

# Chapter 1

## Introduction

### Background

Nepal is a small land-locked country covering an area of about 147181 sq.km. and with a population of about 20 million. The country has three distinct geographical regions—the mountains, the hills, and the *terai*. The high mountains and the hills occupy 77 per cent of the land area and represent 53 per cent of the population. The *terai* region, subtropical flatlands in the southern area, accounts for about 23 per cent of the total land area and represents 47 per cent of the population.

Nepal's economy is predominantly agrarian. Agriculture contributes about 42 per cent to the GDP and employs over 80 per cent of the economically active population. Employment in secondary and tertiary sectors has not expanded enough to reduce the pressure on farmland. The agricultural sector itself has grown slowly in real terms; it has been growing at a rate nominally higher than the population growth in the past decade.

As the economy is agriculture based and more than 50 per cent of the people live below the poverty line, underemployment and open unemployment are common. The majority of the poor live in the mountains or in the Himalayan region of the country. The search for sustainable increases in income lies in diversification of economic activities from subsistence agriculture to off-farm activities (ICIMOD 1996). Cottage and Small Industries (CSIs) are important for developing both the entrepreneurial culture and the industrial base. Therefore, the emphasis should be on developing and upgrading entrepreneurship and managerial and trade skills in the CSI sector.

Manufacturing comprises a relatively small sector of the economy. It accounts for about 10 per cent of the GDP and employs only about two per cent of the labour force. The pace of industrialisation has been slow, mainly because of inadequate infrastructure, e.g., roads and power, and also because of the lack of a skilled work force, capital, technology, and entrepreneurial and managerial skills. The industrial sector is dominated by cottage and small industries (CSI), whether indigenous resource-based or imported raw-material based. Ninety-five per cent of industrial units and 90

per cent of industrial employment are in the CSI sector. There are more than 90,000 units registered in the CSI sector. It has been estimated that only about 30 per cent of these units are actually operational.

The registration of CSIs in recent years has shown an increasingly upward trend. Table 1.1 shows the number of CSI registrations along with investment, production and employment estimates for the years from 1992/93 - 1995/96. The figure shows that about 7,000 to 10,000 cottage and small enterprises were registered each year during this period. The categories of cottage and small enterprises registered in the year 1994/95 are as given in Table 1.2.

**Table 1.1: Trends in Registration of CSIs (1992/93 -- 1995/96)**

Year	Units	Investment (Rs. in million)	Production (Rs. in million)	Employment
1992/93	6,781	3,150	8,900	82,176
1993/94	9,489	5,727	19,795	153,000
1994/95	8,519	5,376	19,439	75,091
1995/96	9,650	7,224	14,711	92,586

Source : Industrial Promotion Statistics DCSI

**Table 1.2: Types of Cottage and Small Enterprises 1994/95**

Types	Nos.	Types	Nos.
Rice flour & oil mills	2025	Bricks and tiles	126
Food processing	513	Cement / cement products	64
Agro and livestock	54	Mining / stone aggregates	24
Forest based	34	Metal products (brass/copper)	341
Beverages	8	Other manufacturing (n.e.s)	775
Tobacco	16	Gold - silver ornaments	10
Textile weaving	275	Electricity & gas	14
Hosiery	95	Construction services	716
Carpet making	111	Hotels, restaurants & bars	161
Ready-made garments	229	Transport & transportation	159
Furniture (wooden)	279	Travel & trekking	94
Sawmills	75	Cold storage	4
Printing publications	130	Real estate	86
Stationery (includes paper)	101	Consultancy	255
Soap and detergents	16	Advertising	129
Chemicals	20	Training	474
Rubber and plastics	53	Entertainment / cultural	59
Drugs and medicines	3	Health services	13
Leather / leather products	41	Workshop	251
Ceramics	9	Other service oriented	677
<b>TOTAL</b>			<b>8519</b>

Source: Industrial Promotion Statistics DCSI

Table 1.2 shows that rice flour and oil mills, construction services, food processing, textile weaving, carpets, garments, and metal products are prominent CSI enterprises. Out of the total CSI units registered, over 80 per cent represent small enterprises and the remaining 20 per cent are cottage-scale units (DCSI 1996). Cottage industries are traditional industries, e.g, carpet weaving, potteries, and hand-made paper. The industries, other than traditional, with investments not exceeding Rs 10 million in fixed capital, are classified, as per the Industrial Enterprise Act 1992, as small-scale industries.

Entrepreneurship development in the CSI sector is a recent phenomenon in Nepal. It has a history of over one and a half decades. About 1,500 persons each year receive training from the various agencies that provide training in entrepreneurship development. There are several such programmes conducted by the various government, semi-government, and private agencies. The Cottage and Small Industries' Development Board (CSIDB), the Small Business Promotion Project (SBPP) of the Industrial Enterprises' Development Institute (IEDI), the Women Development Division (WDD) of the Ministry of Local Development (MLD), the Federation of Nepal Cottage and Small Industries (FNCSI), and the Women Entrepreneurs' Association of Nepal (WEAN) are the main organizations that carry out entrepreneurship development programmes. For various reasons, these organizations have been able to meet the training objectives only to a limited extent. The installation ratio is low, i.e., only about 30 per cent of those trained set up an enterprise. It shows that a mere increase in the number of entrepreneurship training programmes may not serve the purpose. Programmes would need to be at different locations and for different groups selected on the basis of location and products. The more important need is to increase training effectiveness so that it induces the skills for new enterprises and/or expansion of existing enterprises and linkages with other inputs and support services.

### **The Present Study: Objectives and Scope**

The present study was carried out with the following objectives.

- To review existing training programmes in terms of content, location, relevance of local potential to product lines, and improving available skills
- To present a profile of the characteristics of the trainees of selected programmes in terms of their household and socioeconomic background, education, occupation, previous business experience, and other previous training.
- To examine the effectiveness of training programmes in terms of placement of or setting up of business by the trainees
- To examine the linkages of training with provisions of input, credit, and marketing as a part of the package, or as a separate arrangement

- To analyse the above aspects in the case of women trainees separately and in comparison with men trainees
- To suggest appropriate policy and programme packages for effective training

## **Methodology**

The study uses information collected from selected training organizations and from a sample of trainees. The information on training programmes carried out by the selected institutions in different sectors—government, semi-government, NGO, or INGO—are obtained from published and unpublished documents and through interviews and discussions with individuals and institutions. The questionnaire used for this purpose is in Annex 1. Specifically, information collected from these institutions includes: i) training content, ii) participant characteristics obtained from entry forms, iii) feedback on training effectiveness, and iv) information and feedback on pre-training, in-training, and post-training activities. The following organizations were selected for detailed study of other training programmes.

- Cottage and Small Industries' Development Board (CSIDB)
- Industrial Enterprise Development Institute (IEDI)
- Federation of Nepal Cottage and Small Industries (FNCSI)
- Women Entrepreneurs' Association of Nepal (WEAN)

CSIDB and IEDI are prominent institutions in terms of the number of persons trained. WEAN's focus is on developing women entrepreneurs and the FNCSI has recently introduced an entrepreneurship development programme into its regular training activities.

A field survey of ex-trainees who were trained by different institutions was carried out in two districts. The survey was undertaken with a view to examining the effectiveness of training in terms of post-training placement. The survey covered about 50 per cent of the trainees who were trained under the entrepreneurship development programme in the two districts selected in the last two to three years. A survey questionnaire used for this purpose is given in Annex 2.

For the field survey, the district offices of the IEDI and CSIDB in Kaski and Tanahu districts in the Western Development Region and the FNCSI and WEAN in Kathmandu Valley were selected. The districts were selected based on training services provided by these institutions, availability of necessary infrastructure and institutional support for micro-enterprise development, availability of skills, and the industrial potential of the district.

## **Limitations**

There are many factors that determine the effectiveness of a training programme. The entrepreneurship development programme (EDP) training assumes that



entrepreneurship can be developed through proper training and guidance. The effectiveness of the training lies in the utilisation of knowledge, skills, and competence, and in the behavioural changes that individual trainees gain through the training process; in the case of the EDP, the effectiveness is in being able to start a new business or expand and diversify the old one. Although the effectiveness of the EDP is examined in terms of post-training placement of the trainees, it was not possible to go into details of the learning and utilisation of knowledge, skills, behaviour, and competency that they acquired from the training.

The profiles of 123 trainees trained in Tanahu (79) and Kaski (44) districts in the last two to three years were obtained from available entry forms or basic data sheets. A sample survey of 42 trainees (17 trainees from the CSIDB district office in Tanahu, 15 trainees from the IEDI branch office in Kaski, and 10 trainees from the FNCSI in Kathmandu) was carried out through the direct interview method. The trainees were difficult to trace partly because of their change in location (address) and partly because of the time involved in visiting trainees in surveyed areas. No proper records of trainees were maintained by the respective training organizations.

The current employment or placement status of the trainees was examined based on direct personal interviews with the trainees and indirect reporting by them on fellow participants in the same batch. Feedback on the effectiveness of the EDP training was also sought from the training organizations concerned.

An entrepreneur is a person who mobilises capital, utilises natural resources, creates markets, and conducts business. The entrepreneur combines talent, ability, and drive to transform resources and opportunities into profitable ventures. Potential entrepreneurs can be oriented, motivated, and induced to set up a business (SBPP-NBC-CEFE, no date). A distinction between self-employment and entrepreneurship is made in order to get clarity in the purpose of training. Entrepreneurship has a broader meaning than self-employment. An entrepreneur is defined as one who employs at least one person other than himself, adds value to the product or service being provided, and is involved in marketing, purchasing, and conversion of materials or services (APCTI 1995).

It is basically with this perspective that a number of organizations has been engaged in the training for entrepreneurship development in Nepal, as has been indicated in the last chapter. This chapter attempts to present the salient features of the EDPs under various organizations.

### Main Organizations

IEDI is a semi-autonomous body under the Ministry of Industry, HMG/N. It has developed out of the Small Business Promotion Project (SBPP), a joint project of HMG/Nepal and the GTZ, Germany, in 1988 with a view to promoting entrepreneurship.