obstacles to rapid industrial growth of the country. This is due to the fact that under such an economy capital remains shy, infra-structural facilities are lacking, peoples' technical know-how is limited, resources for provision of training are also not expanded. The economy of Nepal is no exception. Despite the formation of several development plans, Nepal has yet to make initial break through in its quest of industrialisation the economy on bringing about structural changes.

The Industrial Policy, 1981 of Nepal has given a modified definition of industries in Nepal as follows :

(a) Cottage Industry : It denotes an industrial enterprise in which investment in machinery, equipment and tools does not exceed Rs. 2 lakhs in value and in which fixed assets do not exceed Rs. 5 lakhs.

(b) Small Industry : It denotes an industrial enterprise in which investment in machinery, equipment and tools exceeds Rs. 2 lakhs in value and in which fixed assets do not exceed Rs. 2 million.

(c) Medium Industry : It denotes an industrial enterprise in which fixed assets investment exceeds Rs. 2 million, but

remains below Rs. 10 million.

(d) Large Industry : It denotes an industrial enterprise in which investment in fixed assets exceeds Rs.10 million.

Foreign investment is not permitted in cottage and small-scale industries as they have been exclusively reserved for the Nepalese investors. However, certain provisions are laid down in different industrial policy of Nepal in favour of private investment.¹

The manufacturing industries, which are mostly in the public sector, account for less than 3-4 per cent of the GDP and the sector (registered firms only) employ about 65,000 persons or 1 per cent of the total labour force; while cottage and small-scale industries, which are in the private sector, contribute about 6 per cent to the GDP and engage over one million persons though mostly on a part-time basis. On the whole, only about 5 per cent of the economically active population of Nepal are dependent on industrial activity as a source of livelihood.²

Industrial Development under the Plan Period : Being mainly an agricultural country, industrialisation has a brief history in Nepal, though there was a good deal of evidences of "industrial activity" from time immemorial.

With the launching of planning in 1956, Nepal entered into planned process of industrialisation. Since then, the government of Nepal laid keen attention to the development of the industrial sector of the country.

The First Plan period (1956-57 to 1960-61) did not contain any specific programme or target on the industrial front, though 'production increase and work to the unemployed' constitute one of the primary goals. The Plan also specified that a 'mixed economic system' will be the basic philosophy for carrying out economic activities and enterprises in the country. During the five year period some major developments took place in building physical and institutional infra-structure for the future industrial development. During the plan period, a couple of rice and oil mills were established in the private sector, establishment of cement, sugar, cigarettes, textile, paper, iron & steel products were made. However, only Timber Corporation in the public sector was set up. The Sugar Mill and Distillery at Bhairahawa, the Jute Press and Nylon Button Factory at Biratnagar, the Match Factory at Nepalganj and the Balaju Industrial Estate at Kathmandu were started. In 1959, the Nepal Industrial Development Corporation (NIDC) was constituted with the object of encouraging industrialisation through financial and technical assistance to private entrepreneurs and industrialists. The Corporation grants

loans upto 75 per cent of the fixed assets of the projects which are deemed technically sound and economically viable. The Industrial Policy of Nepal was declared in 1957 which was replaced by a new policy under the Industrial Enterprises Act, 1961. The Factory and Factory Workers Act was also passed in 1959. The new Industrial policy of 1961 classified industries into large, medium and small categories according to the scale of operation and offered numerous incentives and concessions, such as, ten-year tax holiday, bonus for earning foreign exchange, nominal custom duties on imports of machinery, spare parts and raw materials and protection.

Nepal's Second Three-Year Plan (1962/63 - 1964/65) launched programme for the initiation of industrial production in the public sector, improvement of existing industries in the private sector, establishment of industrial estate for promoting the development of small industries and provision of necessary financial and technical assistance to encourage the establishment of new industries in the private sector. For accomplishing these programmes (including tourism) the plan set aside 17 per cent of Rs.102 million of the total outlay of Rs.600 million. In the public sector, in 1965, the Birganj Sugar Mill (1,000 ton daily capacity), the Janakpur Cigarette Factory (200,000 million sticks annual capacity) and in 1968 Birganj Agricultural Tools and Implements Factory (capable of turning at 14,000 pieces a year) were started with

Soviet Aid. The Bansbari Leather and Shoe Factory in Kathmandu (annual capacity of 21,000 pieces of tanned hides and 30,000 pairs of shoes) and the Bricks and Tiles Factory at Harisiddi in Patan were established in 1965 with Chinese assistance. It cost a little under N Rs.10 million. The U.S.A. helped Nepal to set up a Saw Mill (1965) at Hetauda in the public sector (having 700,000 cft. annual capacity). It cost N Rs.2.3 million. The Himal Cement Factory at Kathmandu was established funded partly by the German government. With Indian and American assistance three industrial estates were started at Patan, Dolaju and Hetaura. Sugar, textile, biscuit, starboard and carpet industries were established in the private sector.

The Third Plan (1965-70) allocated 17.5 per cent of the total outlay of Rs.2500 million to industry, mining and tourism. It was the declared policy during the Third Plan period to encourage industries that would exploit most of the country's industrial and commercial raw materials and promote exports. The plan provided maximum facilities to the private sector industries and promised to establish five new industrial estate one each at Bhoran, Pokhara, Nepalganj, Chandragarhi and Krishna Nagar. However, industries such as cement, paper, solvent extract, cotton textile, paints and varnish, and plywood,

which would have used local raw materials, were not developed during the plan period. Instead, stainless steel and nylon synthetic textile plants in the private sector, which were not planned or even mentioned in the plan, but which used imported raw materials, showed spectacular success and actually had the highest priority in the private sector during the plan period. This was mainly because of the high profits that could be made by exporting to India. Conversely, at the end of the third plan period, the 25-year old jute industry declining in Nepal's major exports and primary source of foreign exchange earnings, recorded an output even below that of the pre-plan period. The government has entered into a loan agreement with the Asian Development Bank to save the jute industry from this predicament.

In the Fourth Plan period of 1970-75, public sector was confined to improvement of existing public sector industries. It accorded high emphasis on developing import substituting industries. As regards establishment of new industries, the plan expected private sector to take the lead and initiative. A number of industries like cement, ghee, plywood, feed, flour, beer, rice and oilmills went into operation in the private sector. Total investment in the private sector estimated to Rs. 25 crores of which Rs.13 crores was to be made available by the private sector itself as against Rs.12 crores loan from the NIC. In the public

sector, expansion programme included 'among others' 50 per cent increase in the capacity of Birganj Sugar Mill to produce 15,000 metric tons annually, 50 per cent increase in the capacity of Janakpur Cigarette Factory to produce 3,000 million sticks a year and doubling of the existing capacity of Harisidhi Brick and Tile Factory and Bansbari Shoe Factory. It was estimated that the expansion programme alone may cost the government Rs. 5 crores out of total estimated expenditure of Rs. 10.85 crores in the public sector. The Industrial Enterprises Act of 1973 was submitted with a view to improving the tax and other reliefs so that the investors were adequately motivated to invest in industries without causing disproportionate revenue loss. As regards financial assistance, the NIDC was expected to expand its credit operation and investment in equity shares to the tune of Rs.120.1 million and Rs.13.1 million respectively during the plan period.

The Fifth Plan (1975-80) shifted its emphasis away from infra-structure development to 'people oriented production and maximum utilization of manpower'. On the industrial front the plan sketched a detailed programme specifying objectives, priorities, activities and policies. During the plan period, in the public sector Motanda Textile Factory, Bhaktapur Agro-lime and Brick factories have been completed. The output of sugar and cigarettes are likely to go up substantially, increasing their capacities by 50 per cent, the Agricultural

Tools Factory will also undertake installation of new equipment to start producing centrifugal pumps for irrigation in the early stage of the plan, while Leather and Shoe Factory will soon increase its daily production from 200 pairs to 600 pairs of shoes. Based on Kharidhunga manganese deposits, 25,000 tons of sintered manganese, 2,000 tons of refractory bricks and 3,000 tons of fused manganese phosphate fertilizer will also be produced towards the end of the plan. In the private sector, the plan envisaged Rs. 40 to 50 crores to set up 127 units, but in reality only biscuit, flour, solvent, insecticides, glass, catechu, re-rolling, soap, auto-workshops and hotel and lodges have been established. Thus, the plan encouraged private sector by simplifying licensing providing various facilities and concessions. But proposed target of establishing some industries did not materialize for want of foreign assistance.

The Sixth Plan (1980-85) recognised that 'the progress in the field of industrial development was not satisfactory during the Fifth Plan period'. As in the Fourth Plan, production targets were not fixed in most of the industries and hence nothing can be discerned about the target-achievement gap. During the Sixth Plan period also the performance of industrial sector is not satisfactory inspite of the enactment of the new Industrial Enterprises Act in 1981. However, in the Sixth Plan only those industries that call for the type of technology and level of investment which is not

readily available or forthcoming from the private sector and yet the setting up of which is in the national interest will be set up in the public sector. Of the existing state-run industries, those that are considered worthy of being transferred to private sector will be sold out. Separate arrangement will be made to make the public sector industries operate smoothly and efficiently that will also apply to industrial districts. Moreover, emphasis will be laid on the establishment of such industries as are designed to promote foreign export through utilization of locally available raw materials and to substitute the import commodities that are in heavy demand such as cotton textiles and building materials. In the interest of regional development, steps will be taken up to provide special facilities for industrial investment in those regions which endowed with transport and communication facilities and yet are lagging behind in industrialisation. The industrial output during the Seventh Plan period is estimated to grow at 12.7 per cent annually.

It is found from the above statements that each plan devoted considerable attention in elaborating the objectives of industrialisation and contained specific programmes and targets. But in reality, programmes and targets have never been matched. Excepting the first two plans because of initial knowledge of planning and political instability, the next third, fourth and fifth plans have showed very disquieting achievements. A few modern industries that emerged and flourished

over the years were the products of foreign aid and had no relation whatsoever with the plans. The disappointing and conflicting picture of the production trend of major industries in Nepal is displayed in the Table 3.1 below which reveals that the production of industries with high priority, i.e., goods of daily necessity and construction materials, increased only moderately, or even declined over the level of 1974-75. On the contrary, production of less desired goods such as liquor, stainless steel, utensils and beer increased significantly. The oldest and well-established industries (e.g., Jute goods industries) have failed to register a consistent increase in production. Almost all the public sector industries have been established under bilateral assistance. Capacity utilization of these public sector industries (which account for 70 per cent of value added) averaged to 66.5 per cent by the end of the Sixth Plan.³

The inadequacy of managerial talent and experience in business promotion and administration is responsible for the failure of some early ventures in industrial field. However, the basic reasons for the failure in sustaining the early efforts in industrial sector may be sought in a state of all pervasive backwardness of the economy itself. Secondly, the slow growth of industrialisation in Nepal in recent years is being the over-emphasis on the trading connected with import/export

Table 3.1Production of Major Industries (1974-75 and 1979-80)

Goods	Units	1974/75	1979/80	Percentage change.
1. Jute goods	M.Tons	12,265	15,573	27.0
2. Sugar	M.Tons	11,926	14,159	18.7
3. Cigarette	Million Sticks	30,013	17,778	- 40.8
4. Matches	'000 gross	649	699	7.7
5. Liquor	'000 litres	224	698	211.6
6. Soap	M.Tons	891	1,147	28.7
7. Shoes	'000 pairs	70	70	-
8. Agri.tools	M.Tons	300	207	- 31.0
9. Stainless steel	M.Tons	156	450	188.5
10. Straw Board	M.Tons	1,022	964	- 5.6
11. Fertilizer	M.Tons	441	287	- 34.9
12. Cotton Textile	'000 mtrs.	3,896*	3,489	- 10.4
13. Cement	'000 tons	27*	29	7.4
14. Brick & Tiles	'000 pieces	25,575	30,900	20.8
15. Beer	'000 litres	688	1,310	90.4

* 1975/76 production (as production figure of 1974/75 does not exist).

Source : Economic Survey, Ministry of Finance,
H.M.G., Nepal.

which brings higher profits to investors (much more than the return on investment in industry) and high revenue to the government. Over 60 per cent of banking funds are invested in trading activities rather than on setting up industries. Most of the consumer goods produced by local industries has to compete with the same variety of imported stuff.⁴

The major impediment to industrial sector of Nepal is the acute shortage of power and high cost of fuel both coal and petroleum. Present hydro-power generation does not meet the demand of existing industries.

The set-back witnessed in the industrial sector of Nepal is due to utter failure of support institutions set up to promote industrial development, to provide assistance in time and in required manner.⁵

It is noted that private entrepreneurship in industrial enterprises have not grown adequately in Nepal. Only about 30 per cent of value added accounts for this sphere. Most of the private enterprises are interested in trading activities as stated earlier. Thus, private entrepreneurship and investment is scarce in Nepal. Under this circumstances, there is ample scope of India's private capital to enter in the industrial sector of Nepal and to help the industrialisation of the economy.⁶

The large-scale manufacturing industries in Nepal appear to be more biased towards capital than labour and thus failed to create employment on a major scale. This is reflected by the increase in average capital/labour ratio from Rs.6648:1 in 1972-73 to Rs.8609:1 in 1977-78. Despite a threefold increase in employment from the first census to the last census, the employment has not exceeded 50,000. In other words, over the census period the industrial sector has not been able to absorb only about 3,500 people per annum, whereas the annual entrant to the labour force exceeds 100,000 for the period. This is true because of heavy reliance on foreign aid for the establishment of manufacturing units in the country. Nepal has little to say in the choice of production technique and has to accept or use the techniques and implements as desired by the donor countries irrespective of their suitability prevailing in the economy of Nepal.⁷

In spite of all these constraints, however, the industrial sector of Nepal is an integral part as well as dynamic sector of the economy with a high potential for making an increasing contribution to the government's objectives.

Structure of Organised Industry : The industrial sector in Nepal is primarily an extension of agricultural sector and consists mainly of cottage and other small scale plants, particularly the food processing mills. The planned efforts

of two decades did not really prove effective in modernising and expanding the country's industrial sector and hence the structure of industries remains basically the same as it was two decades ago.

The data provided in the Table 3.2 reveals that food processing and oil mills held a dominant position in the composition of industries in 1972 and that their share increased from 65 per cent to 76 per cent during the period between 1965-66 and 1972-73. During the 7 years period more than a thousand new food processing and oil mills were opened and these accounted for 89 per cent of the total increased in manufacturing establishments. Other developments over the period were : (a) a marked increase in bakery, yarn and textiles, saw mills, wooden furniture, printing press and miscellaneous industries, (b) some increases in metallic vessels, metallic furniture, soap and ice cream, (c) establishment of new units - 11 in carpet and 5 in footwear, (d) a most significant decline in the case of 'bidi' making and (e) more or less a stagnant or a declining situation in the rest of the enterprises.

A study by Nepal Reshtra Bank in 1977 also reveals that the structure of industries in 1976 was very much similar to that observed in 1972-73. On the industries surveyed, rice and oil mills accounted for the largest position followed by construction materials and allied products and saw mills.

Table 3.2
Composition of Nepalese Industry

Manufacturing Units	1965-66		1972-73	
	Number	Percentage Share	Number	Percentage Share
1. Cereal Processing and Oil	819	64.8	1,860	76.5
2. Bakery	7	0.5	25	1.0
3. Sugar Refinery	10	0.8	8	0.3
4. Tea Peeking	3	0.2	6	0.2
5. Bidi Making	113	8.9	56	2.3
6. Cigarettes	3	0.2	2	0.1
7. Yarn and Textiles	11	0.9	32	1.3
8. Jute Processing	3	0.2	4	0.2
9. Cap Making	10	0.8	5	0.2
10. Saw Mills	17	1.3	31	1.3
11. Wooden Furniture and Court materials	40	3.2	75	3.1
12. Printing Press	39	3.1	80	3.3
13. Metallic Furniture and Caust matter	5	0.4	15	0.6
14. Soap	6	0.5	11	0.5
15. Matches	6	0.5	6	0.2
16. Brick and Tiles	80	6.3	83	3.4
17. Metallic Vessels	3	0.2	15	0.6
18. Repair works	31	2.4	23	0.9
19. Jewellery	5	0.4	7	0.3
20. Ice and Icecream	5	0.4	10	0.4
21. Footwear	-	-	5	0.2
22. Carpet	-	-	11	0.5
23. Miscellaneous	38	3.0	64	2.6
All	1,264	99.0	2,434	100.0

Source : Census of Manufacturing Establishment,
1965, 1972.

It is estimated that about 50 per cent of wheat is produced by the industrial sector is exported. Of this, the largest chunk - about 95 per cent consists of products from the food processing and oil mills, and these exports are virtually confined to India. The next-most important export products are made up of jute and jute-goods while exports from other manufacturing industries are negligible.⁸

Role of Cottage and Small-scale Industry : According to the C.B.S. industrial survey of 1972-73, all industries employing less than 10 workers were regarded as cottage and small industries. The cottage and small-scale development project, financed by IDA of the World Bank since 1982, has specialised that only those industries employing one worker per Rs. 12,000 investment in fixed assets are eligible for loans under the project. The capital/labour ratio, therefore, has been used for defining cottage and small-scale industries for financing purposes.

There are a great variety of rural industries in Nepal. The 1972-73 cottage and small-scale survey by CBS has classified 61 different types of cottage and small-scale industries. It has been estimated that agro-based constitutes 45 per cent, textiles 36 per cent and forest-based 10 per cent of Nepal's total cottage industries.⁹

Total employment in this sector is about 1.2 million (50% male, 50% female) - thus, the largest industrial

sub-sector in terms of employment. These industries, on the average, employ 2 to 3 persons including 1 unpaid family labour in each. Industry-wise, the employment provided by Agro-based industries is 42 per cent, textile-based 25 per cent, forest-based 25 per cent, metal-based 4 per cent and others 1 per cent. However, most of the industries operate on a seasonal basis—mostly for 2 to 4 hours a day for 3 to 4 months a year. This has adversely affected their employment potential.

Cottage industries in Nepal have been playing an important role in export earnings. The data about cottage industry exports (including urban centres) of Nepal shows that in 1974-75 the value of exports of cottage industries was Rs.36.3 million which represented 21.7 per cent of the total exports of the country. It went upto Rs.162.7 million in 1982-83 which represented 56 per cent of total exports. The major items of exports of cottage industry products are woolen carpets, handicrafts, textiles, woolen goods, paper and paper goods etc.

Though contribution of cottage and small-scale industries to household income as well as to GDP have been insignificant and has not yet become a viable alternative to agriculture for providing employment, its share in the total exports of the country has been very significant and is likely to increase in the coming years for earning much needed foreign exchange.¹⁰

Table 3.3Role of Cottage and Small Industries, 1977-78.

	All industries	Medium & Large Industries	Cottage & Small Industries	Cottage & Small Indus- tries as % of all industries.
Number of establishments	754,145	3,570	750,575	99.5
Persons employed	12,71,340	56,340	12,15,000	95.6
Production (Million Rs.)	3,288.14	2,575.14	713.00	21.7
Value added (Million Rs.)	698.26	479.50	218.76	31.3
Investment (Million Rs.)	826.05	485.00	341.05	41.3

Source : The Sixth Plan, NRC, Kathmandu, 1981, p.511.

Development of Cottage and Small Scale Industries since 1951 and During the Plan Period :

After the political change in 1951, there was some administrative dislocations which affected the functions of the Department of Cottage Industry as well. Some notable changes, however, took place after the signing of an agreement by HMIC with the Ford Foundation on April 28, 1954, under which financial as well as technical assistance was provided by the Ford Foundation to Nepal for development of cottage, village and small industries in the country.

In the meantime, the First Plan (1956) of Nepal was launched. The Plan had an objective of reviving an expansion of small industries selected on the basis of merit and future prospects. It also aimed to open training-cum-production centre at different parts of the country, to make for loans on reasonable terms and to supply of implements on instalment basis. In order to materialise these objectives, a separate body called 'Cottage, Village and Small Industries Training-cum-Extention Board' was formed.

Some of the activities as done under the First Plan could not produce any fruitful results ~~owing~~ owing to organisational difficulties and on the whole, it appears that the entire programmes would have made better impact on the economy had the initial efforts directed in a few selected lines of activities.

The main specific projects as undertaken under the First and Second Plans include the following :

(i) Upatyakanchal Gharelu Illem Kendra (a training-cum-production centre), (ii) Rural Training centres, (iii) Mobile units (mobile teams to propagate indigeneous crafts and to demonstrate the use of improved machines), (iv) Asahaya Kalyan Kendra (orphanage Training Centre), (v) Jail Karkhana (a workshop at Kathmandu Central Jail), (vi) Gharelu Shilpa Kala Bikri Bhandar (an emporium on cottage industries and handicrafts at

Kathmandu), and (vi) Research Station (section to design new tools suitable to the conditions of Nepal - such as, 'Mahendra Charika', etc.)

The Third Plan laid some pre-conceived objectives which were stated as : (a) Employment to seasonally unemployed persons, (b) Local self-sufficiency in industrial goods, (c) preservation of traditional art and handicraft works, (d) development of foreign exchange earning type of village and handicraft industries, (e) organisation of artisans on co-operative lines, and (f) expansion and further development of prospective village handicraft industries. In order to achieve these objectives over time, provisions were made in the Plan for training, extension services, market facilities, research works and ancillary services.

The Fourth Plan document, however, admitted that the development of village, cottage and small industries remained stagnant during the Third Plan owing to mostly for want of funds from foreign sources in time. As such the Fourth Plan has changed in some ways the strategy of developing small industries in rural areas. It proposed that the existing cottage and village industries should be first made viable and functions with necessary services and development of new industries should be based on strict consideration of all economic aspects, including location, experience, availability

of raw materials and market. Training should also be geared to the actual needs and possibilities of employing the trained people in appropriate vocations. To achieve these objectives various programmes have been undertaken. For example, the industrial and technical services programme include low interest loans and supply of machines and equipment on instalment payment basis for development of the existing as well as new industries to the extent of Rs.20 lakh.

During the Fifth Plan, a central directorate, three regional offices and 26 district offices were formed to provide technical support, loan survey design and mobile training facilities to the local people for establishment of small rural industries. The cottage and handicrafts emporium will set up its seven units at appropriate places to supply raw materials to rural industries and also to facilitate disposal of finished products. The main areas of activities in the plan include : (i) small industries services, (ii) promotion of handicrafts, (iii) technical training, (iv) production planning, (v) small-scale industries centres in the jails and (vi) marketing programme. In the above stated areas of activities, the priority will be accorded to (a) Cotton and woolen textile, (b) Basket and hat making, (c) Metal and wood crafts.

In the Sixth Plan, in the field of industry main priority was given to promotion of cottage and small-scale

industries. Separate arrangements will be made to make available in an integrated manner, all forms of financial, technical and marketing facilities that the small industrialists, lying in the towns and villages, may stand in need of to run their industries. Special attention will be given to evolve new production methods in response to the changing tastes and demands of both the internal and external markets. All kinds of government control and interference will be freed from these industries excepting the security of the state and public health. All taxes, foreign exchange and other fiscal regulations alongwith administrative rules will be amended. Producers will be free to fix the prices of their produce and to organise themselves producers co-operatives. At the initial stage of growth small industries will be protected from foreign competition. Women will be encouraged to devote their skill and capabilities to the local cottage, village and small industries through the medium of industrial co-operatives.¹¹

In nutshell, government of Nepal has taken some measures to encourage the growth of cottage industry by selecting 45 out of 75 district for intensive development programmes with support from three different directions,

- (i) activities of the government through the Department of Cottage and Village Industry, Cottage and Village Industry Development Board and Cottage Industry and Handicraft Emporium,
- (ii) programme of priority sector by monitoring the flow of credit to this sector through commercial banks and directing

the banks to invest 10 per cent of their total deposits to this sector by engaging bank branches particularly for this purpose with credit guarantee system and (iii) specified programmes supported by World Bank consisting of strengthening of managerial, marketing and other advisory services under their public agencies which will be responsible (a) to assist in product adoption, product techniques and organisation, (b) to improve links between exporters and importers, (c) to improve training and extension services, (d) to improve service of handicrafts, (e) to monitor and evaluate the project and (f) to prepare proposals for strategies and components for future projects.

With a view to making raw materials available on a regular basis at fair prices for the entrepreneurs, Nepal Metal Trading Company and Nepal Wool Trading Company have been constituted to look after the distribution aspect.¹²

Problems of Cottage and Small-scale Industries in Nepal :

Nepal's cottage and small industries confronted with a number of problems which have seriously constrained their growth.

The major problems are as follows :

(1) Lack of Effective Implementation of Government Policies : Most of the policies formulated by the government of Nepal over the last 30 years was not implemented effectively

because of lack of co-ordination and linkage among various agencies and institutions (both governmental & non-governmental), too much bureaucratization resulting in complicated system and procedures, and frequent changes in government policies.

(ii) Growing Competition from Imported goods : The unrestricted imports of factory made cheap foreign goods (e.g., overseas imports of stainless utensils and synthetic textile) as well as products of large industries of the country have provided stiff competition to the products of cottage industries. Effective protection in this respect is very insignificant.

(iii) Shortage of Raw Materials : Massive deforestation has led to the virtual drying up of raw materials for forest based small industries. The unexploited mineral resources and old mines have largely blocked up the metal-based industries. Even agro-based industries are facing problems of raw materials because of poor supply. The supply of imported raw materials have been erratic and unreliable. Though the efforts of Cottage Industry and Handicraft Emporium have been praise-worthy but not adequate.

(iv) Lack of Quality Consciousness and Standardization : The poor quality and out-of fashion of cottage industry product have adversely affected the exports of goods produced by cottage industries.

(v) Traditional Technology : The uneconomic primitive and traditional technologies, infusion of appropriate technology and the use of antiquated process and techniques have produced poor quality as well as high cost of production of Nepalese products.

(vi) Lack of Power : The irregular and shortage of power supply in rural areas have adversely affected the growth of cottage industries. A number of mini-hydel projects have been started in various rural areas to solve the problem to some extent.

(vii) Lack of Rural Infra-structure : Lack of comprehensive rural transportation network, poor communication facilities and lack of maintenance facilities, etc. have constrained the development of rural industries in general. Research and development facilities are also lacking.

(viii) Lack of Market : The most important problem regarding the growth of cottage industries in Nepal is that there are no effective appropriate institutions to market the output of these industries. Public sector marketing enterprises and co-operative societies are not playing a prominent role. Public sector purchase of their products, although mandatory, is not very significant. For example, the cottage industries operated by various Small Farmer Development Programme groups have been

have been facing serious marketing problems. However, cottage industries also have not diversified their products to satisfy consumer goods.

(ix) **Lack of Commercialization** : Most of the output of rural industries is generally consumed by family members. Thus, there has been a conspicuous lack of commercialization of cottage industries. Consequently, they have remained seasonal in character. The economies of scale have been missing.

(x) **Lack of Entrepreneurs** : The 'Open Economy' policy of Nepal has encouraged trading at the cost of industrialization. This has also showed the process of entrepreneurship development in Nepal. There are no effective training programmes for entrepreneurs. Moreover, rural entrepreneurs of cottage industries have been failed to reap the advantages of facilities and incentives provided for them under the different government policies.

(xi) **Shortage of Financial Resources** : Though various innovative schemes/institutions have been introduced to provide financial resources for rural industries, the benefits have mostly gone to big cottage industries in urban areas. As a result, most of the small industries in rural areas have been subject to exorbitant interest rates by local money lenders.

The Nepal Rashttra Bank has desired the commercial banks should provide finance to this small sector in interior villages, but the banks find ~~it~~ it difficult to do so because of absence of reorientation of loan policies and shortage of new branches in rural areas owing to transportation and security aspect. Even the private sector has been shy of investment in cottage industries on a commercial scale. Thus, the problems of effective domestic resource mobilization has hampered the growth of rural industries in general.¹³

Comparative Study of Modern Industry and Cottage Industry

to GDP of Nepal : The industrial sector of Nepal as a whole accounts for 11.5 per cent of the GDP in 1976-77 of which even more than half is contributed by the cottage village industries (7.9 per cent) as against 23 per cent in Srilanka, 17 per cent in India, 16 per cent in Pakistan, and 8 per cent in Bangladesh.¹⁴

The recent data about the contribution of modern and cottage industries to the GDP of Nepal is provided in Table 3.4 below.

Table 3.4

Comparative Contribution of Modern and Cottage Industries to G.D.P. in Nepal at Current Prices (Rs. in Million).

Fiscal Year	G.D.P.	Contribution of Modern Industry	Contribution of Cottage Industry	Industrial G.D.P.	Contribution of Cottage Industry to Industrial G.D.P.
1976-77	17280	499(2.9)	237(1.37)	736(4.2)	(32.20)
1977-78	19732	531(2.7)	263(1.33)	794(4.2)	(33.12)
1978-79	22215	559(2.5)	289(1.30)	848(3.8)	(34.08)
1979-80	23351	618(2.4)	318(1.25)	936(3.6)	(33.97)
1980-81	27307	712(2.5)	337(1.19)	1049(3.7)	(32.18)
1981-82	30265	820(2.7)	369(1.20)	1189(3.0)	(31.03)

Figures in parenthesis are percentages.

Source : Economic Survey, Ministry of Finance, H.M.G., 1982/83, 1983/84.

It is clear from the said table that the contribution of modern industries to the total GDP has been less than 3 per cent (2.7 per cent in 1981-82). The contribution of cottage industries to GDP, however, has declined - from 1.37 per cent in 1976-77 to only 1.2 per cent in 1981-82. The contribution of cottage industries to total industrial GDP

ranged from a high of 34 per cent in 1978-79 to a low of 31 per cent in 1981-82. This indicates declining share of cottage industries in the GDP of Nepal.

The figures in Table 3.4, however, do not account for a large number of unregistered household cottage industry units whose output is mainly consumed by the household. If this output is accounted, the contribution of cottage industries to GDP may significantly increase. Although the contribution of cottage industries to total household income has not been significant and especially in the case of small and marginal farmers, this contribution has been poor.¹⁵

The following Table 3.5 presents at a glance the public sector outlay for manufacturing industries and cottage industries in various plans of Nepal.

Table 3.5

Public Sector Planned Outlay for Nepalese Industries

Plan Period	Public Sector outlay	Share of large-scale Industries sector		Share of cottage industries sector	
	Rs. in Million	Rs. in Million	Percentage	Rs. in Million	Percentage
First Plan	330	19.0	5.8	-	-
Second Plan	600	90.0	15.0	10.0	1.7
Third Plan	1740	125.0	7.2	15.0	0.8
Fourth Plan	2550	108.5	4.3	22.7	0.9
Fifth Plan	6170	493.5	7.8	58.3	0.9
Sixth Plan	20490	1050.0	5.1	500.0	2.4

Source : Various Plan Documents, N.P.C., Nepal.

The above table shows that the share of large-scale industries as a whole in the development programme of Nepal is decreasing - from 15 per cent of total outlay during the Second Plan period to only 5.1 per cent in the Sixth Plan. On the contrary, the resource allocation for the development of the cottage industries sector has been increasing - from 0.8 per cent of the total outlay in the Third Plan period to 2.4 per cent in the Sixth Plan. This sector, thus, has gained priority in the development policies of Nepal.¹⁶

SUMMARY

Nepal's industries - both large-scale manufacturing and small-scale cottage industries are still in a nascent stage. The structure of industries have not showed any significant change, on the contrary it has remained as it was two decades ago. The industrial production has also not offered any marked improvement in quality.

The manufacturing industries in Nepal - which are mostly public sector enterprises, account for less than 3-4 per cent to the real GDP and the sector employ only one per cent of the total labour force. On the contrary, cottage and small-scale industries which are mostly in the private sector contribute about 6 per cent to the real GDP and engage over one million persons mostly on part-time basis. On the whole, only 5 per cent of the Nepal's economically active population is dependent on the industrial activities of Nepal as a source of livelihood.

The industrial sector of Nepal is primarily an extension of agricultural sector and consists mainly of small-scale and cottage industries. Of the industries rice and oil mills accounted for the largest position followed by construction materials and allied products, stainless steel products, textiles and saw mills. Though the contribution

of small-scale and cottage industries to the GDP of Nepal is insignificant, it still plays an important role in the economy of Nepal as this sector only provides a viable alternative to agriculture and also earning much needed foreign exchange. This sector is exclusively reserved for the Nepalese investors. The resource allocation for the development of the cottage industries sector of Nepal has been increasing and gaining priority in the development policies, but the share of large-scale industries as a whole in the development programmes of Nepal is decreasing.

From what we have discussed so far, it is evident that the pace of industrial development in Nepal has been very sluggish. Each plan devoted considerable attention in modernizing the industrial base, but in reality the targets were not achieved. Though programme of industrialization had been undertaken since the establishment of 'Udyog Parishad' in 1935, most of the industries that flourished in war time, had gone into liquidation. The first two plans in Nepal also showed very disquieting achievements perhaps due to instability in political situation and less experience of the planners. However, a few modern industries emerged and developed over the years were the products of foreign aid. For example, the Janakpur Cigarette Factory, the Birgunj Sugar Mill and the Agricultural Tools Factory of Birgunj were the results of

Soviet aid; the Bansbari Leather Shoe Factory of Kathmandu, the Harisiddhi Brick and Tile Factory of Patan, the Brick Factory of Bhaktapur and the Hetaunda Textile Mill were the products of Chinese assistance; the Himal Cement Factory of Kathmandu was partly funded by the German government and the Saw Mill at Hetaunda was set up with the help of U.S.A. Three industrial estates at Patan, Nepalganj and Dharan had been set up with India's assistance. India also helped to construct the industrial estates of Rajbiraj and Butwal and established some industries like light engineering, paper, jute, cement, textiles, etc.

Industrialization is basically dependent on transport system in the country. During the initial plan period of Nepal tremendous development in transportation have been achieved, but an integrated transport system has not emerged. Shortage of capital and power, small-size of Nepalese market, potentiality, deficiency in technical know-how, administrative and co-ordinating inefficiency and above all landlocked position of the country are the formidable problems on the process of industrialisation. Still a large number of commodities are imported chiefly from India and other foreign countries to meet the bare necessities of Nepalese life.

Regional bias is also found as to the location of industrial enterprises in Nepal. It is found that out of 56

joint-stock industrial enterprises incorporated as public limited companies between 1936 and 1963 as many as 45 selected their sites at the Terai bordering on India. At present 80 per cent of the organised industries are located in the terai. The terai region accounts for about 80 per cent of total investment and about 99 per cent of total employment in the existing organised industries of Nepal. The same tendency of concentration are also observed in the case of small scale industries of Nepal. About 3/4th of private firms registered licensed during 1944-63 are concentrated in the terai - specially the rice mills and the bidi factories.

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