

Chapter 3

Present Market Situation and Problems

This chapter attempts to portray the internal and external market situation and assess the problems associated with the current marketing system for Nepalese handicrafts. It describes the major sectors of the handicraft market and identifies the problems faced, not only in respect of market expansion and marketing, but also in respect of related aspects such as availability of raw material, technology, and product development.

3.1 Market Segments

3.1.1 Internal Market

The market for Nepalese handicrafts can be divided into three main sectors: domestic, Indian, and overseas. The domestic market is concentrated in the Valley of Kathmandu and Pokhara and targets tourists. Some utility handicrafts are purchased by local people for household or ceremonial needs, but local consumption and markets in remote rural areas are too small

to induce commercially viable production. It is estimated that, of the local sales, 90 per cent are attributed to the tourist and expatriate community and foreigners working in INGOs and other institutions. There has been some increase in demand for handicraft products from Nepalese people from the upper middle classes and higher income groups. Demand from this group has, however, been for a very selected range of products such as *Pashmina* and *Dhaka* shawls, cushion covers, bed sheets and gift items such as photo frames and other products of modest value. Usually, Nepalese people do not buy handicrafts as utility items but mostly as gift items for foreign friends and relatives. Notwithstanding, in recent years, households in the upper income groups, restaurants, hotels, and offices have developed a preference for Nepalese craft products for decorative purposes. This growing segment of the market can be tapped through customer-oriented marketing approaches. Since many of the craft products are pri-

marily designed to suit the tastes of foreign buyers, there is often no effort to suit Nepalese tastes with these products.

There is a sizeable expatriate population working in foreign missions, INGOs, projects, and programmes in Nepal. This group plays an important role in the Nepalese craft market. In addition, the tourist inflow is a key determinant in the growth of local sales. The estimated six per cent annual increase in tourist inflow is encouraging, but what is of concern for marketing handicrafts is the composition of tourists and organization of the tourism trade. It is said that a large number of high class tourists wanting to spend money in Nepal do not get a chance to buy what they wish because package programmes do not provide time for and access to the principal craft markets. They are often confined to the scheduled programme and have little chance and limited time to visit market places other than those included in the schedule.

In recent years, many individual visitors coming to Nepal have bought considerable amounts of handicrafts for resale purposes. They are usually one-time purchasers or in the travel trade. They seek to buy goods at cheap prices from commercial producers or cheap shops and their objective is often to recoup their travel costs by finding the cheapest suppliers. Many vendors from Freak Street⁴, Thamel, and Basantapur areas are fully dependent upon this type of customer.

These travel traders have often threatened the operations of ethical marketing organizations or Alternative Marketing Organizations (ATOs) in their respective countries

and, sometimes, posed a threat to organizations like the FTG in Nepal. A communication received from an Australian ATO, CAA Trading Pty. stated that the double purpose of a tourist/trader was to buy goods from developing countries during their holiday trips at very cheap prices and bring these goods back and sell them to other small retail outlets in their own countries: often these outlets would be next door to the ATO stores. Since their overheads are lower and they buy cheap, the prices they offer are markedly lower and that affects ATO sales adversely.

3.1.2 The Indian Market

India has been the main market for certain Nepalese handicraft products, such as idols, *thanka*, *pashmina*, and silver jewellery, for many years. However, in recent years the situation has been turned on its head. Indian producers have been clever enough to produce quick copies of Nepalese products at lower costs. Markets for some high value Nepalese crafts, such as *pashmina*, idols, and silver jewellery, are vulnerable not only in India but also in Nepal as products are copied quickly and flood back to Nepal at almost half the price. The open border with India makes import of these items easy. These copies have already begun to replace Nepalese products and many of the traditional occupational producers have been put out of business. In addition, some Nepalese exporters have begun exporting Indian crafts with Nepalese labels. This has jeopardised the Nepalese craft market not only in India but also elsewhere. To tackle these problems, Nepalese producers should constantly come up

4. *Freak Street is the name given to a local street in Jyochhen tole, Basantpur, Kathmandu. It is here that most of the hippies first stayed and many hotels and shops were opened in and around the area during the 1970s. The focus later shifted to the Thamel area of Kathmandu for general tourists. Nowadays Freak Street is regarded as a cheap tourist area.*

with innovative ideas and products. Copying need not be seen as a negative trend; instead, Nepalese producers should be prepared to analyse the costing and to enter into the free market system. There are real constraints: Nepalese products use raw materials that are imported from India and there is no way that Nepalese producers can compete. Use of indigenous raw materials should be encouraged wherever possible. Certain skills and products using indigenous raw materials are still unique to Nepal, e.g., *dhaka* cloth weaving, *tanka* art, Nepali hand-made paper, and traditional silver jewellery. India could still be the single largest market for such products, provided efforts are made to reduce costs and develop new designs and products.

3.1.3 The Overseas' Market

Nepalese handicrafts are mainly exported to Western Europe, the USA, Canada, Japan, and Australia.

Two countries, namely, Germany and the USA, account for over 60 per cent of the total and 51 per cent of the handicraft exports from Nepal (Table 2.1). India, another important destination for about 25 per cent of Nepal's exports, accounts for only three per cent of its handicraft exports. On the other hand, countries such as the United Kingdom, Canada, France, and Japan, which account for less than 1.5 per cent of Nepalese exports, take over five per cent of its handicraft exports. As a result, of the total exports from Nepal to Japan, 35 per cent are handicraft products. The figure for Canada is 27 per cent and for the UK and France 16 and 15 per cent, respectively.

There are two marketing channels, namely, the commercial mainstream market from wholesalers to big departmental chain stores and ethical marketing intermediaries and ATOs. The commercial market constitutes the principal export channel for

Table 2.1: Share in Total and Handicraft Exports and of Handicrafts to Total Exports of Different Countries, 1996/97

Country	Total Exports	Handicraft Exports	Handicrafts to Total Exports
Germany	35.22	23.89	1.60
USA	27.30	27.24	2.35
Indian	25.08	3.20	0.30
Bangladesh	2.29	0.03	0.03
Italy	1.60	4.43	6.50
Switzerland	1.59	4.05	5.98
Austria	1.42	1.04	2.31
U.K.	1.37	9.30	15.97
France	1.11	7.20	15.23
Belgium	1.06	2.19	4.85
Japan	0.46	6.94	35.37
Canada	0.74	8.59	27.33
Spain	0.72	1.49	4.88
Others	0.04	0.41	-
Total	100	100	2.36

Nepalese handicrafts. It is estimated that about 70 per cent of Nepal's handicraft products are traded through commercial marketing channels. The products marketed in this sector are mainly high-value elite products such as *thanka*, idols, silver jewellery, and *pashmina* shawls. In addition, some products such as Nepalese hand-made paper products, traditional cotton garments, knitwear, and accessories, are also traded through conventional commercial channels. Access to the international, commercial mainstream market has been supported by the international traders who visit Nepal from time to time. This provides feedback on market trends and information to Nepalese entrepreneurs. Nepalese traders have also successfully obtained business opportunities by participating in international trade fairs and exhibitions such as the Frankfurt Trade Fair and New York International Gift Show. These markets are fairly large and require well-established business establishments with substantial resources. There are many constraints to the entry of rural handicraft producers to the commercial market. Among the constraints are the low volume of products, uncertainty in delivery times, indifferent quality, and limited resources.

3.2 Principal Problems in and Constraints to Marketing Handicrafts

Some of the principal problems faced by Nepalese handicraft producers in marketing their products competitively are as follows.

3.2.1 Fluctuation in Supplies of Raw Materials

Dependency on imported materials (mainly from India and China), resulting

in uncertain supplies, price fluctuations, and lack of control over quality are the principal problems faced by handicraft producers in Nepal, particularly in the case of the product lines in cotton items.

Almost 90 per cent of the cotton yarn used for handloom weaving, knitwear, and knot crafts are imported from India. The yarn market is controlled by a few suppliers. These suppliers often create artificial shortages and unwarranted price increases. Other accessories and raw materials, such as buttons, thread, and zips are also imported from India. Though products such as wooden, horn, and bone buttons are produced in Nepal, Nepalese producers find it difficult to compete with Indian producers because of price differentiation, often in the order of 200 per cent in favour of the latter.

3.2.2 Limitations in Technology

Many industries and producers still use or depend upon out of date techniques resulting in a slow but steady decline in the market potential of Nepalese products. Products based on natural fibre plants, such as wild nettles and hemp, processed completely by hand, including twisting and spinning, that appeared to have a growing market in the recent past are being slowly replaced by fine machine-spun products imported from China and Thailand. These countries are not only flooding the world market with machine-made cloth of this type, but also yarn produced in these countries is imported into Nepal to weave cloth. This has adversely affected rural people who previously made their living from natural fibre products.

Similarly, due to the absence of improved mechanised spinning, twisting, and

processing techniques in Nepal, Nepalese manufacturers are losing value-added income in the silk industry. Raw silk produced in Nepal is exported to India for twisting and the processed yarn is re-imported into Nepal. In this way much of the profit margin is lost. Though the technology is available in India, to date, no entrepreneur/organization has invested in twisting machines. A twisting machine costs about 2.5 million rupees. One explanation given by a Nepalese entrepreneur for its not being imported into Nepal was that, even though entrepreneurs in Nepal had the money to buy such machines, Nepal did not produce sufficient cocoons to merit undertaking such a purchase. So, developing a prototype or miniature of this machine suitable for micro-scale industry could be an alternative. In addition, once a prototype fibre processing and twisting machine is developed, there would be multiplier effects on many other natural fibre-based and animal fibre products, such as *allo* (nettle), hemp, angora rabbit wool, and *pashmina*; all of which are facing similar problems (please refer to the case study on the *Allo* Cloth Production Club and the Women's Development Centre, Ilam, for perceived technological constraints).

In fact, every sector of the Nepalese handicraft industry faces technological problems of one kind or another. For example, in ceramics, lack of quality glazing and firing have been found to be substantial problems. Similarly, the complexity involved in fast dyeing of cotton has not yet been fully resolved.

3.2.3 Lack of Facilities for Testing, Standards and Certification

Little concern for infrastructural development and lack of budgetary allocation as

well as funds from other sources, together with general absence of attention and long-term planning on the part of the government as well as the private sector are key factors that have led to the paucity of equipment and management in testing facilities in Nepal. The services of The Nepal Standards (NS), Royal Nepal Academy for Science and Technology (RONAST), and the Central Food Research Department from the government sector have not been very efficient and effective. Importing countries such as Germany and others have enacted several laws that necessitate providing certificates for various tests. Such certificates indicate freedom from Azo dyes for textiles and from lead chromium for ceramics, and from non-toxic chemicals for children's toys.

Manufacturers and traders have been helpless to meet with these stipulations. Until now, no laboratory or government body has been established in Nepal to certify these products. There are some private laboratories in Nepal and also in India, but the cost of certification is not standardised and is sometimes out of the reach of small and micro-scale producers.

3.2.4 Lack of Market Information

There are no official data available about market size nor any market forecasting tools that can be used to determine the market size in the handicraft business. Successful marketing is mostly dependent upon the capability to collect and process the current overseas' market trend. Many producers and traders are lagging behind in accessing the rapidly changing trends of market information. There is no organized sector channel disseminating market information in either the government or non-government sectors in Nepal. The TPC, HAN, and

other similar organizations have tried to play this role to a certain extent, but they are often overloaded and are not able to play the role of forecaster and market information disseminator effectively. Producer groups are heavily dependent upon the information provided by their buyers only.

Research, and documentation on market trends and forecasts are available in many countries from commercial organizations and trade authorities. Obtaining such information is often too costly for the small and micro-level organizations.

3.2.5 Cumbersome Government Procedures for Export

Nepalese exporters are faced with numerous obstacles in processing their exports.

Though the lengthy documentation procedures were intended initially as control mechanisms, it is now essential that the relevant authorities review and simplify them. There have been instances in which buyers have been so discouraged by lengthy and cumbersome export procedures that orders were cancelled (see Box 3.1).

A one-window system has not yet been implemented. Exporters have to go through various offices to get their invoices certified and obtain different forms. These offices are located in different places and visiting them consumes much time and energy. Metal crafts, wood carving, and traditional *thanka* paintings have to be certified by the archaeological department; and this department follows the outdated prac-

Box 3.1: Export Procedures

- Once an order is received from the buyer, a pro-forma invoice is sent to the buyer indicating the price, terms of payment, destination, etc.
- Terms are negotiated—including advance payment or opening of a letter of credit (LC).
- Confirmation is obtained from a commercial bank of an advance payment certificate or LC.
- The floor or FOB price is certified by the HAN and is authorised by HMG to certify the export floor price; 0.5 per cent of the export invoice value is paid to HAN as a service charge.
- A certificate of origin is obtained from the relevant district chamber of commerce; 0.2 per cent of the invoice value is paid as a service charge for issuing the certificate.
- The GSP form issued by the TPC is prepared.
- A packing list and invoices are prepared.
- Approval and special certificates from the appropriate departments of HMG for export of certain restricted items, e.g., metal and archaeological goods are to be certified by the Department of Archaeology of HMG.
- Once all necessary documents are completed and the consignment packed, it is to be cleared by the Customs' Office. On submission of the Customs' declaration form and other export documents, the goods are examined, documents verified and endorsed, and consignment cleared for shipping. Export duty is levied normally at 0.5 per cent.
- Once the customs' are cleared, it is handed over to the shipper/forwarding agent to deliver to the destination. If goods are consigned by air, booking has to be done with an air carrier or agent who will issue an airway bill. If the consignment is intended to be shipped by sea, goods are transported by transit route to a port in India or Bangladesh. Procedures on transit agreement have to be observed.

tice of stamping each and every item. The department even does not allow vehicles to enter its compound and exporters have to carry the entire quantity of heavy goods so that each piece can be stamped.

In addition, there is no long-term policy to boost exports by such measures as relaxing pre-payment requirements for exports by allowing term credits and introducing export incentives and awards. It is well known that the government regulation of compulsory receipts for advance payments imposed on exporters before export sometimes discourages the buyer. Nepal is the only country having such a system.

3.2.6 Centralized and Seasonal Markets

The tourist market is concentrated in Kathmandu and Pokhara only. It is difficult and costly to provide information from these two places to producers in remote locations. Also, the costs for delivery and transportation are, as a result, high. In recent years, efforts have been made to develop tourist spots in various other places such as Chitwan National Park, Makalu Barun National Park, and Bardiya National Park; but it might take some years to develop tourism integrated handicraft markets in these places.

Seasonal variation also has its own impact on sales. In off-season periods, the slackening in demand creates problems for the producers in terms of employment and income.

3.2.7 Price Competition

There is a lot of competition in prices among producers. Individual producers

are tempted to sell on their own, since Kathmandu is a small place and any importer and trader can have direct access to producers without difficulty. There is an increasing trend among visiting buyers to go directly to producers in Kathmandu, and this has created problems for organized sector marketing. Producers sell at prices at least 20 per cent cheaper than the organized sector because the organized sector pays fair wages and their overheads are also high. However, because of the middlemen, the producer is vulnerable to exploitation.

3.2.8 Duplicate Products

One of the main problems in the handicraft industry is duplication of products and designs, and this is very difficult to prevent. The organized sector invests money to develop designs that are easily copied by others and sold at lower prices. Though the ultimate benefit of design assistance is to be given to producers, the competition from foot-loose producers who copy the designs adversely affects the future capacity of organized producers to develop designs and products. It would be desirable to introduce a mechanism to ensure that the adopters of designs are linked with and share the cost of development of the organization producing the original designs.

3.2.9 Delivery Problems

Producers have often failed to deliver goods on time to the marketing organization and are sometimes tempted to sell to other buyers for better profits. There are, of course, natural causes, geographical difficulties, delays in supplies of raw materials, and difficulties in transportation that make delivery on schedule difficult.

3.2.10 High Cost of Eco-friendly Technology and Packaging

There is increasing awareness among consumers in the west about eco-friendly products and technologies. But these also involve higher costs which producers find difficult to bear without a corresponding increase in prices. Besides, there is a general lack of knowledge and resources to develop appropriate packaging and labelling in compliance with the needs of the western market.

3.2.11 High Freight Costs

The high costs of freight as a result of the dependency on air freight, because Nepal is a landlocked country, leads to steep rises in export commodity prices. It is among the biggest bottlenecks to competing in the international market.

Consolidation of shipments with exporters from India and Bangladesh could be explored. Despite low volumes of orders, FTG Nepal member organizations have been successful in consolidating their shipments with these exporters to common consignees in the past. However, once orders increase in volume to fill containers, shipment by sea will be possible, and this is cheaper than air freight.

3.2.12 Government Attitudes towards Marketing NGOs

The lack of a clear-cut government policy towards NGOs doing business has created problems, especially for the export and import of raw materials. According to the government point of view, NGOs should be development oriented only and should not engage in trade and business. Many

organizations have developed and delivered support mechanisms to grass roots' rural producers in order to market their products.

3.3 Fair Trade : The Concept and Its Evolution

The unfair structure of global business practices led to evolution of a fair trade concept in Europe and the USA in the 60s: the goal being to contribute to the fight against poverty in the developing world. The call for 'Trade Not Aid' was advocated for the first time during the UNCTAD conference in Geneva in 1964. During this period, however, public interest in development issues was fairly limited. A small number of groups gave birth to the idea of establishing 'UNCTAD' shops. This was to sell goods from the developing world that were denied easy access to the European market because of import duties. This idea of a 'world shop' later developed into the fair trade movement. This movement placed an emphasis on issues such as women-focussed programmes, redirection of profit to producer development programmes, compromise through flexible delivery, respect for culture, advance payments, feedback on design and market trends, and efforts to build up consistent relationships among producers, the marketing organizations, and buyers.

The fair trade movement, at present, has grown into a wide network of producers in the South and importers in the North, known as Alternative Trading Organizations (ATOs). In the Nepalese context, many individual craft-based organizations working on the principle of fair trade have existed for the last two decades. Faced with

most of the above-mentioned constraints, these organizations gave birth to the idea of the Fair Trade Group, Nepal, to heighten their collective efforts to advocate and to redress the problems faced by small producers.

3.3.1 Alternative Trading Organization

In April 1969, the first 'world shop' was opened in the Dutch village of Breukelen. At that time, the *Fair Trade Organisatie* (former S.O.S. Wereldhandel, presently a member of IFAT), based in the south of The Netherlands, had been actively involved in importing handicrafts and food products from developing countries. The world shop model then became popular in Germany (GEPA), Switzerland (CARITAS and OS3), Austria (EZA), France, Sweden (Alternative Handle), Great Britain (OXFAM and Trade Craft), and Belgium (OXFAM Belgium).

In the U.K., OXFAM, with a background of support to famine victims and the operation of handicraft shops, has more than 800 retail shops at present selling goods imported from developing countries. These world shops later were reshaped as Alternative Trading Organizations and became campaign centres rather than mere points of sale.

The European Fair Trade Association (EFTA) was founded in January 1990 after many years of informal consultation among an alliance of eleven fair trade organizations and importers in nine European countries. The world-wide network of fair trade organizations, the International Federation for Alternative Trade (IFAT), was founded in 1989. At present, IFAT has 120

members from 50 countries, including producers and buyers.

These fair trade world shops have become the principal markets for handicraft and food products from developing countries. In some parts of the world, alternative trade has become the principal channel of trade. In others a share of 10-20 per cent has been achieved. Nepal's experience in fair trade is just a beginning and accounts for about five per cent of total handicraft sales.

Fair Trade implies fair prices for producers and a stable relationship with overseas' purchasers. Small-scale producers in developing countries sometimes cannot cope with commercial traders who cannot always be relied upon from one year to the next, who may place big orders once and never show up again, who may refuse to pay the allotted price, or who may even refuse to pay at all because the merchandise supposedly did not reach them in good order or on time.

In contrast, through the fair trade channel, a stable relationship based on trust is perceived as the best guarantee for mutual profit. Once, usually after a trial period, such a relationship is established, both partners commit themselves through good times and bad, sometime foregoing short-term, higher profits in favour of long-term benefits. The producer-fair trader relationships usually go beyond just selling and buying and can include the joint development of new products or product lines, adaptation of products to European/Western fashion, gaining access to new marketing channels, raising investments or working capital, and strengthening or expanding the producer organizations. In-

stead of abandoning the producer when products no longer sell, the alternative trading organizations transmit information on the changes in consumer tastes and tendencies to their manufacturing counterparts who are then assisted in meeting changing consumer demands.

The goal of fair trade organizations is to fight poverty in the South. Based on the concept of Trade Not Aid, they seek to combat poverty through fair trade, political lobbying, and education. They mostly conduct trade with disadvantaged producers and with organizations or businesses that contribute to improving the position of the poor in the South. In this way, those who grow or manufacture the products get the opportunity to structurally improve their own position. Fair trade organizations also attach great importance to social development, the empowerment of women, and ecological development.

3.3.2 Fair Trade Ethics

Fair trading methods are characterised by the following aspects.

- The goods are purchased as directly as possible from the producers.
- The purchase price is related to the cost of raw materials and production and to the time and energy invested and should permit the producer to achieve a reasonable standard of living.
- The producers are entitled to pre-financing.
- Regular contacts ensure that the producer partners receive feedback concerning the quality of the products, packaging, etc.
- If necessary, advice or assistance is offered in the fields of product develop-

ment, skill training, or management training.

3.3.3 The Fair Trade Group Nepal (FTG Nepal)

The roots of the Fair Trade Group Nepal can be found in the international fair trade movement. For many years, the Alternative Trading Organizations (ATO), that constitute the membership base of the International Federation of Alternative Trade (IFAT), and their European arm, the European Fair Trade Association (EFTA), have been supporting southern-based grass roots' organizations in their efforts to create sustainable employment and income-generating programmes that primarily benefit low income and marginalised women. Their activities are guided by the principles and practices of fair trade. Issues that concern them are not only the conditions of trade, the nature of production, and the price of labour but the quality of employment and empowerment of the workers.

In 1993, an international ATO, OXFAM Trading, convened a group meeting of over 40 Nepalese organizations supporting low-income women's groups through craft and agro product-based income-generating activities. OXFAM had already seen the benefits of forming a producer group coalition called ECOTA (Effort for Craft Organization Trading Advancement) in Bangladesh and believed that such a body of Nepali NGOs focussed on fair trade would be beneficial to the sector as a whole, as well as to the NGOs' broader client base. For many of the participants, the idea of NGO collaboration was difficult to accept and, following the first meeting, the membership of the group

dropped to only seven from the original forty. This group continued to meet for three years on a monthly basis. The FTG development process was, therefore, measured and cautious; group members were initially suspicious and unsure of each other. At the time, an informal approach was the only suitable strategy for the development of a collective marketing concept.

However, throughout this formative period, the Fair Trade Group continued to grow in strength and confidence and enjoyed some success in identifying and act-

ing on issues affecting their respective programmes notably:

- export promotion,
- local and international networking,
- government lobbying,
- global trade policies and procedures,
- skill training,
- resource sharing,
- dissemination of market information, and
- project planning and development.

(please refer to **Annexes 2, 3, 4, and 5** for details of FTG activities, strategies, members, and producer groups.)