CHAPTER - III

STATE OF INDUSTRIALIZATION IN NEPAL

Introduction

Industrial growth in Nepal has continued to be very modest despite the breakaway from traditional manufacturing activity since late 1940's. A closer look at the trends of industrialisation in organised sector reveals that the limited achievement whatsoever has been greatly influenced by import substitution approach and private sector initiation. Private sector contribution has been the major force in the industrialisation process of the country, and it was the initiative on the part of the private sector that heralded the emergence of the organised manufacturing industries during the Second World war. This happened even when there was hardly any government support.

His Majesty's Government has stepped into the process of industrial development by participating in industrial ventures, establishing supportive institutions and adopting suitable policy measures. While starting with the activities relating to industrial sector of the economy, the first company law of the Nation was formulated and passed in the year 1936. Basically, it can be said that industrial activities in an organised manner started in Nepal since the enactment of this law, which enabled the local traders of different parts of the country to set up different types of industrial units as joint stock companies. During the period 1936-39, along with the opening of Biratnagar Jute Mill, the first joint stock industrial enterprise in the country, a few other public limited companies were incorporated in various fields. Only two of these companies viz., Birgunj Match Factory and Biratnagar Jute Mill turned out to be profitable. This was possible mainly because of granting of a host of privileges and facilities by the Government at that time. These privileges included, among other things, exemption from custom duty on imports of plants, machinery, equipment, fuel and other construction materials. The match factory enjoyed even monopoly of production for some years. Secondly, the abnormal situation of World War II also created the conditions which were favourable to both the jute mill and the match factory alike. The war period (1939-45) and the post-war period (1946-50) were a time of boom in the growth of joint stock enterprises in the country.[1] There was a mushroom growth of these units on account of the immediate bright prospects during that time. However, this phase did not lest long and these very units ceased to exist soon after their establishment. During 1951-59, a very large number of company failures or liquidations was recorded. Further, some of the surviving companies were incurring losses

1. For details - See Shrestha, B.P. "The Economy of Nepal", (Bombay, Vora and Co.Pvt.Ltd.), 1967.

and were on the verge of liquidation. A series of company failures discouraged the people from making long term industrial investment, particularly in joint stock companies. This wave of pessimism was worse than the material loss entailed by company failures.

Programmes for Industrial Development

In view of the stagnent condition of the existing industries in the country, as mentioned above, the Government did not remain a passive onlooker but started to help them. As a first step, it formulated the First Five Year Plan the implementation of which was started in 1956-57. The First Plan envisaged a programme for revival and expansion of cottage industries selected on the basis of their quality and capacity to survive; encouragement to private savings; government investment in productive enterprises and utilisation of foreign capital with suitable safeguards. Out of the estimated plan expenditure of Rs.33 crores, only Rs.2.5 crores i.e. 7.6 % of the total allocation was made for industrial sector including minerals.[1] The plan gave highest priority to the development of transportation and communication and provided adequately for power development in the country, to build up infrastructure for further development. In the industrial sphere, although

1. See: Annexure 3.1

there were no specific production targets, some progress in the output of Jute, Sugar, Match and Cotton textile industries was recorded during the plan-period. The first Industrial Policy of the country was also declared within this plan-period i.e. in the year 1957-58. The details of the Industrial Policy are given later in this Chapter.

It may be mentioned that there was a gap of one year when there was no plan. Thereafter, in 1962, the second Plan came into being. It was for a period of three years - 1962-65. This Plan reflected more determination on the part of the Government to hasten the pace of industrialisation in the country. It had set specific targets for the completion of foreign - aided projects in public sector (like Janakpur Cigarette Factory and Birgunj Sugar Factory) and provided the necessary incentives in the form of financial and technical assistance to private entrepreneurs to set up labour-intensive, export-oriented and import-substituting industrial units.

During this Plan-period, two industrial estates viz, Hetanda Industrial District (HID) under the joint sponsorship of HMG/N and USAID and Patan Industrial Estate (PIE) under the joint sponsorship of HMG/N and Indian Cooperation Mission, were established. Basically HID was planned and established to house medium and large scale industrial units and PIE to promote and house cottage and small scale industrial units. Besides, some industrial units established in the public sector were modernised and expanded during this period. As a result, output in certain selected industries such as Jute, Sugar, Cigarette and Matches, increased by 25%, 94%, 29% and 66.2% respectively over that in 1961.[1]

The Third Five Year Plan (1965-70) allocated Rs.43.7 crores for the development of industrial sector, out of its total outlay of Rs.250 crores.[2] This Plan emphasized on export-promotion in order to earn foreign currency so that capital goods needed for industrial growth can be acquired through its own sources. Accordingly, the plan had given priorities to the development of such industries which produce import-substituting and exportable articles, mostly by using indigenous raw materials as far as possible. Besides, the plan had set the target to establish five industrial estates in different parts of the country, for the rapid growth of cottage and village industrial units in all the districts concerned.[3]

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1. For Detail: See, Report of Third Five Year Plan (1965-70), NPC, HMG/N.
2. See : Annexure 3.3.
3. Note: Five Industrial Estates planned were one each: at Dharan in Sunsari District, Pokhara in Kaski District, Nepalgunj in Banke District, Chandragadhi in Jhapa District and Krishnanagar in Kapil-bastu District.

In the large scale industrial sector, the Government had planned to establish public sector enterprises under its direct control. Accordingly, targets were fixed to complete the construction work of two factories, namely, Brick and Tile Factory in Kathmandu district and Agricultural Tools Factory in Parsa district during the Plan-period. Similarly, targets were fixed to establish a few public sector industrial units producing basic commodities like cement, lime and mica and to undertake feasibility studies in relation to industries like Alcohal, Pulp and paper, Glass and Ceramics, Fertilizer and Iron and Steel.

The Fourth Five Year Plan (1970-75) also allocated Rs.720 million or 20.3 per cent of the total plan outlay to the industrial sector. The order of priorities given to the manufacturing sector in this plan was more or less the same as in the previous one. To bring about the development of the industrial sector as re-emphasized in this plan, the Government revised the Industrial Policy in 1974. It was also envisaged in the plan to undertake the establishment of the three industrial estates (planned under the Third Five Year Plan) and one new industrial estate in Butwal. It may be mentioned that except the Butwal industrial estate, all others were set up. Besides, the plan aimed at expanding the already existing estates viz, BID, PIE and HID. Over and above these, a Two-year's Industrial Development Programme was formulated within this Plan-period. This was designed to develop certain industries and their infrastructural needs in selected regions of the country.[1]

In the year 1975, the Fifth Five Year Plan (1975-80) was launched. Its objectives were somewhat different from those of the earlier ones. It emphasized labour-intensive techniques of production along with the object of balanced growth in the country. However, the primary objectives of previous plans continued to be valid in this Plan. Industry had been provided with 19.6 per cent of the total plan layout.[2] This Plan had provided facilities required by private sector industrial units. It had attempted to allocate a definite amount for investing in certain number of industrial units in different industries. For example, 40 to 50 crores of rupees had been allocated for the investment in 127 industrial units including 50 agro-based, 12 forest-based, 13 mineral based and 52 miscellaneous type.[3] The financial institutions like Nepal Industrial Development Corporation (NIDC) would be provided with additional resources from both internal and external sources in anticipation of higher demand for credit facilities

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1. For detail : See, Fourth Five Year Plan,(1970-75) N.P.C. HMG/N.

2. See : Annexure 3.5

3. For detail: See, 'The Fifth Plan'(1975-80), In Brief, NPC, HMG/N.

from the private sector. In addition, Rs.53 crores had been allocated for the investment in public sector industrial units. A specific policy with priority list of type of industrial units had been adopted during this plan-period to promote and develop the cottage scale industrial units.[1] In conformity with this policy, ten different programmes for the provision of facilities like industrial services, technical training etc. were planned during this period.

In the year 1980, the Sixth Five Year Plan with almost similar objectives was launched. However, this plan had emphatically mentioned about the generation of industrial employment to absorb the excess man-power dependent on agriculture for want of viable alternatives.[2] It aimed at reviewing the prevailing policies on various aspects of the country's economy such as taxation, licensing, foreign trade and foreign exchange, wages, prices etc, so that corrective measures could be taken. It was also mentioned that special efforts would be made to provide protection to domestic industries through import-tariffs and through schemes to control international border. The roles of organisations like NIDC, ISC, NRB, Cottage Industries Development Board (CIDB) and Commercial Banks in the industrial promotion have been specified.

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1. For detail: Ibid.
2. For detail: See Annexure 3.6.

In the absence of adequate data, it is extremely difficult to pass any judgement on the industrial performance during the Plan-period. All the same, one can say that industrial production has increased moderately during this period. Table 3.1 shows data on industrial production of 21 industries for eight years. Briefly put, various efforts made to develop industries during the period shown in the table and before that, industrial production had increased for several industries. Up to the year 1980, the production of Jute, Cigarettes and fertilizer had declined. Whereas most of the other industries recorded increases with slight fluctuations. It is notable that production of many new industries had emerged during the Fifth Plan period i.e. during 1975-80. Biscuits, Cement and Polythene pipes were the new industries which commenced production. By the end of the Fifth Plan, the increase in production took place in industries like sugar, tea, alcohal, bricks and files, cement, stainless steel, soap, plywood, shoes, refined leather, strawboard, beer and plastic goods in 1979-80 over that of 1975-76. Thereafter, during the first three years of Sixth Plan period too, most of these industries seemed to have maintained the growth rates as they were during the Fifth Plan period. However, Fertilizer and Alcohal industries could not increase their production.

Table 3.1

Production of Selected Industries (1975-76 to 1982-83)

Sr. No.	Industries	Unit	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81
1	Jute	Metric tons	15994 (100)	16803 (105)	16347 (102)	15520 (97)	14777 (92)	16264 (102)
2	Sugar	"	10632 (100)	16351 (154)	26502 (249)	27200 (256)	14158 (133)	12020 (113)
3	Cigarettes	Million Sticks	2447 (100)	1774 (73)	1634 (67)	2069 (85)	1642 (67)	1811 (74)
4	Matches	2000 gross	697 (100)	658 (97)	677 (99)	724 (107)	699 (103)	626 (89)
5	Stainless Steel	Metric tons	175 (100)	149 (85)	173 (99)	294 (168)	760 (434)	470 (268)
6	Soap	"	970 (100)	1855 (191)	1317 (136)	1121 (116)	1174 (121)	2631 (271)
7	Tea	"	366 (100)	395 (108)	405 (111)	326 (89)	387 (106)	535 (146)

According to a Study conducted by ISC, by the end of the year 1978, the number of cottege scale industrial units in operation in the country totalled 7,50,575. They employed 12,15,000 people, accounted for an annual investment of Rs.341 million and produced goods worth Rs.713 million. Of these, 99 per cent of the units are tiny cottege scale units which usually operate for 3 to 4 months in a year when there is no agricultural activity to be undertaken. Moreover, the products of these industrial units are not marketed. They are produced basically to meet the household requirements of the peasants themselves. Even then, this sector had been able to export goods, mainly carpets and handicraft products worth Rs.11.2 crores in 1978.

As shown in Table 3.2, the Government has allocated Rs.1189.3 crores for the development of industrial sector as at the end of 1985. It amounts to nearly 23.5 per cent of the total outlay of all the plans formulated and implemented during the period 1956 to 1985. It may be noted that the amount allocated for the development of this sector in the First Plan was merely Rs.2.5 crores. In the Sixth Plan, the allocation has reached to the tune of Rs.881 crores, depicting a tremendous increment within the period of 29 years.

Table 3.2

Financial Allocations Made For Industrial Sector Under Different Plans(1956 to 1985)

(Rs. in crores)

S.N.	Particulars	Total Planned outlay	Allocation for Industrial Sector	P.C. of Total outlay
0	1	2	3	4
1	First Five Year Plan (1956-61)	33 (100)	2.5	7.6
2	Three Year Plan (1962-65)	60 (182)	10.2	16.6
3	Third Five Year Plan (1965-70)	250 (757)	43.7	17.5
4	Fourth Five Year Plan (1970-75)	354 (1073)	72.0	20.3
5	Fifth Five Year Plan (1975-80)	919.7 (2787)	179.9	19.6
6	Sixth Five Year Plan (1980-85)	3394.0 (10284)	881.0	26.0
	Total	5010.7	1189.3	23.7

Sources: Drafts of All the Plans, Pub. by NPC, HMG/N.

Note: The First two plans had separate headings for estimated planned outlay and actual outlay. Third five year plan and other plans thereafter started allocating the total outlays under sectoral headings. For detail, refer to Annexure 3.1 to 3.6.

As a result of planned effort, GDP generated in the industrial sector accounted for 11.1 per cent of the country's GDP. The GDP by manufacturing increased from Rs.105 million in 1964-65 to Rs.386 million in 1981-82. The proportion of GDP by manufacturing increased from 1.5 per cent in 1964-65 to 4.5 per cent in 1979-80 and to 3.9 per cent in 1981-82. Thus, the share of GDP by manufacturing increased 2.4 times in 1981-82 over 1964-65.[1] This sufficiently indicates the pace of growth, taking place in the industrial sector during the period referred.

At this stage, contribution of industrial sector to the overall economy may be looked into. Table 3.3 gives data for an 18 year period - from 1964-65 to 1981-82. The data relate to the two sectors - agriculture and industry.

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1. Pradhan, R.S: 'Industrialisation in Nepal', (Delhi, NBO Publisher's Distributors), 1984. P.112.

For detail: refer the sub-heading 'Summing-up' of this Chapter in the following pages.

Table 3.3

GDP Estimates by Industry and Agriculture Sectors
(1964-65 to 1981-82)

(in million rupees
at 1970-71 prices)

Year	GDP by Agriculture	Growth Index	GDP by industry to total GDP	Growth Index
1	2	3	4	5
1964-65	4625 (65.2)	100	724 (10.2)	100
1965-66	5268 (69.4)	114	758 (10.0)	105
1966-67	4335 (67.0)	94	658 (10.2)	91
1967-68	6028 (68.1)	130	938 (10.6)	130
1968-69	5523 (67.1)	119	926 (11.3)	128
1969-70	5922 (67.5)	128	983 (11.2)	136
1970-71	6034 (67.5)	131	954 (10.7)	132
1971-72	6578 (68.5)	142	1062 (11.1)	147
1972-73	5770 (66.0)	125	989 (11.3)	137

Table 3.3 continued....

1	2	3	4	5
1973-74	7138 (69.0)	154	1168 (11.3)	161
1974-75	7599 (70.0)	164	1183 (10.7)	163
1975-76	6016 (66.8)	130	984 (10.9)	136
1976-77	5247 (60.1)	114	920 (10.2)	127
1977-78	5280 (58.9)	114	1000 (11.2)	138
1978-79	5862 (60.2)	127	1092 (11.2)	151
1979-80	5408 (57.9)	117	1043 (12.7)	147
1980-81	5461 (53.4)	118	1067 (10.4)	147
1981-82	5451 (55.0)	118	1101 (11.1)	152

Source: Figures up to 1975-76 are taken from Ministry of Food,Agriculture and Irrigation, Handbook of Agricultural Statistics p.7 and figures from 1976-82 are taken from Ministry of Finance, The Economic Survery (1981-82). The figures of current prices are adjusted for 1970-71 prices. Taken from 'Pradhan,Radhe. S: Industrialization in Nepal, (Delhi, NBO Publisher's Distributors), 1984. p.110.

Note: Figures in parentheses indicate percentages over total GDP at the 1970-71 prices.

The GDP by agriculture increased from Rs.4625 million in 1964-65 to Rs.5451 million in 1981-82 and the GDP by industry increased from Rs.724 million in 1964-65 to Rs.1101 million in 1981-82 at deflated prices. The GDP by agriculture marked a peak of Rs.7599 million and the GDP by industry marked a peak of Rs.1183 million in 1974-75. Though the GDP by industry increased at a much higher rate than the GDP by agriculture, the proportion of GDP by industry to total GDP increased only marginally during the period 1964-65 to 1981-82. In contrast, the proportion of GDP by agriculture declined from 65.2 percent in 1964-65 to 55 per cent in 1981-82. This tendency seems to be a natural outcome, as the rising share of manufacturing activity in the total output of goods and services has commonly been accompanied by a decline in the corresponding share of agricultural activity in other developing countries too.[1]

<u>Industrial Policies of Nepal</u>

The first Industrial Policy of Nepal which was declared in 1957, recognised the Government's responsibility of promoting, assisting and regulating industrial development in the country. Factory and Factory Workers' Welfare Act of 1959 was enacted for the first time. It recognised the fundamental rights of labourers to organise themselves into

1. Pradhan. R.S: op. Cit. P.110.
(Also refer Table 3.2 of this Chapter for detail).

unions. The provisions regarding health, safety, welfare and working hours in the factories were specified. One financial institution by the name Industrial Development Centre (Later converted to National Industrial Development Corporation) and Timber Corporation of Nepal were also established during the year 1959. As the policy could not succeed in creating a sound industrial base to any appreciable extent, it was revised in 1960. Several facilities were provided to mobilise the private sector investment for setting up industrial units based on indigenous raw materials, import substitution and export potential. Subsequently in 1961 the Industrial Enterprises Act was passed. This Act had classified all industries into 5 categories as shown in the following Table 3.4:

Table 3.4

Types of Industries

Sr. No.	Type of Industry	Amount of Capital investment.	Restrictions or Limitations
1	Cottage and Village Industries	Not more than Rs.50000/-	Can be established only by Nepalese nationals or organisations.
2	Small Scale Industries	Rs.50000/- to Rs.5 lacs	-do-
3	Medium Scale Industries	Rs.5 lacs to Rs.10 lacs	Can be undertaken either by domestic or foreign nationals or as joint ventures.
4	Large Scale Industries	Not Less than Rs.10 lacs	Can be established by private sector or foreign investors as in the case of medium scale industries.
5	Defence and Basic Industries	(Not mentioned)	Solely to be undertaken by Government.

In accordance with HMG's declaration in the Fourth Plan to completely revise the existing industrial policy, the industrial policy was amended in 1974 to achieve more speedy improvement in the industrial sector.[1] The amended policy attempted to introduce scientific basis for establishing new industries, to fix certain time limit in licensing, and financing processes and to maintain proper coordination amongst the bodies concerned in providing facilities to industries. It had provision to grant incentives to such industrial units which were set up or to be set up in remote hilly areas and least developed areas in Tarai, so that the fruits of development could be shared by all the regions of the country. Concessions in relation to income-tax, custom duties, excise duties, profit-tax, sales tax, interest rates and foreign exchange facilities were given on the basis of the nature of industry, capital investment and number of workers employed in the enterprise. Proper incentives had been given to make use of labour-intensive methods of production. Provisions were also made to encourage the industrialists to expand their business. The overall objectives of this industrial policy were:

(a) To bring about both quantitative and qualitative improvement in industrial production and productivity.

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1. For Detail, See Industrial Policy of Nepal, 1974.

(b) To create more industrial employment opportunities for absorbing the excess labour force engaged in agriculture;

(c) To mobilise local capital, skill and resources to the maximum;

(d) To be self-reliant in essential goods of daily consumption and construction materials within the shortest possible time;

(e) To minimise regional economic imbalances; and

(f) To improve the balance of payments position by resorting to the increased exports and import substitution.

A note-worthy feature of this Industrial Policy was that the domain of the public sector and the degree of collaboration with the private sector have been clearly defined. As regards basic industries viz., iron and steel, chemical, fertilizer, petroleum and cement, HMG/N had reserved the right to subscribe 51 per cent of paid-up capital at the minimum and 100 per cent at the maximum. In the case of the enterprises producing primary consumption goods, e.g. cotton textiles, medicine, dairy products, hydrogenated oil (vegetable ghee) and writing and printing paper industries, HMG/N may undertake them but may not necessarily retain 51 per cent equity share.

Regarding other basic consumption goods industries, HMG/N may take the initiative to establish these industries but may also dispose them off to the private sector subsequently. It is pertinent to note that in the manufacturing sector, public sector involvement is limited to large scale industries only.

However, for providing few additional incentives and for rearranging the priority sectors, the Industrial Policy of 1974 was again amended in 1981 to achieve the following objectives:[1]

1 To encourage private sector industrial investment as an element in the growth of gross national product;

2 To open up gainful employment opportunities in the industrial sector for a labour force excessively dependent on agriculture;

3 To attain self-reliance in the production and supply of essential consumer goods and most of the construction materials;

4 To maintain regional economic balance;

5 To increase the output of and attain quality improvement in currently manufactured articles;

6 To improve the balance of payment position through increased exports and import substitution;

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1. See: Industrial Policy of Nepal, 1981.

7 To enhance entrepreneurial, managerial and technical capabilities as a means of assisting the development of industrial organisation; and

8 To develop indigenous technologies and to import such appropriate technologies as will contribute to industrial productivity.

Over and above these, special provisions have been made for the promotion and development of the cottage and small scale industries in the country. These provisions are as follows:

1 Special programmes to promote cottage industries will be launched with a view to employing hitherto under-utilized manpower and to using locally available skills and raw materials along with other physical resources;

2 Special attention shall be focussed on:

(a) developing manufacturing techniques so as to achieve higher productivity;

(b) enhancing appropriate skills in accordance with the demand from the domestic and export markets;

(c) Conducting research on the quality of products; and

(d) disseminating information on such products;

3 Labour-intensive cottage industries will be promoted by the effective mobilisation of local skill, capital and material resources so that their products can satisfy the widerspread domestic market and special programmes will be launched to expand export trade;

4 Institutional arrangement will be made to provide, on an integrated basis, facilities such as finance, technical assistance, extension and training services, raw materials, supplies and tools and market research facilities in respect of cottage industry products.

Although the main provisions of this industrial policy do not seem to be much different from the previous ones, it seems to put emphasiz on the following aspects, namely:

(a) need to encourage the private sector industrial investment;

(b) need to diversify the labour force towards industrial sector;

(c) need to mould the country's industrial sector to be selfreliant in the production of essential consumer goods and construction materials;

(d) need to maintain regional economic balance;

(e) need to mobilise the existing industrial units to make improvements qualitatively and quantitatively;

(f) need to enhance entrepreneurial, managerial and technical capabilities as a means of assisting the development of industrial organisations; and

(g) need to develop indigenous technologies and to import such appropriate technologies which will contribute to industrial productivity.

<u>Summing Up</u>

As discussed above, the Government has been making planned efforts to develop industrial sector of the economy. It has allocated its resources up to the level of 23.7 per cent of its total planned outlays during the period 1956 to 1985. In this process, changes have been made, especially since 1956 in the pattern of allocating the planned funds towards different sectors viz, Public, Panchayat and Private. This change has been made mainly because the Government's emphasis on the multi-faceted development pattern to suit the mixed economy of the country. In accordance with the needs of the planned targets, suitable industrial policy has been declared in 1957. It has been amended in 1960, 1974 and 1981, with a view to providing additional facilities to private sector industrial units. However it is felt by the concerned parties that these revisions have been too frequent. In addition, they have been made regardless of their being consistant with the other provisions. Especially, the deletion of certain facilities offered in earlier policy has been regarded as one of the causes that has created lack of faith in the minds of the investors in general.[4] Further, almost all the amendenents seem to be loaded with too many objectives for industrialising the country. Moreover, the institutions (both governmental and semi-governmental) responsible for implementing the plan, and/or providing the supportive facilities have proved ineffective. For example, take the provision for infrastructural facilities to be provided to the industrial sector. Although the industrial policy including its amendnents mentions that infrastructural facilities will be provided, these facilities are still inadequate. The facilities and services like electricity, water etc are exclusivily the responsibility of the public sector units. However, little has been done to ensure the availability of these services adequately at reasonable prices. This is perhaps on account of high costs and management inefficiency. Similarly, it has been mentioned in the industrial policy that the procedure to be followed for obtaining industrial licences and facilities would be made simple. But according to the views of the industrialists, the procedures to be followed for obtaining industrial licences and facilities is neither simple nor short. Not only is this costly but the entrepreneurs also have to deal with several departments of the government. This causes delay, which is further aggravated because of lack of coordination among the government departments. This situation has made all the liberalisation measures for industrial development mentioned in industrial policy ineffective to some a large extent.