

# Chapter 1

## Introduction

### 1.1 Handicrafts in the Nepalese Economy

Having a rich tradition of craftsmanship, Nepal is quite well known for its rich art and architecture. The exemplary works of art in wood, metals, and stone that decorate the innumerable temples, palaces, shrines, and traditional houses in the three cities of the Kathmandu Valley amply reflect this heritage. The artisans, who, with their dexterous handiwork, have left behind such spectacular work for future generations were mostly from the *Newar* community from the Kathmandu Valley. Their skills in traditional arts and crafts were in demand even in far away China in 1300 A.D. Their skills were usually passed on from generation to generation and, fortunately, they have survived until now. Even in this age of advanced technology, Nepal is still producing hand-made crafts that capture the attention and admiration of people the world over. Handicrafts are an integral part of Nepal's cultural heritage.

Most traditional arts and crafts, such as metal idols, sculpture, and wood carving, are concentrated in the Kathmandu valley where the *Newar* community predominates. The *Newar* community is a Tibeto-Burman ethnic group, they are thought to be the original settlers of the Kathmandu Valley. Artists and producers are from the *Newar* community; these communities were identified according to their crafts, and they are still identified today as *Chitrakar* (painter), *Silpakar* (wood carvers), *Tamrakar* (copper craft and idolmakers), *Prajapati* (potters), and *Shakya* and *Bajracharya* (silversmiths). These products were defined as handicraft goods until 10 years ago. With recent development and growth in this trade, other contemporary products have been included in the definition of handicrafts (Source HAN). A resurgence in demand for hand-made products in foreign markets has led to a revival in the production of handicrafts. The economic returns in this business have also enabled the survival of

entrepreneurs throughout the country. Today handicrafts made by artisans living in remote villages have also become popular and are in demand among foreigners as well as among the Nepalese themselves.

Though Nepal has a rich and old history of craftsmanship<sup>1</sup>, the production of handicraft products as an economic activity began only 40 years ago. At that time the main products were traditional items such as brass and copper figures of gods and goddesses, filigree items, and *thanka* (Buddhist religious paintings). There were a few people (about 150) engaged in the commercial production of handicrafts in the Kathmandu Valley. Of course, artisans in the mountains and villages also produced handicrafts, but they were not commercially marketed and used only locally.

At present, it is estimated that the handicraft industry employs over 300 thousand people all over the country. Unofficial estimates suggest that handicrafts contribute more than 50 per cent of the family incomes of those engaged in their production. The figure varies between urban and rural areas, because in urban areas people work full time in handicraft production, whereas in rural areas it is a subsidiary occupation to farming. Currently, more than 1,200 handicraft producers (companies, firms, organizations, and individuals) are officially registered with the Handicrafts' Association of Nepal (HAN). There are many more handicraft producers who are work-

ing without formal registration, and their number is increasing year by year.

With the potential to earn foreign currency, the handicraft industry will have a very promising future if it is provided with a policy environment that is conducive to its expansion in the global market.

The handicraft industry can play a vital role in eradicating poverty and unemployment. In Nepal, the economy is extremely dependent on subsistence agriculture and the base for large- and medium-scale industries is limited. Though the contribution of handicrafts to the GDP is small, its share in exports has been steadily increasing. The contribution of handicrafts towards the GDP in 1996/97 was 0.89 per cent, whereas it was only 0.08 per cent in 1986/87 (Table 1.1).

## 1.2 Export of Handicrafts

Handicraft marketing started 40 years ago after Nepal opened to the rest of the world and after the beginning of the first five-year plan in 1956<sup>2</sup>. The marketing of handicraft products started when people from India visited Nepal to buy handicraft goods and gradually traders from Nepal began to visit Delhi and Calcutta to sell handicrafts. With the formulation of a foreign trade policy following the formation of a democratic government in 1958, Nepalese goods began to find a market internationally besides India. Finished

1 One of the most famous architects is Arniko. He travelled all the way from Nepal to Tibet to build pagodas and temples. It is believed that he introduced the pagoda style of architecture to China. The oldest temple in the valley (Changu Narayan in Bhaktapur - 1500 AD) illustrates this rich history.

2 N.B. Historically, however, at one time Nepalese currency was convertible into Tibetan currency. Nepalese trade in handicrafts and other goods was flourishing in Tibet and India. In the 19<sup>th</sup> century, following the Gorkha conquest, Nepal was sealed to the outside world and no formal records are available. Hence the emphasis on the last 40 years.

**Table 1.1: Contribution of Handicraft Exports to Nepal's GDP**

Year	GDP at Factor Cost*	Handicraft Exports**	Contribution of Handicraft Exports
1986/87	47,427	33.7	0.07
1987/88	50,761	66.8	0.13
1988/89	53,518	97.3	0.18
1989/90	56,158	159.9	0.28
1990/91	59,768	190.7	0.32
1991/92	62,531	342.3	0.55
1992/93	64,586	567.5	0.88
1993/94	69,686	526.5	0.76
1994/95	71,695	572.3	0.80
1995/96	76,095	628.6	0.83
1996/97	79,855	709.4	0.89

\* Economic Survey 1996/97, HMG, Ministry of Finance

\*\* Handicraft Association of Nepal

products and value-added items, such as carpets or garments, which dominate the export scene today, were almost non-existent. Most of the products were purchased by middlemen in India and re-exported.

Over the past decade, half-concerted efforts have been made by development-oriented, collective marketing organizations to promote overseas' trade in Nepalese handicrafts in collaboration with global Alternative Trade Organizations (ATOs). Their fundamental concern is ethical marketing. Ethical marketing involves a number of factors in addition to normal business dealings. These are: concern for prompt and advance payment, fair wages and good employment conditions, environmental protection, and other fair practices in business. To capitalise on the collective strength and share relevant information through wider networks such as the International Federation for Alternative Trade (IFAT) and The European Fair Trade Association (EFTA), organizations such as the Fair Trade Group

(FTG), Nepal, have emerged to facilitate fair trade in Nepalese handicrafts and other products.

Exports of Nepalese handicrafts have been increasing steadily for the last few years. In recent years, even though the exports of major items such as carpets and ready-made garments have declined, handicraft exports have increased. Handicrafts worth Rs 36.3 million were exported in the year 1986/87, by 1996/97 the figure had increased to Rs 709.40 million. With aggregate exports in 1996/97, at Rs 17,000 million, the percentage of handicraft items in the total exports was 4.17 per cent (Table 1.2).

It is also observed that handicrafts as a category of exports have, in terms of their share of the export market, increased over the past years. Handicrafts of various kinds made up 3.64 per cent of total exports in 1989-90, in 1996-97, their share had increased to 4.17 per cent. In terms of composition of exports of handicrafts, cotton and woollen products, including ready-

**Table 1.2: Percentage Share of Handicrafts in the Overseas' Exports of Nepal**

Year	Handicrafts*	Total Overseas' Export**	Percentage of Handicrafts in Total O.S. Export
1989/90	159.9	4,388	3.64
1992/93	567.5	15,494	3.66
1993/94	526.5	16,494	3.19
1994/95	572.3	14,288	4.00
1995/96	628.6	15,526	3.69
1996/97	709.4	17,011	4.17

\* Handicraft Association of Nepal

\*\* Trade Promotion Centre

made garments, constitute the single largest item, constituting about 34 per cent, followed by silver products (22%) and metal products (17%). Paper and paper products constitute another significant item contributing about 10 per cent to the total number of handicrafts exported from Nepal (Table 1.3).

Overall handicraft exports have shown rapid increase over the past decade, having increased almost four-fold from 1989-90/1996-97. The most rapid growth has been in Nepali paper and paper products, followed by woollen garments, silverware, and jewellery. In more recent years, since 1993-94, growth has been slow; cotton

and woollen garments have, in fact, experienced a decline in demand. The demand for paper and silver products has grown steadily, while the demand for metal products, filigree products, and woollen products has fluctuated.

### 1.3 Present Study

As mentioned earlier, efforts have been made over the past decade to experiment with collective marketing of handicrafts and other products of small and micro-enterprises throughout rural and urban Nepal. To what extent these efforts have led to market expansion and better realisation of prices is the central focus of this study.

**Table 1.3 : Product-wise Export of Handicrafts**

	1993/94	1994/95	1995/96	1996/97
Metal	74.1	102.5	98.7	117.2
Filigree	16.8	24.6	30.7	22.8
Wooden & Bamboo Products	13.6	19.1	23.4	27.5
Paper Products	25.4	41.5	53.6	27.5
<i>Thanka</i>	5.4	6.1	7.7	11.2
Silver Products	105.1	120.0	138.4	155.4
Cotton & Woollen Products	271.7	227.3	237.1	237.9
Others	14.4	31.1	39.0	70.0
<b>Total</b>	<b>526.5</b>	<b>572.2</b>	<b>628.6</b>	<b>709.4</b>

Source: Handicraft Association of Nepal

The study particularly focusses on FTG, Nepal, which has emerged in recent years as a pioneer in collective marketing, with its model of organized marketing. A number of other organizations outside the orbit of FTG have, however, also been studied.

The information in this report has been gathered by means of questionnaires, interviews on site, and study of documents and written materials from the organiza-

tions involved. Most inferences have been drawn on the basis of empirical findings from field visits to the members of FTG, Nepal, its producer groups, and other organizations. Annex I presents the questionnaire used for collecting information from and views of producers and organizations. The proceedings of a one-day workshop of FTG Nepal members on the development of a collective marketing strategy have also been incorporated as Annex 5 of this report.