

## Chapter 6

# Conclusions

### 6.1 Summary

#### 6.1.1 Importance and Role of Handicrafts in Nepal

Nepal is blessed with rich art and architecture as reflected in the skilful art work on wood, metal, and stone decorating the countless temples, old palaces, shrines, and many traditional houses. Art is used to decorate utility items that provide promising returns. Passed down from generation, to generation, many crafts requiring a high degree of skill have been preserved. The growing demand for these crafts in traditional as well as modified contemporary forms has led to a resurgence in the production of handicrafts and creation of craft-based micro-enterprises in Nepal.

Nepal does not have a long history of commercial production and export of handicrafts. The marketing of crafts began about 40 years ago. At that time it

was limited to a few products, mainly traditional. Some household items produced in the remote areas had only localised markets.

At present, an estimated 300 thousand people are engaged in handicraft production and marketing. Some surveys suggest that earnings from handicrafts account for over 50 per cent of the family incomes of those engaged in this work. In urban areas, many craftsmen are engaged in the industry full time, whereas in rural areas most people undertake it as a secondary activity. Handicraft production and marketing have, to a certain extent, played a role in eradicating poverty and unemployment in Nepal. Handicrafts are the third largest foreign currency earner in the country. The contribution of the handicraft industry to GDP has increased from 0.08 per cent in 1986/87 to 0.89 per cent in 1996/97, a small but growing share.

The percentage of handicrafts to total exports is also increasing. It was estimated to be 4.19 per cent in 1996/97. Commercial production and marketing of handicrafts began after Nepal opened its doors to the rest of the world in 1950. In 1958, a long-term policy was formulated for the handicraft industry and subsequently organized efforts were made by government and other agencies to expand marketing activities. Concurrently, the newly emerging non-government, development organizations introduced many income-generating activities. Consequently, marketing and production of handicrafts became an important component of their programmes. Somewhat later, the fair trade concept was evolved to safeguard people from disadvantaged groups from the unfair structures of trade.

### **6.1.2 Main features**

Although there is no exact information available on the craft industries throughout Nepal, the data kept by HAN record that there are about 1,200 industries, exporters, organizations, and individual artists registered. These are mainly located inside the Kathmandu Valley. Of the estimated 300 thousand individual craftspeople involved in this sector, the majority of those in the Kathmandu Valley are from the traditional occupational groups in which male artisans play a dominant role, especially in highly skilled work such as *thanka*, idols, silver jewellery, and *pashmina* production. These product categories are mainly made for the commercial market. On the other hand, most of the craftspeople outside the valley and in remote areas are women, and they undertake craft production as a part-time activity. The product categories produced by these women's groups do not require

polished skills and many of these skills are easily taught or adopted. Skills include weaving, basketry, embroidery, crochet work, knitting, and spinning. Most of the fair trade inclined marketing organizations are engaged in the latter sector, focussing their programmes on the overall development of women.

Marketing of handicraft products began with the opening of shops in prime tourist localities in the Kathmandu Valley. The Valley is where the major domestic market targeted at tourists visiting Nepal is to be found. In recent years, the market for exports has increased and both the commercial and fair trade sectors are gaining access to the international market.

In the remote areas, producers are often scattered, they have received very little education, and entrepreneurship is not developed. Acquiring market information in these areas is costly. In addition, the producers are resource poor and, therefore, the possibility of bringing these producers into mainstream business without guidance from outside is remote. Concentration of markets in Kathmandu and Pokhara has restricted the development of rural, traditional home-based production. The rural producers, who are mostly self-employed, are striving to make a living from handicraft production and are mostly badly off economically. This means that expansion is beyond their means, leaving them vulnerable to exploitation. This applies especially to women producers who are caught between their need for financial security and their responsibility to the family. In an already insecure environment, they do not have the protection of labour legislation, employees' benefits, training programmes, legal aid, or access to credit. In isolation



Exhibition at the British Embassy. Inauguration by HE Mr. L.B. Smith, The Ambassador



Exhibition of Craft Products under One Roof



IFAT Conference Bringing Together Marketing Organizations from the North and South

they cannot have direct linkages with larger markets. The phenomenon of producers merging into groups is likely to lead to better marketing opportunities. The organized sector marketing intermediaries have directed their efforts mainly to providing access to these groups by introducing different activities that range from organizing producers, skill training, and product development to disseminating marketing information and finally marketing their products to domestic as well as foreign buyers. The organized marketing intermediaries (such as FTG Nepal members) have established links with many of the northern Alternative Trading Organizations as a niche market in which business is combined with other fair trade ingredients.

The fair trade focussed organizations that have emerged within the last decade have assisted producers, producers' groups, and their partner organizations in promoting and marketing products made in remote rural areas. Notwithstanding these efforts, some basic problems relating to production and marketing remain. The most notable among these problems are as follow.

- Too much dependency on imported raw materials
- Uncertainty in the availability of imported raw materials
- Lack of modern technology to improve the quality of raw materials and finished products
- Lack of facilities to test and certify the standards of products
- Limited access to market information
- Cumbersome government procedures for exports
- Centralized and seasonal markets
- Cut throat competition in terms of pricing and duplication of products

- Delivery problems caused by difficult-to-access geographical locations, high freight costs, and the negative attitude of the government towards NGOs engaged in export

### **6.1.3 Role of the Fair Trade Group Nepal**

To address the problems outlined in the previous section, craft-based organizations have engaged in collective efforts, since individual attempts to find solutions have not met with success. Among the many organized sector organizations, members of FTG Nepal have played an important role in providing services to many groups with a view to streamlining their collective efforts to make them more effective. The main steps taken to date by FTG Nepal to mitigate the marketing hurdles are given as follow.

- Lobbying the government about taxes and facilities
- Local and international networking
- Advocacy and campaign movements on fair trade awareness by organizing exhibitions, press releases, publication of literature, and convening international conferences
- Skill training
- Sharing resources
- Consolidating shipments to minimise air freight costs
- Dissemination of market information

FTG Nepal is, however, finding it increasingly difficult to perform its role in promoting production and marketing products of member groups effectively. This is due to paucity of resources. At present, the operational costs of the FTG secretariat are met by contributions from member organi-

zations. Although the FTG secretariat is striving to achieve self-sufficiency by undertaking such income-generating activities as providing consultancy services to non-member organizations, inadequacy of funds is likely to limit the operations of FTG Nepal in coming years.

## 6.2 Collective Marketing : Assessment, Problems and Issues

As a result of the efforts of various organizations, and with support from FTG, a framework for organized marketing with an emphasis on producers' interests has developed in handicraft production and marketing in Nepal over the past decade. Although the organizations and the fair trade movement have not been able to cover all the producers in the country, because of the scattered centres of production, the idea of collective marketing has been successful for a significant number of products and producers. Many basic problems faced by individual producers and groups, however, still persist, and new problems have emerged within and as a result of the new organizational framework. Important among these problems and issues observed at different levels are those described in the next section.

### 6.2.1 At the Level of Individual Producers and Products

- Producers of several product lines, particularly those based on non-local raw materials, frequently face shortages, uncertainty, and prohibitive costs of materials. They also find it difficult to compete with producers from the place of origin of raw materials who

have begun to make similar products and sell them in the Nepalese and external markets at lower prices (e.g., Indian origin based raw material goods such as Asamee cloth which is seen everywhere in Thamel)

- Upgrading technologies to suit changing consumer preferences and demand patterns is beyond the scope of individual producers or even local producers' groups. Support for this purpose has also not been forthcoming from the marketing organizations that buy the products. The latter also are not in a position to undertake research and development for this purpose. Even if they could afford to do so, they are not sure of getting a fair return on such investments.
- As a result of the above factors and related reasons, demand for certain handicraft products has declined. Embroidery work by Dhankuta Rai women and metal craft products from Bhojpur are examples of such a decline in demand. Lack of information on market trends and failure to modify products to make them distinct from those produced by competitors are among the reasons for this. Yet, even if information was available, the capacity of small individual producers to respond to market trends is severely limited.

It is doubtful if the marketing organizations could be of any significant help in such cases, as their own capacities and resources are constrained. Even if they had the resources to undertake rigorous market studies and develop new designs and products for adoption by producers, they would have to consider the advantages of such investments in relation to the stiff competition and shrinking markets.

### 6.2.2 At the Level of Producers' Groups

The technical problems stated above are faced by producer groups as well; but, in addition, many of them are confronted with other problems relating to organization, group dynamics, and the circumstances and processes of their origin and development.

- Having organized in response to the external initiative of a project or purchasing organization, some of them have developed a heavy dependence on a single buyer. Bhaktapur Craft Centre producing *lokta* paper and Ujolta and Tehrathum Weavers producing *dhaka* products are among the examples. With the imminent withdrawal of or reduction in purchases by single buyers on which they have depended, the organizations themselves are left without the capability to explore alternative markets.
- Being part of an organization has benefitted member producers, but membership also entails making short-term sacrifices. This does not seem to be always realised by the members. Once the organization, with the support of larger marketing and other organizations, has established a market for the product, and the market continues to be buoyant, members find that the organization is offering lower prices than the general market and tend to withdraw or sell most of their produce in the open market. This has threatened the viability and sustainability of some of the producers' organizations. Bhaktapur Wood Carvers' Society is among the organizations facing such problems. Educat-

ing members about the long-term and sustained benefits of group membership and the flexibility and readiness of the organization to offer prices in accordance with market trends could help in such situations.

- Dominance of one or more, even though well-meaning, producers in the group has also often led to problems of distrust and suspicion and has also threatened the continuance of the organization, once the dominant member is unable to lead the group. The cases of Mahangma Rai in Sangtang Women's Club and of Ujolta in Ujolta Cloth are instances of this kind. It appears that, although it may be essential to identify a person as the catalyst of the group, some spontaneity and participation among producers in the group need to be ensured.
- Managerial capability does not seem to have developed in several groups. Illiteracy and lack of education are found to be key factors in some cases. Lack of effort on the part of the group, due often to the fact that one person has been managing the show and the going has been good, is often responsible for the fact that a collective management style has not evolved and second generation managers have not emerged.
- Organizational cultures developed with the good intentions of streamlining production-marketing linkages and have themselves sometimes created problems for organizations. Either the procedures have been found to be too cumbersome for the producers to follow or the group dynamics have not been conducive to organizational effectiveness. The dissonance observed between the sub-clubs and the *allo*

club in Sankhuwasabha provides an example of this.

### 6.2.3 At the Level of Marketing Organizations

Marketing organizations, particularly those affiliated to the Fair Trade Group Nepal, have played a pioneering role in introducing and actualising the collective marketing concept. Through their efforts, significant contributions have been made, viz., widening the markets for handicraft products and raising the income levels of and ensuring fair prices for small producers from different parts of the country. There are problems and limitations to their capabilities and functioning, however, particularly in the context of meeting the expectations of both the producers and the market.

- Quite often the marketing organizations face a problem of delivering the products in time, particularly to meet the orders of foreign buyers. This may happen sometimes on account of genuine reasons, for example, short supplies of raw materials and transport problems – natural causes also cause delays. Notwithstanding, it has been noticed that producers divert their goods to other buyers for short-term gains. Fair trade organizations, no doubt, offer assured markets and, in addition, also provide other benefits to producers through their groups, but this does not seem to prevent some producers from being 'disloyal'.
- Marketing organizations attempt to provide market feedback and information to the producers' group in order to enable better market orientation in terms of product structure and quality. They are not always successful in

acquiring the necessary information because of the lack of resources and the inability to undertake market surveys. Their capacities are more limited in terms of providing necessary support to producers' groups in respect of inputs and technology for product diversification and improvement

- Marketing organizations seldom deal directly with individual producers. They have either to buy from the producers' organizations that exist or from those promoted at the local level. In some cases, these latter organizations themselves may be composed of smaller groups at the village or community level (e.g., *allo* club and sub-clubs). This appears necessary and inevitable as the producers are scattered in small numbers in dispersed locations. It also implies addition of layers in the marketing set up and, therefore, an increase in cost and price. The stages through which *dhaka* and *allo* products pass, from the producer to the final consumer (See Figures 6.1 and 6.2) illustrate the point.
- The more stages a product passes through on its journey to the final consumer, the less the producer will receive from the final price. Marketing organizations, particularly those belonging to the Fair Trade Group, try to prevent this by ensuring that the profit margins charged at different stages are reasonably small. From Figures 6.1 and 6.2, it can be seen that what the producer realises is about 60 per cent of the price charged by the marketing organizations at their Kathmandu outlets. It is still a much smaller fraction (9% in the case of *dhaka* shawls and *allo* place mats) of the price charged by retailers in the

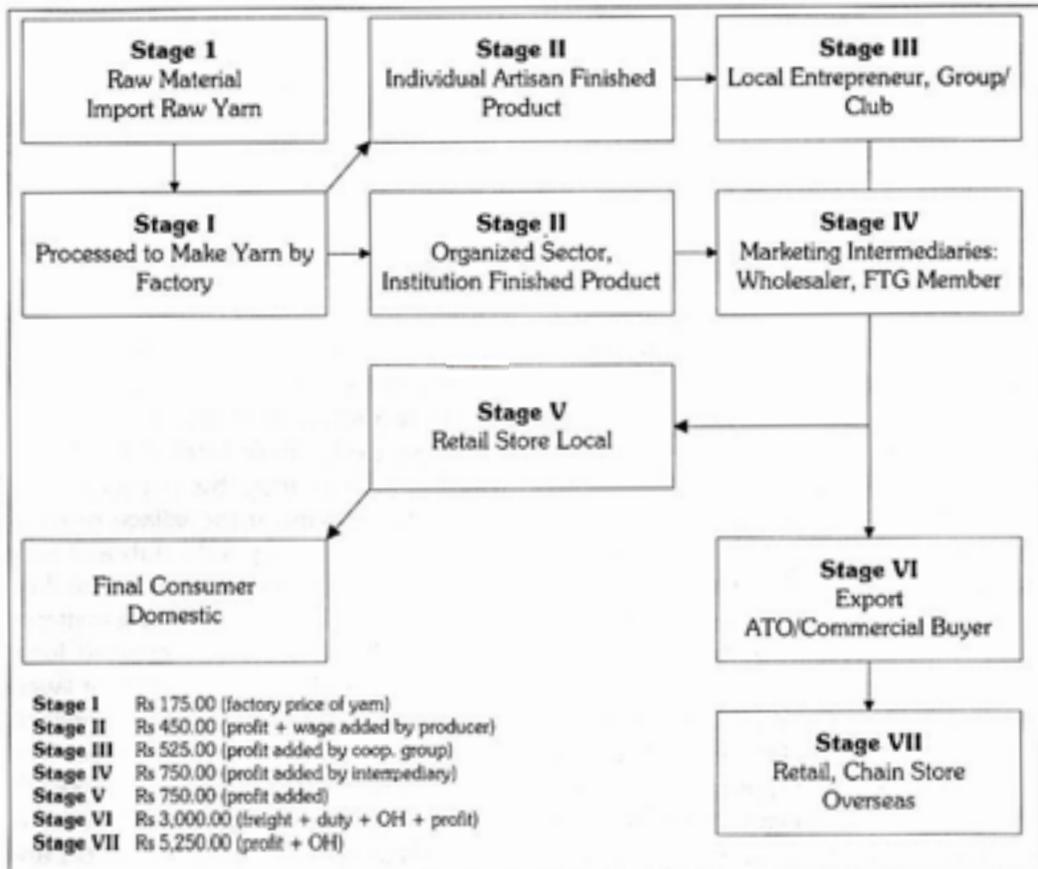


Figure 6.1: Illustration of Dhaka Full Pattern Shawl 32" x 80" inch

overseas' market. This appears to be too big a margin, even after accounting for freight and post-export trade margins. It appears that, whereas the prices paid to the producers and their groups are determined, in most areas, on the principle of 'cost plus', the final overseas' price is determined by 'what the market can bear'. This strategy needs to be reviewed by those involved in the fair trade movement. In the case of handicraft products representing unique skills and culture, application of a cost-based principle to fix producers'

prices, without reference to the niche that makes the final market price independent of the cost, does not seem to work in favour of the producer. The concern should be how to ensure a greater proportion of the final market price goes to the producer.

### 6.3 Conclusion: Prospects of Collective Marketing with the Fair Trade Principle

There is no doubt that collective marketing efforts have made a significant impact

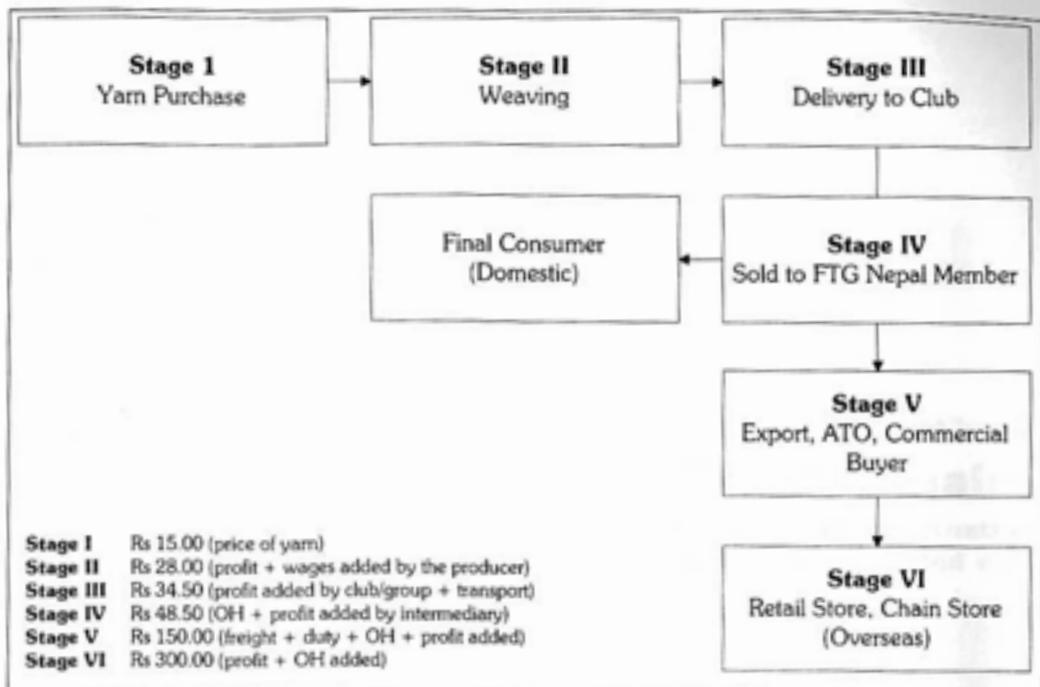


Figure 6.2: Illustration of *Allo Place Mat 13" x 18"*

on widening the markets for and expanding production of handicrafts in Nepal. Some products are, indeed, facing problems leading to loss of competitiveness in the market. Organized marketing can make little impact in these cases. Nevertheless, in the case of a wide variety of products, the marketing organizations can help not only in sales, but also in product development. At the moment, they have limitations in this respect. They may have to increase their trade margins, particularly in export sales, and earmark the resources so obtained to strengthen their capabilities in market research and technology development and transfer in order to give good services to producers and their groups.

Practice of the fair trade principle involves certain costs, particularly in dealing with mainstream commercial markets. An organization like the Fair Trade Group Nepal, at the moment, does not have adequate resources to meet such costs. It has to depend on the contributions of its member marketing organizations which themselves are not always in a strong enough position to make substantial contributions. Their sales and margins, particularly in exports, need to be improved. As ATOs in the North are among their major buyers, a dialogue with them is necessary in order to ensure a better return to the producers and to strengthen the fair trade movement.