Value Chain Analysis Series: 2

Value Chain Based Approach to Micro-Enterprise Development

Value Chain Analysis-Dhaka Fabric

Micro Enterprise Development Programme (MEDEP)
(MEDEP-NEP/08/006)
Pulchowk, Lalitpur

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Foreword

The Micro-Enterprise Development Programme (MEDEP) is a nationally executed project implemented by the Ministry of Industry (MOI) with the technical and financial support of the United Nations Development Programme (UNDP). The programme is funded by UNDP with additional support from the Australian Agency for International Development (AusAID). MEDEP which is now in its third phase (2008-2010) primarily aims at improving the livelihood of low income families those living below the absolute poverty line through promotion of micro-enterprises and employment generation. The target groups of the programme are Women, Socially Excluded such as "Dalits", Indigenous Nationalities / Adivashi Janjatis, Religious Minorities, Unemployed Youths, People Living with HIV and AIDS (PLHA), Injecting Drug Users (IDUs) and Ex-Combatants Discharged from Maoist Cantonments. MEDEP has been working in several commodity subsectors based on market demand, local resource potential, and needs and demands of target groups. The programme is currently active in 36 districts, with total beneficiary number exceeding 50,000.

The MEDEP approach in value chain is in the process of internalization although the programme has been active in the promotion of enterprises including agro-based, forest-based, arts & crafts-based, and tourism-based enterprises for the last ten years. MEDEP has been emphasizing on creating and sustaining micro entrepreneurs through their integration into the respective product or commodity value chains. In this context MEDEP initiated Value Chain Analyses of selected commodities / products including *Allo*, Dhaka, Incense Sticks, Orange, Lapsi, and Chyuri Herbal Soap. The present study report on *Value Chain Analysis-Dhaka Fabric* is one of the reports completed and ready for posting on the web portal for the benefit of stakeholders in the subsector. MEDEP has been actively supporting the creation of entrepreneurs in the Dhaka fabric subsector with the total number of entrepreneurs exceeding 1,000 in over twenty districts of the country. The weavers predominantly women from families below the poverty level have been able to improve their livelihoods with the income earned from the production and sale of Dhaka fabric and products. There is a tremendous scope for further expansion of the Dhaka fabric and products subsector value chain by promoting and linking small producers with other chain actors such as input suppliers, wholesalers / retailers, and exporters. Dhaka fabrics also have the potential to be further developed as one of the traditional handicrafts of the country. We are hopeful that the study will be useful to all value chain actors and stakeholders in the Dhaka fabric subsector, to understand the existing weaknesses and constraints that need to be addressed for further sustainable growth of the Dhaka fabric subsector especially from the point of view of the small producers. We would like to offer our thanks to Dr. Bhimendra B. Katwal, Value Chain Development Consultant for taking the lead and the field staff of APSO Udayapur, as well as all participants in the Stakeholders Workshop at Terhathum and the Sharing Workshop held at Kathmandu for their valuable contribution towards the successful completion of the study.

Lakshman Pun, Ph. D.	Dhundi Raj Pokharel
National Programme Manager	National Programme Director

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<u>Annexes:</u>

ACRONYMS

ADB/N	Agriculture Development Bank Nepal
BDSPO	Business Development Service Providing Organization
CFUG	Community Forest User Group
CSIDB	Cottage and Small Industry Development Board
DCSI	Department of Cottage and Small Industry
DDC	District Development Committee
DEDC	District Enterprise Development Committee
DMEGA	District Micro Entrepreneurs' Groups Association
FINGO	Financial Intermediary NGO
FNCCI	Federation of Nepalese Chambers of Commerce and Industry
GB	Grameen Bank
ILO	International Labour Organization
MDG	Millennium Development Goal
MEG	Micro Entrepreneurs' Group
MEDEP	Micro-Enterprise Development Programme
MEG	Micro Entrepreneurs' Group
MEGA	Micro Entrepreneurs' Groups Association
MFI `	Micro Finance Institution
MoF	Ministry of Finance
MoI	Ministry of Industry
NEDC	National Entrepreneurship Development Centre
NMEFEN	National Micro Entrepreneurs' Federation Nepal
RSRF	Rural Self-Reliance Fund
SCC	Savings and Credit Cooperative
SIYB	Start and Improve Your Business
SMPPL	Saugat Micro Promotion Pvt. Ltd.
UNDP	United Nations Development Programme

Chapter-1
Selection of Value Chains for Promotion

1.1 Selected Commodities and Products for Promotion of Value Chains

Nepal is one of the poorest countries in the world with an estimated 31% of the population living below the poverty line. The importance of creating employment opportunities for its growing labour force in the context of poverty alleviation need not be overemphasized. Consistent with the Government's high emphasis on Poverty alleviation (10th Plan/PRSP, Three year Interim Plan) and the MDG of reducing the poverty level population by half between 1990 to 2015, the Micro-Enterprise Development Programme (MEDEP), with the support of UNDP has been working to improve the livelihood of poor families through entrepreneurship development. Micro-enterprises are increasingly gaining importance in the context of poverty alleviation in Nepal as in other countries. Recently GoN has come up with ***Micro Enterprise Policy 2064*** to facilitate the growth of micro enterprises following the norms and definition of the Policy.[1] MEDEP programme currently is active in 36 districts with direct beneficiary number exceeding 50,000 (over 65% being women). On an average incremental annual income per participating entrepreneur has been estimated at US$158 (representing an increase of 282% over base).

MEDEP has been working in several commodity sub-sectors based on market demand, local resource potential, and needs and demands of target groups (standard MEDEP approach of identifying the intervention area). It is now recognized that MEDEP needs to emphasize on a value chain based approach that provides a systematic basis to achieve significant sub-sector level impacts. *Value chains encompass the full range of activities and services of market actors required to bring a product or service from its conception to its end use and beyond.*[2] Value chain analysis helps identify the participants at specific functional levels such as primary producers, processors, product makers, retailers, exporters etc including the identification of strengths and weaknesses at each stage. Such analysis provides a sound basis to design and implement intervention strategies that will contribute to develop the sub sector to its potential level, increase value addition, and to achieve a significant increase in the number of target beneficiaries.

The Scoping Study for MEDEP Phase III (Bajracharya 2007) has emphasized that one important dimension where MEDEP needs to focus its orientation is to ensure business growth through value chain analysis. Value chain approach is yet to be fully internalized. To gradually

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[1] The Policy defines "Micro-enterprise" as any industry, enterprise or other service business, based particularly on agriculture, forest, tourism, mines, and handicrafts, which meets the following conditions:

I. In the case of a manufacturing industry, enterprise involving the investment of fixed capital of not exceeding two hundred thousand rupees, except house and land, and in the case of a service enterprise, an industry, enterprise involving the investment of fixed capital of not exceeding one hundred thousand rupees,
II. The entrepreneur himself or herself in involved in the management,
III. A maximum of nine workers including the entrepreneur are employed,
IV. It has annual turnover of less than two million rupees,
V. If it uses an engine or equipment, the electric capacity of such engine or equipment is less than five kilowatt (The recent **Industrial Policy 2067** has increased it to ten kilowatt)

Provided that notwithstanding anything contained above, any industry or enterprise which manufactures liquors, cigarettes or other tobacco products or for the establishment of which approval has to be taken will not be considered as micro-enterprise.

[2] Value Chain Program Design: Promoting Market Solutions for MSMEs, Action for Enterprise

internalize value chain approach ten most potential commodities / products were identified, of which six were selected for detailed studies beginning from the middle of 2009.[3] These are *Allo*, Dhaka, Incense / Agarbatti, Sweet Orange / Orange, Lapsi, and Chyuri / Herbal soap.

MEDEP has recognized value chain development as an appropriate approach to strengthening of selected commodity sub sectors. The commodity value chains targeted for promotion were elected selected based on available information from secondary and primary sources from field offices, and partner organizations followed by an assessment of market demand, resource potential, and needs and demands of target groups.

The process of value chain selection basically considered the following factors:[4]

- Market demand/growth potential including unmet market demand
- Potential to increase income at rural level
- Opportunities for market linkages (internal and external)
- Potential for employment generation
- Outreach in terms of number of small enterprises
- Potential for value addition
- Trade potential / competitiveness
- External environment (e.g. government policies, taxes etc.)

1.2 Value Chain Analysis-Concept and Framework

On a conceptual level the following Fig-1 shows the different layers in the value chain framework. The value chain actors including both the direct chain operators (input suppliers, producers, processors, wholesalers, retailers, and exporters) and service providers (sector specific and cross-cutting services) operate within a local or national business enabling environment.

In an increasingly integrated world the global business enabling environment especially with respect to export commodities becomes quite relevant. These may be the factors related to tariff and non-tariff barriers to trade including regulations on quarantine, sanitary and phyto-sanitory (SPS) requirements etc that influence the way the particular value chain functions.

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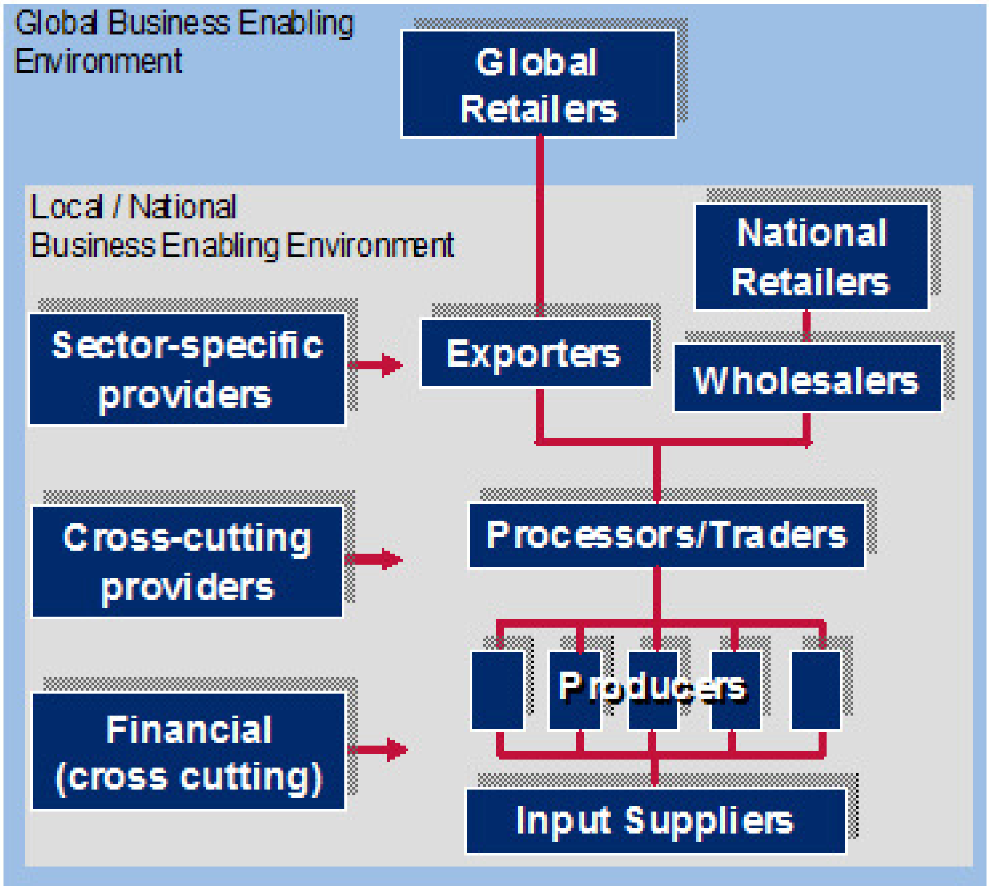
[3] Ten identified priority commodities / products are:

1. *Allo* (Himalayan nettle)
2. Ginger
3. Dhaka fabric
4. Honey
5. Herbal soap
6. Lokta (Nepali Paper)
7. Incense sticks
8. Bamboo products
9. Lapsi
10. Orange (Sweet Orange and Mandarin)

Refer to Annex-2 for basic information on the value chains currently supported by MEDEP.

[4] This closely follows the criteria used by GTZ to select sub sectors for value chain promotion (GTZ, 2008).

Fig-1: Value Chain Framework



Source: MLinks-VCA\Chain Analysis-microLINKS Wiki.htm

Value chain analysis provides a basis to identify the chain actors and the weaknesses at each of the functional levels to help in designing appropriate interventions for strengthening the target value chains. How relevant is value chain analysis from the point of view of poor small producers? In the context of small producers chain upgrading can be achieved in the following two ways (Bolwig et al., 2008; Riisgard et. al. 2008).

Strengthening value chain coordination around the production node:
Value chain coordination is strengthened either by vertical integration in which an actor performs several functions in the value chain, or through contractualization which simply indicates use of contracts as a mediator of exchange between chain actors. Chain actors can cooperate and enhance fruitful exchanges between them (**Vertical contractualization**). Similarly, actors in the same position of the value chain can cooperate over such matters as input provision, bulking produce for easy access to markets, identification of potential buyers, as well as product certification (**Horizontal contractualization**).

Upgrading in the production node:

The common forms of upgrading in the production node include improvement in product quality, improved efficiency of production process, increasing volume of production, improving timing of supply, and compliance with mutually agreed upon industry standards.

1.3 Methodology of the Study

The study is based on information and data collected from a combination of primary including participatory methods and secondary sources of information. These include:

- Secondary sources of information / data on Dhaka subsector.
- Interaction workshop with subsector value chain actors / stakeholders at Myanglung (Tehrarthum) on 11 July 2009 for participatory Value Chain Mapping, SWOT Analysis, identification of constraints and possible solutions.
- Field survey with entrepreneurs and other chain actors such as input suppliers, traders at major centres of activities related to the manufacture, and trading of Dhaka fabric and products including Tehrathum, Nawalparasi, Chitwan, Butwal, Tansen, and Kathmandu (key informants, enterprise surveys)

A Central Level Sharing Workshop was held at Kathmandu on 16 November 2009 to further share and exchange views with stakeholders based on the findings of the analysis. The inputs received from participants at the workshop have been useful to refine and finalize the study report in the present form.

Chapter-2

Value Chain Analysis

2.1 Value Chain Actors

The value chain actors include those involved directly in the production and processing activities including the input suppliers, weavers, product manufacturers, traders and exporters as well as the chain supporters at the meso levels of the value chain. The chain operators are those dealing directly with the product at micro level unlike the chain supporters who are not dealing directly with the product as the chain operators but provide useful support services and are classified under the meso *level* of the value chain. These include agencies that basically provide the support services benefiting the whole value chain including the common interests of all the value chain actors. The support services can also be classified as sector specific and cross cutting such as finance.

The chain enablers are basically government agencies or public sector agencies responsible for shaping the policy environment, as such are classified as the *macro level* of the value chain.

2.1.1 Input suppliers

The main inputs are dyed and un-dyed cotton thread (imported from India). There are three main suppliers of dyed cotton thread using undyed thread imported from Kolkata (India). ***Ruby Thread Industries*** in Biratnagar is the largest manufacturer and supplier of 100% mercerized combed cotton yarn in over 70 shades to weavers mainly in Tehrathum area (over 80% of total yarn supplied. The chemical dyes are imported from India and China. In Palpa Dhaka manufacturers either import dyed yarn directly from India, or through suppliers based in Butwal with only 10-20% of total cotton yarn used coming from Biratnagar. There is also one Acrylic yarn manufactures based at Biratnagar supplying synthetic yarn (constituting about 25 percent of total yarn used by Papa based Dhaka manufacturers).

The quality of yarn manufactured in Biratnagar is considered relatively better than most imported dyed yarn and price is higher by 15-20 percent. Dyed yarn produces import undyed cotton yarn from Kolkata (India) in bundles of 5 kg which are then dyed using imported chemical dyes. Packets each consisting of one dozen units of rolled yarn (finished mercerized cotton yarn about 400 meter in each unit locally called '*totas*') are then supplied to Dhaka weavers. Dhaka weavers expressed the view that Biratnagar manufactured yarn has better twisting that produces good shining of fabric as compared to imported dyed yarn. This is the reason that Tehrathum Dhaka products have better shining compared to Palpa products. In Palpa generally warping is done using Polyester thread that causes Dhaka products to have between 25-75 percent polyester content, whereas Tehrathum Dhaka products are made from 100 percent mercerized cotton yarn.

Total output of Ruby Thread Industry, Biratnagar is about 7 metric tons of thread per annum. Manakamana Thread Industry in Tehrathum which mainly uses its annual output of between 3-4 metric tons of dyed yarn to produce fabrics at its own weaving unit sells part of output of thread to local weavers in Tehrathum. Swastic Thread Industry, Dharan with annual output level of 1,200 kg of yarn mostly supplies dyed yarn to Tehrathum weavers. The total combined output level of dyed yarn product by units in east Nepal is estimated at about 12 metric tons per annum.

In the main Dhaka weaving centre of Tansen approximately 40% of yarn is supplied by traders at Butwal, another 40 % of total yarn used is imported by manufacturers directly from Gorakhpur (India) whereas only about 20% is supplied by yarn manufacturers from east Nepal. The yarn used by Dhaka weaving industry in Tansen is imported in dyed form. It is therefore difficult to assess the quality of dyes used in the imported yarn. In Palpa generally warping is done using Polyester thread that causes Dhaka products to have between 25-75 percent polyester content, whereas Tehrathum Dhaka products are reported to be made from 100 percent mercerized cotton yarn.

Price of yarn:
The Dhaka weaving industry is based on cotton yarn imported almost exclusively from India. Increasing price of cotton yarn imported from India is a major concern for local manufacturers causing the prices of dyed yarn to increase. As an example, in Tehrathum price per dozen units (cobs) of rolled yarn has within one year seen an increase from Rs. 90 to Rs. 125 (three ply) and from Rs. 100 to Rs. 140 in case of single ply thread representing an increase in price of yarn by about 40 percent. Supplier price for thread in Biratnagar is approximately 88 % of the price in Tehrathum (about 12 % constituting transportation and marketing cost account for the price difference). Price of yarn is an important factor affecting the profitability to weavers/producers of traditional Dhaka handloom fabric and products as well as the competiveness in the market vis a vis the synthetic yarn based products.

2.1.2 Weavers

Dhaka weaving on commercial scale is said to have been initiated in Tansen (Palpa) by a local entrepreneur late Ganesh Man Maharjan over fifty years ago. In Palpa Dhaka weaving has since grown into an important industry which currently has five large Dhaka fabric/products manufacturing units with between 30-50 looms each mostly jacquard looms. These units employ wage labour for weaving who are paid at the rate of Rs 140-250 per meter depending on the design/pattern of fabric.

Although the exact number of persons involved in traditional Dhaka weaving on commercial basis is not known, the total number of weavers (mainly women) may easily exceed 5,000 (including the more than 1,000 MEDEP created micro-entrepreneurs) in the whole country with about half concentrated in just two districts Tehrathum and Palpa.

2.1.3 Traders (Wholesalers/Retailers)

Dhaka fabric and products have strong domestic demand. Most of producers have ready market locally. Palpa producers of Dhaka goods sale as much as 50 percent of total production locally rest of the goods find market outside district through large traders/wholesalers/retailers in Kathmandu, Narayangarh and other important commercial centres. Tehrathum producers sale most of the produce locally and in adjoining districts.

The marketing network consists of a small number of wholesalers (4-5 in number) mainly located in Indra Chowk area of Kathmandu, with hundreds of small retailers of textile products dealing in Dhaka fabric and products scattered all over the country mainly in major urban market centres. The main market wholesale and retail) in concentrated in the Indra Chowk area in Kathmandu where 4-5 wholesalers and over 50 retailers operate practically controlling the total sales and distribution of Dhaka fabrics and goods in Nepal. These wholesalers are supplying to retailers all over the country as well as exporting to Darjeeling and Sikkim in India and also to the Nepali diasporas all over the world.

The demand pattern of Dhaka products has peak and relatively slack seasons. There is high demand for Dhaka products during the Hindu festival season Dashain-Tihar extending into the winter season (Asoj-Falgun) whereas relatively low demand persists during rest of the year during the summer and rainy season (Chaitra-Bhadra).

The Dhaka produced by MEDEP supported MEs are marketed mostly at local level through the retail outlets called *Saugat Grihas* at market centre / district level. There is one large sales outlet dedicated to MEs products at Tripureshwor Kathmandu being operated by Saugat Micro Promotion Pvt. Ltd (SMPPL) the business wing of NAFEN. Most of the dedicated sales outlets managed by DMEGAs are functioning poorly and lack the capacity to make timely payments to MEs for the products. Due to this reason the marketing of Dhaka products of MEs through Saugat Grihas is still not very significant.

Large part of the products of micro entrepreneurs and small producers find their way to wholesalers in Kathmandu through the middlemen-traders who collect from the weavers and entrepreneurs and sell in bulk to Kathmandu based wholesalers. The producers are weakly linked in the marketing chain with the wholesalers and retailers in a direct way having dependence on the collectors or middlemen-traders to market their produce. The collectors/middlemen are performing an important function in marketing chain by linking small producers with the wholesalers/retailers. However, this also increases the costs in the marketing chain as they usually mark up between 8-15 percent as their operating margin. The wholesalers in turn mark up with about the same level of margin before the products are at the retail level which earn relatively higher of margin depending on the type of product, and season (high and low demand).

2.1.4 Exporters:

Dhaka fabrics are exported mainly by exporters including some fair trade organizations based in Kathmandu. As Dhaka weaving industry is basically domestic demand driven its export is limited compared to other textile products exported as handicrafts from Nepal (Figure-3). However, the potentiality of traditional Dhaka weaves as export item exists with diversification into new product lines such as curtains, wall hangings, cushion covers, table linen, bed linen, bags and accessories which are being promoted by some fair trade organizations including New SADLE.[5]

2.1.5 Providers of Support Services

The chain supporters are meso level of the value chain with a facilitating role that benefits the chain actors. MEDEP (with the funding support of UNDP and AusAid) has a significant role in the expansion of Dhaka value chain with active entrepreneurship development targeting the poor families, and disadvantaged communities (such as Dalits and Adhivasi Janajatis). MEDEP has actively supported the Dhaka value chain with its implementation modality that encompasses entrepreneurship development, skill training, appropriate technology, linkage with microfinance, and marketing linkages. It has supported micro entrepreneurs to develop market linkages through their participation in trade fairs, and exhibitions.

The BDSPOs which are basically NGOs (one operating in each of the thirty-one project districts) promoted by MEDEP and NEDC are actively providing the necessary support services to micro entrepreneurs including the promotion of Dhaka weaving enterprises in various districts notably in Tehrathum, Nawalparsai, Nuwakot and Parbat districts. The BDSPOs function on a sub-contracting mode to implement various project activities. However, the capacity of BDSPOs as service providers is still perceived to be weak especially with respect to their capacity to provide advanced skills and to facilitate linkage of producers to markets and other chain actors. There is inadequate expertise and capability with respect to the planning and implementation of subsector and value chain based intervention strategies to extend services as per the demand and need of the microentreprenurs groups (MEGs), and their associations such as MEGAs and DMEGAs.

The district offices of Department of Cottage and Small Industries (DCSI) as well as Cottage and Small Industry Development Board (CSIDB) are providing skill training to Dhaka weavers with the usual duration of three months. There are a total of 27 district level offices of DCSI and the remaining 48 districts are covered by CSIDB. These offices have the responsibility of registration of cottage industries including Dhaka weaving as per the Industrial Enterprises Act 2049. These two agencies are also supporting promotional activities also such as exhibitions and observation tours. Both these organizations are under the Ministry of Industry (MOI), the implementing agency of MEDEP.

Fair Trade Group Nepal (FTG Nepal) is a consortium of fair trading organizations (registered as an NGO in 1996) working with the aim to uplift socio-economic status of underprivileged and marginalized producers of Nepal. FTG Nepal strives to develop collaboration among the fair trading organizations to promote fair trade practices in Nepal. The members of FTG Nepal are providing business support services to their producers including Dhaka weavers in terms of operating fund for production, small capital investment, design inputs, training and access to the local and international market.[6] Fair Trade affiliated shops especially *Mahaguthi*, and *Sana Hastakala* are known to be important outlets for producers of handicrafts including cotton handloom products. **Women's Skill Development Project (WSDPP)** a Pokhara based is a non-profit NGO (member FTG-Nepal) specialized in natural dyeing and weaving of heavy cotton.

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[55] Fair Trade Group Nepal Member Organization's Portfolio
[6] www.fairtradenepal.org.np

WSSP has been providing skill training to underprivileged women in dyeing, weaving, material cutting, sewing, and other handicrafts skills.

Federation of Handicraft Associations of Nepal (FHAN) was established in 1972 to enhance and promote handicraft trade and industry. It is a service oriented non-profit organization of private sector business and artisan community. It helps its members to improve their productivity, explore markets and introduce them to the international arena. It also works as liaison between its members and the Government and Non-Government Organizations. The main functions of FHAN include the following:

1. Organize seminars, symposiums and conferences on various topics relevant to strengthening the handicraft trade & industry.
2. Organize exhibition and trade fairs to highlight handicraft products & create public awareness in its usage.
3. Activate and increase contacts with National and International Agencies for the growth of handicraft trade & industry.
4. Explore additional markets for the handicraft products.
5. Institute award in recognition of highest export and best craftsmanship.
6. Arrange participation in international trade fairs & exhibitions for its members.
7. Publication of news bulletins, books, catalogues, members' directory and other materials relevant to promote handicraft trade & industry.
8. Act as catalytic agent for management of training programmes for the benefit of its members.
9. Documentation & dissemination of information regarding handicraft trade & industry.(http://www.nepalhandicraft.org.np/about_handicraft_det.php)

FHAN in collaboration with the Government has also established the **Handicraft Design and Development Center (HANDECEN)** as an autonomous entity to develop quality products, create innovative products and venture into product diversification for overall development of the Nepalese handicrafts. It is functional with the help of professional groups of designers. (http://www.nepalhandicraftdesign.org/html/about.html).

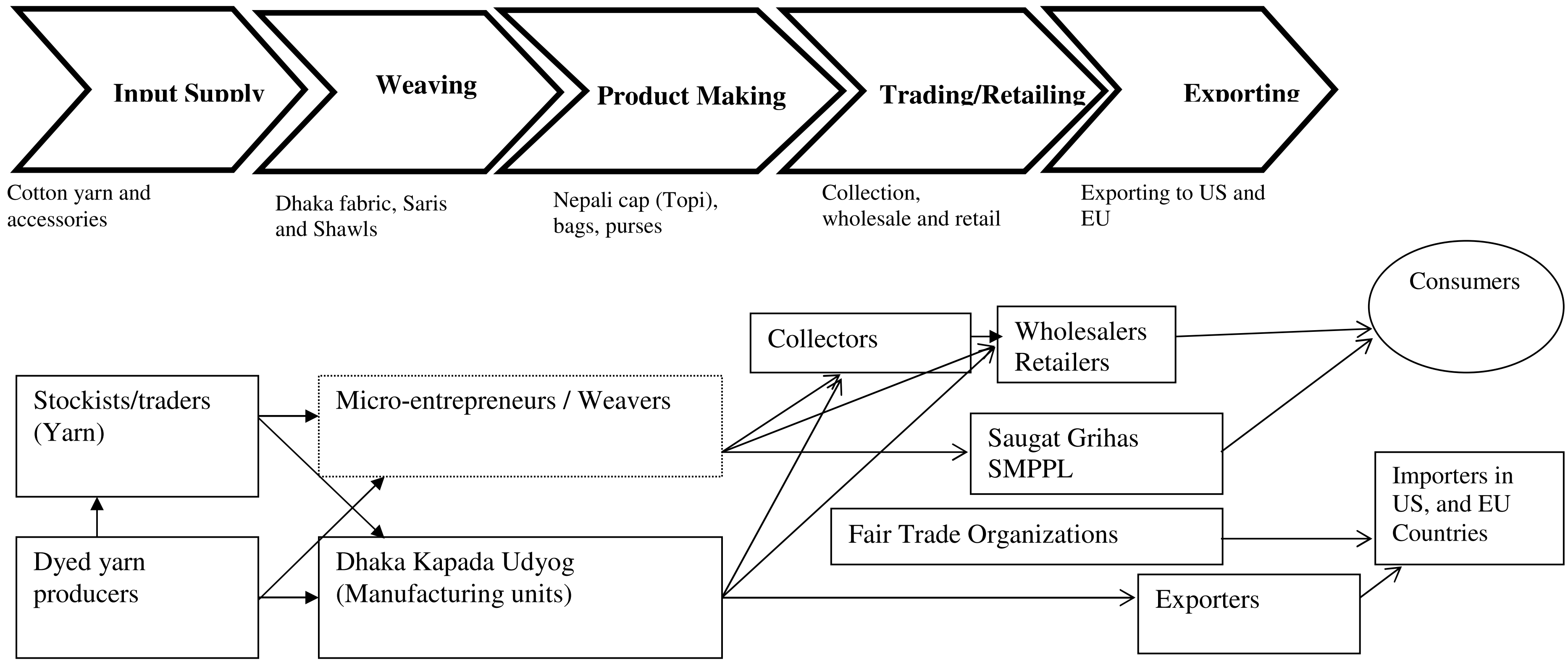
Financial services are provided by microfinance institutions (MFIs), Grameen Bikash Banks, and financial intermediaries NGOs (FINGOs) as well as commercial banks. The access of MFIs is rather limited in the remote areas of the mountain districts. An increasingly important role in provision of financial services in the rural areas is assumed by the savings and credit cooperative societies (SCCs) which are able to mobilize the savings of the members.

2.2 Value Chain Map

The Dhaka fabric subsector value chain map is presented in Figure-2. The map depicts the different functional levels in the value chain and the corresponding chain actors involved at that particular stage.

The value chain map shows the linkages among the various chain actors starting from input supply successively to the higher levels associated with the weaving and product making activities followed by trading including wholesaling and retailing functions. The map shows that Fair Trade organizations involved in exporting Dhaka products are not procuring from micro entrepreneurs or from the cottage industries rather they depend on procurement from their own groups of weavers or have their own in house production facilities. The chain linkages will obviously be enhanced if the products of microentrepreneurs are also integrated into the supply chains of the Fair Trade organizations. This is one of the areas that projects like MEDEP should be looking into for strengthening the chain linkages for the benefit of poor producers' groups.

Figure-2: Value Chain Map



2.3 Market Analysis

The demand for Dhaka fabric and goods made out of it such as Nepali caps, saris, shawls, is strong in the domestic market. The export of Dhaka goods as handicraft items is limited in terms of value when compared to other textile items (Figure-3). The ubiquitous colorful cap worn by Nepali male mainly belonging to hill castes and ethnic groups is the most popular in the entire production range of Dhaka fabrics/goods. The demand for traditionally woven Dhaka fabrics and goods (caps, shawls etc) is especially strong in the hill districts, and the settlements along the East-West highway with significant proportion of population composed of migrants from the hill districts.

As a tradition, weaving activities including Dhaka weaving are commonly found all across the hill districts in Nepal especially among women belonging to the ethnic communities. However, commercialization of traditional Dhaka weaving has taken place only in recent years. The commercial scale Dhaka weaving activities are concentrated in two main districts Tehrathum in East Nepal and Palpa in West Nepal. Myanglung and Tansen the headquarters of Tehrathum and Palpa districts respectively have emerged as the two main hubs of Dhaka weaving in Nepal.

Marketing channels:
Large wholesales are mostly based in Kathmandu with linkage to producers in main production area s such as Tehrathum and Palpa. Large producers supply in mountain district to local shops/retailers. Most Dhaka goods producers are not directly linked with wholesalers especially those from East Nepal. The middlemen–traders collect from the producers and supply in bulk to the Kathmandu based wholesalers who undertake further distribution to the retailers. Dhaka manufacturers in Tansen have direct linkage with main wholesalers in Kathmandu. Small producers are at a disadvantage due to the weak linkages along the marketing chain having to depend on the collectors/middlemen. The dedicated outlets managed by DMEGAs functioning poorly due to their inability to make timely payments to weavers, hence the continued dependence on the middlemen and local collectors for marketing the produce.

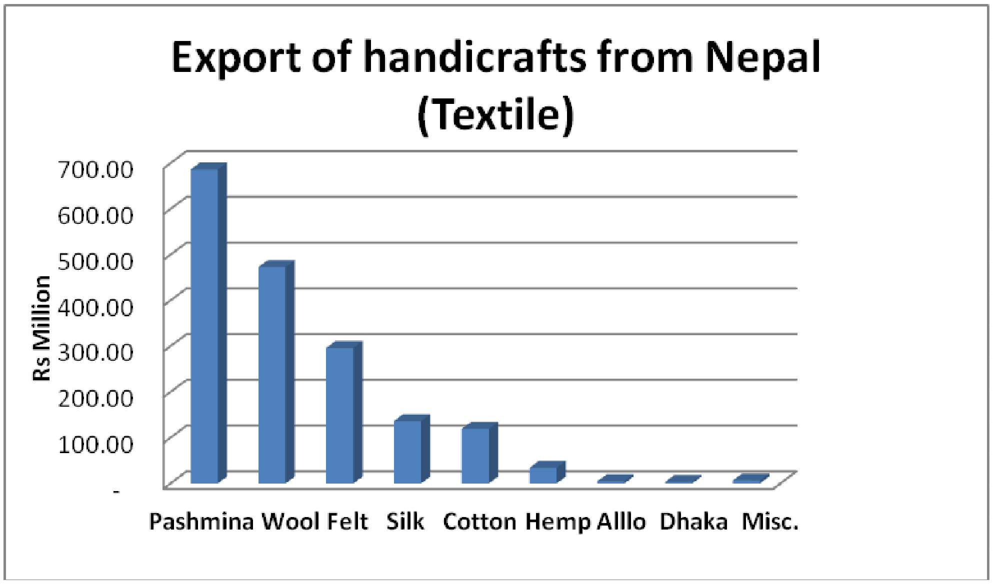
Prices:
Wholesale rate of fabric ranges from Rs. 125-600 per meter with the common fabric price of Rs. 250 per meter. Shawl prices are in the range Rs. 500-700 per piece. The price of Nepali cap (Topi) ranges from less than Rs. 50 per piece to more than Rs. 1,000 depending on the complexity of colour patterns/designs.

In terms of price competitiveness Dhaka weavers/manufacturers are facing growing competition from similar products produced by factories weaving synthetic yarn on power looms that are concentrated in Kathmandu valley and are available at prices as low as Rs. 60 per meter. There is a problem for survival of Dhaka weaving along the traditional lines due to such price undercutting.

Export of Dhaka goods:

The export market for Dhaka goods is quite small compared to its domestic demand. Nepal exported a total of Rs. 1,761 Million worth of handicrafts (textile group) in the year 2065/66 out of which the export of traditional Dhaka products amounted to a mere Rs. 3.2 Million (Annex-1). The relative size of different handicrafts exported is shown in the following Figure-3. Dhaka products has a long way to go as an important export item when compared to the well established handicrafts using Pashmina, wool, Felt, Silk, and Cotton.

Figure-3: Export of handicraft products (Textile) from Nepal in FY 2065/66



The following Table-1 shows that the US is the main destination of Nepalese Dhaka export with almost 40 percent share in total exports followed by EU countries notably the Netherlands (24.9%) and Germany (23.2 %).

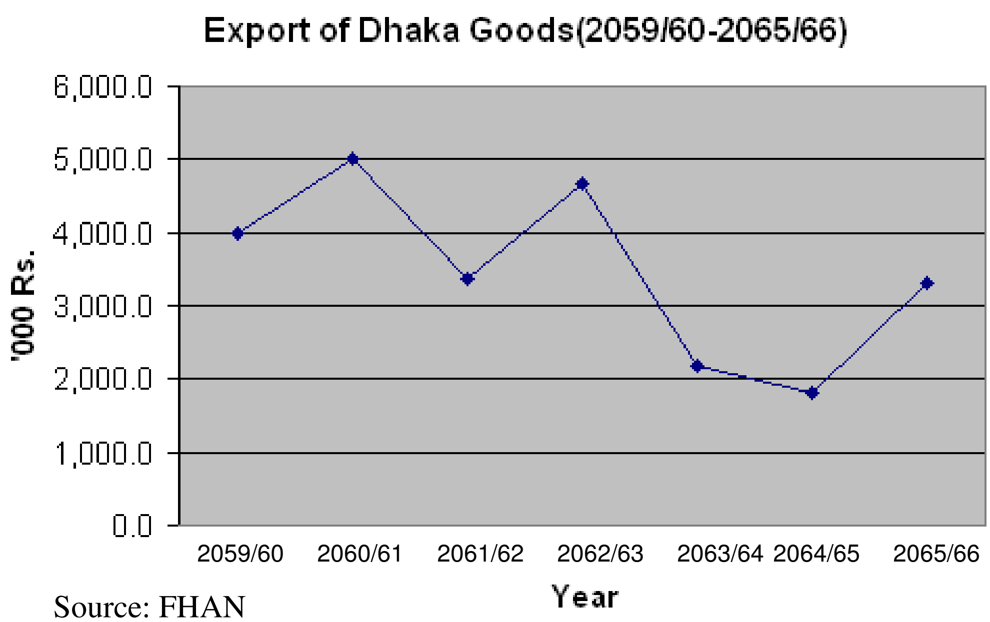
Table-1: Export of Dhaka Goods by Destination (2065/66) (NRs.)

Country	Export NRs.	Percent Share
USA	1,308,103	39.7
Netherlands	822,448	24.9
Germany	764,741	23.2
Belgium	227,213	6.9
Switzerland	90,077	2.7
UK	26,880	0.8
Italy	12,596	0.4
Others	45,542	1.4
Total	3,297,600	100.0

Source: FHAN

The following Figure-4 shows that export of Dhaka goods had declined to the level of below Rs 2 million in 2064/65 from the peak export level of Rs 5 million in 2060/61. However, it has rebounded with an increase in FY2065/66 (over Rs 3.2 million) an increase of 83 percent compared to the FY 2064/65. The increase in export of Dhaka goods was favored by appreciated value of the US dollar vs a vis Nepali Rupees in the last fiscal year.[7]

Figure-4: Export of Dhaka Goods (2059/60-2065/66)



Source: FHAN

The potential to expand export of traditional Dhaka goods exists with the introduction of new designs and colour patterns as per market preferences. Another important factor in this respect is quality assurance. The inability to comply with the safety regulations especially regarding the use of Azo free dyes might be a limiting factor for the export performance of Dhaka products in the future. Since September 2003, all EU countries have prohibited the manufacture and sale of consumer goods containing certain form of azo dyes - those that release specific aromatic amine groups that are mutagenic, carcinogenic and sometimes allergic. The EU Directive includes all dyed consumer goods including garments that come into contact with the skin. An exporter of textile goods to EU countries needs to obtain an inspection report from recognized test laboratory to certify that the goods are Azo-free (www.azofree.org). Presently, yarn manufacturer in Biratnagar who supplies most of the yarn to weavers in Tehrathum uses certified Azo free dyes imported from India. However, the same cannot be said with respect to the imported dyed yarn from India. Nepal lacks an accredited testing laboratory to provide testing services for the azo free status of dyes used in colouring. Colour fastness is another area that needs to be properly considered given the common practice of machine washing with warm water in the importing countries. The fabrics especially if targeted for the export market should be subjected to tests for quality assurance on colour fastness.

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[7] The exchange rate depreciated from 1USD=NRs 68.90 (16 July 2008) to 1USD=NRs 77.61 (16 July 2009) with the low of 1USD=NRs 82.15 (16 March 2009). Source: www.nrb.org.np

2.4 Gross Margin and Profit Analysis

The gross margin and profit analysis (Table-2) shows that fabric or cloth making has comparatively low gross margin (12.5%), and profit margin (9.1%) in comparison to other products such as Nepali cap, shawl, and sari, the latter two are comparatively high value added product in the value chain. It is interesting to note that handloom saris costing above Rs 3,000 per piece find ready market in the main district centres such as Mayanglung bazaar. Dhaka weaving enterprises are expanding due to strong local demand for the products as traditionally popular clothing items. A gradual shift from traditional looms to relatively sophisticated Jacquard looms is likely to help in increasing the production efficiency as the enterprises embark on scaling up the production.

Dhaka weaving is a highly labour intensive activity. In Dhaka fabric (cloth) weaving the cost of labour constitutes about 57 percent of the total direct cost. The other main cost item is cost of yarn which constitutes from 42.8 percent of total direct cost in fabric to as high as 55 percent of total direct cost in shawl weaving.[8]

Table-2: Gross Margin and Profit in Selected Dhaka Products (in Rs)

	Dhaka cloth	Nepali cap	Shawl	Sari
Sales Revenue				
Sale	400	135	700	2,800
Less: Cost of goods sold	350	115	560	1,980.0
Gross Margin	50	20	140	820.0
Less: administrative costs	0.0	0.0	0.0	0.0
Less: Marketing expenses	3.8	0.0	3.8	3.8
Less: Depreciation	10.0	3.8	5.0	10.0
Less: Interest on loan	0.0	0.0	0.0	0.0
Profit	36.3	16.25	131.25	806.2
Gross Margin (%)	12.5	14.8	20.0	29.3
Profit Margin (%)	9.1	12.04	18.75	28.8

Unit: Fabric per meter; other products per piece. Source: Survey of enterprises in Tehrathum and Nawalparasi districts

Income of Dhaka weavers:

On an average fully active self-employed entrepreneur earns net income of Rs. 6,000-7,000 per month from Dhaka weaving (single loom). The part time weavers on an average earn Rs. 3,500-5,000 per month (Table-3). In Nawalparasi district on an average 80 Dhaka weaving entrepreneurs increased per capita to the level of Rs 8,789 from the level of Rs 3,861 before MEDEP intervention (an increase of 127.6 percent) as shown in Figure-5.

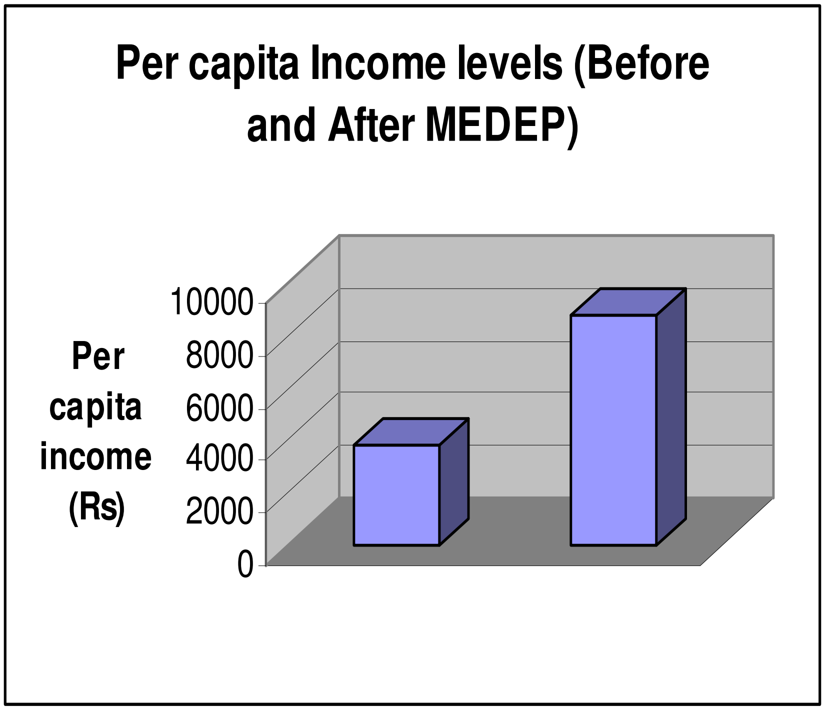
Table-3: Net Income of Self-employed MEs by status

Status	**Net Income per month**
Full-time basis	Rs. 6,000-7,000
Part-time basis	Rs. 3,500-5,000

Source. Key-informant surveys at Tehrathum and Nawalparasi

[8] Based on breakdown of *"cost of goods sold"* presented in Table-2.

Figure-5: Per Capita Income Levels Before and After MEDEP



Source: DMEGA, Nawalparasi

2.5 SWOT Analysis

The subsector strengths, weaknesses, opportunities, and threats are analyzed (SWOT Analysis) and presented in Table-4 based on the interaction with stakeholders.

The use of Dhaka products is deeply rooted in the cultural tradition of the castes and ethnic groups in the mid-hill and high mountain districts of the country. The Dhaka weaving using traditional back strap and *Haate Tan* (handloom) is a common activity among rural women especially among the ethnic communities such as in east Nepal.

The weaknesses in subsector value chain include low profit margin for loom operators/weavers, lack of uniformity in prices, inadequate knowledge about export markets, and inadequate knowledge on designing patterns especially conforming to the demand in importing countries.

In terms of opportunities the Dhaka products have strong domestic demand due to the traditions associated with the use of Dhaka fabric and products. In addition Dhaka goods are among the traditional handicraft products exported from Nepal, although its relative position (in export) vis a vis other textile items is rather low at present. With concerted efforts in the areas of publicity, creation of new patterns and designs, expanding into new product range to suit the demand of potential consumers in the international market and quality assurance (such as use of azo-free dyes), the export potential can be realized.

The main threats to Dhaka weaving industry include growing competition from power loom operators producing Dhaka fabrics using cheaper synthetic yarn, increasing cost of production due to rising yarn prices, and as a recent phenomenon, the growing shortage of skilled workers due to the out migration of youth to overseas countries in search of better job opportunities.

Table- 4: SWOT Analysis

Strength	• Long tradition of weaving (especially among rural women in mountain districts) • Wide network of wholesale and retail business in Dhaka fabric and products
Weakness	• Low profit margin for weavers • Lack of uniformity in prices across producers • Inadequate knowledge about international market conditions (for export) • Inadequate knowledge on designing patterns (traditional and non-traditional.
Opportunity	• Strong domestic demand for products • Export potential as handicraft products
Threat	• Competition from synthetic yarn based products/power looms • Increasing cost of production due to rising yarn prices • Shortage of workers due to out migration

Chapter-3

Role of MEDEP in Promoting Dhaka Products Value Chain

3.1 Creation of Entrepreneurs

Dhaka value chain support activities through creation of micro enterprises covers 22 districts. In all there are a total of 1,067 micro-entrepreneurs largely concentrated in Tehrathum, Sunsari, Sindhupalchok, Myagdi, and Parbat districts. The following Table-5 shows that on cumulative basis micro-entrepreneurs have realized total sales of Rs. 203.3 million worth of Dhaka goods with total profit of Rs. 83.3 million.

As is evident Dhaka weaving is almost exclusively a women dominated activity constituting about 95 percent of total MEs in Dhaka subsector. It goes to the credit of MEDEP to expand Dhaka weaving enterprises in districts not well known for traditional Dhaka weaving on handlooms. Dhaka value chain support through creation of entrepreneurs has directly benefited over 1,000 poor families with increased income.

Table-5: Number of Dhaka Entrepreneurs, Sales and Profit (MEDEP)

District	No. of Entrepreneurs			Sales (Rs)	Profit (Rs)
	Male	Female	Total		
Baglung	0	21	21	36,240	9,865
Baitadi	15	32	47	4,107,864	1,827,839
Dailekh	0	26	26	86,720	8,178
Dang	2	9	11	865,915	230,333
Dhanusha	2	2	4	1,641,797	1,140,642
Dolakha	0	7	7	-	-
Kalikot	0	5	5	4,500	1,200
Kapilbastu	1	23	24	23,946	8,051
Kavre	1	25	26	94,088	26,038
Myagdi	1	98	99	5,295,413	1,549,211
Nawalparasi	3	51	54	35,882,376	14,770,683
Nuwakot	0	12	12	2,789,903	744,996
Parbat	9	143	152	12,065,610	5,797,290
Pyuthan	5	16	21	9,504,693	4,823,775
Ramechhap	0	30	30	735,140	297,900
Rasuwa	0	45	45	2,886,638	1,053,050
Saptari	0	18	18	44,050	-
Sindhuli	0	45	45	3,443,386	1,530,556
Sindhupalchok	9	68	77	6,818,618	2,367,506
Sunsari	1	124	125	50,405,675	13,741,395
Tehrathum	8	209	217	66,591,914	33,418,580
Udayapur	0	1	1	9,924	424
Total	57	1,010	1,067	203,334,410	83,347,511

Source: GSI-MIS database MEDEP (as of 6 April 2010)

3.2 Specific Supports in the Value Chain

- *Entrepreneurship Training*

Entrepreneurship training is provided to potential entrepreneurs using the ILO/SIYB developed Training of Potential Entrepreneurs (TOPE) module followed by Training of Starting Entrepreneurs (TOSE) module for combined duration of about two weeks. There are two more training modules for advanced level training: Training of Existing Entrepreneurs (ToEE) and Training of Growing Entrepreneurs (ToGE).

- *Skill Training*

Skill based training constitutes an important step in the MEDEP model of entrepreneurship development. Skill training module on Dhaka weaving is of three months duration.

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- *Developing Common Facility Centers (CFCs)*

Common Facility Centers (CFCs) have been established in response to the need to provide equipment / machinery or other physical facility like sheds / buildings for the common benefit of micro entrepreneurs that are identified as hard core poor. CFCs have helped to upgrade the working environment for resource poor entrepreneurs for increased production efficiency.

MEDEP has supported a total of 17 Dhaka weaving CFCs in four districts with a total grant of Rs. 1,436,755 (59.5%) out of total amount of Rs. 2,415,255 including contributions from other sources such as DDC, VDC, and Community etc. (Table-6). A total of 245 MEs including 145 Male and 102 Female have been benefiting from the CFCs in Nawalparasi, Myagdi, Kapilbastu, and Parbat districts. The CFC in Patichaur is the largest in terms of investment amounting to Rs. 970,000.

Most CFCs are however running much below the installation capacity of looms. The part time nature of production commonly followed by women weavers is one of the reasons for underutilization but the main reason seems to be the operational difficulties associated with the jointly managed facilities and the complexity associated with the operation of the Jacquard looms supported by MEDEP.[9] Dhaka weavers have not been able to take advantage of the CFCs as anticipated as the technology has been complex and the entrepreneurs are lacking in the skills required for repair and maintenance as well as designing the patterns.

[9] The **Jacquard loom** is a mechanical loom, invented by Joseph Marie Jacquard in 1801, that simplifies the process of manufacturing textiles with complex patterns such as brocade, damask and matelasse. The loom is controlled by punched cards with punched holes, each row of which corresponds to one row of the design. Multiple rows of holes are punched on each card and the many cards that compose the design of the textile are strung together in order. (http://en.wikipedia.org/wiki/Jacquard_loom)

Table-6: Dhaka Weaving Common Facility Centres (CFCs)

District	Name of CFC	Market Center/ VDC	Est. Date	Contribution amount((Rs.)					Gender		
				MEDEP	DDC/ VDC	Community	Others	Total	M	W	Total
Nawalparasi	Jacquard Machine	Daunnedevi-7	2007	150,000	0	58,000	30,000	238,000	0	10	10
	Dhaka Weaving CFC in Punarbas	Divyapuri-7	2008	160,000	0	30,000	0	190,000	7	23	30
	Warping Drum	Divyapuri-7	2008	15,000			0	15,000			
	Weaving Taan, Khutte Charkha and Hate Charkha support	Ramche -1, Kaphaldanda	2008	40,100	0	0	0	40,100	10		10
	Khutte Charkha	Takam Hilapokhari	2008	16,000	0	0	0	16,000	14	1	12
	Khutte Charkha	Beni	2008	16,000	0	0	0	16,000	12		12
	Taan	Beni	2008	15,000	0	15,000	0	30,000	13		13
	Khutte Charkha	Chimkhola	2008	0	0	0	64,000	64,000	20		20
	Jacquard Machine	Sunawal	2009	105,555	0	17,000	0	122,555	0	5	5
Maygdi	Weaving Taan, Khutte Charkha and Hate Charkha support for allo entrepreneurs	Ramche -1, Kaphaldanda	2008	40,100	0	0	0	40,100	10		10
	Khutte Charkha	Takam Hilapokhari	2008	16,000	0	0	0	16,000	14	1	12
	Khutte Charkha	Beni	2008	16,000	0	0	0	16,000	12		12
	Taan	Beni	2008	15,000	0	15,000	0	30,000	13		13
	Khutte Charkha	Chimkhola	2008	0	0	0	64,000	64,000	20		20
Kapilbastu	Jacquard Machine	Gajedaha, Jitpur	2008	140,000	0	15,500		155,500	0	20	20
Parbat	Dhaka Weaving CFC (Building)	Patichaur	2008	300,000	150,000	300,000	220,000	970,000	0	22	22
	Dhaka material support	Patichaur	2008	392,000	0	0		392,000	0	20	20
Total				1,436,755	150,000	450,500	378,000	2,415,255	145	102	241

Note: M=Men; W=Women; T=Total
Source: GSI-MIS database MEDEP

- *Appropriate Technology*

MEDEP has provided both the traditional handlooms and the Jacquard looms for Dhaka entrepreneurs. The programme has linked equipment manufacturers to micro entrepreneurs in districts through the BDSPOs. There is no doubt that jacquard looms are relatively more efficient then the traditional handlooms (efficiency gain of up to 140% is reported in complex pattern weaving). However, Jacquard looms have certain drawbacks as reported by weavers despite its technical efficiency over the traditional *Haate Looms.* These mostly relate to the sophisticated skill required to be able to design patterns, use of punch cards, operation of loom and most importantly the technical knowledge to repair in case of breakdown. Unlike the micro-entrepreneurs the Dhaka manufacturers/cottage industries in Tansen, Palpa operating more than 10 Jacquard looms normally employ one mechanic on regular basis to look after the repair and maintenance of Jacquard looms. Micro-entrepreneurs promoted by MEDEP are not in a position to hire technician on regular basis. Due to the lack of regular technical support (in operation, repair, and maintenance) MEs have largely failed to take advantage of the potential gains from higher productivity by switching over to Jacquard looms. Moreover, these looms (imported from India) are comparatively expensive costing over Rs. 20,000 whereas locally assembled traditional handlooms cost between Rs. 6,000-7,000.

- *Linking MEs to MFIs*

MEDEP does not have provision to provide credit directly to micro entrepreneurs. The programme links micro entrepreneurs to Micro-Finance institutions (MFIs) to help them access credit. Such links continue to be weak due mainly to lack of coverage of many of the remote areas within MEDEP programme districts by MFIs. However, Dhaka entrepreneurs in Tehrathum, and have relatively better access to micro credit from development banks like *Nirdhan,* and *Chhimek.* Mobilization of group savings is becoming an important source to meet the short duration credit needs of micro entrepreneurs. Dhaka entrepreneurs in Nawalparasi with total strength of 80 entrepreneurs have mobilized savings of Rs. 88,494.[10]

With a view to extend coverage of institutional sources of finance MEDEP has facilitated formation of 102 Saving and Credit Cooperative Societies. In addition MEDEP has signed MOUs with five Grameen Bikas Banks, four microfinance development banks, five FINGOs and more than thirty SCCs for expanded provision of financial services to micrentrepreneurs. A total of eight SCCs have successfully been linked with Nepal's Rastra Bank's RSRF for access to wholesale lending.

A recent impact study on microfinance in MEDEP shows that about 52 percent of micro entrepreneurs in survey districts had access to financial services. Financial service providers were found to be quite successful to maintain high depths and breadth of outreach, good portfolio quality (over 98 % on-time repayment rate) and attain both operational and financial self sufficiency out of the operation (MEDEP 2009).

- *Market Networking*

The institutional set up encompassing Micro entrepreneurs' Groups (MEGs) at local level, and their association at the level of Rural Market Centre called Micro entrepreneurs' Groups

[10] Data sheet of Dhaka Enterprises, Nawalparasi provided by DMEGA Program Coordinator, Min Bahadur Rana

Association (MEGA), and DMEGAs (at district level composed of MEGAs) and NMEFEN (at national level composed of DMEGAs) is conducive for market networking from local to national level. Sales outlets at district level, regional level, and at central, level (*Saugat Griha*) facilitate marketing of products produced by micro entrepreneurs. Facilitating micro entrepreneurs to participate in trade fairs and exhibitions has immensely helped improve market networking. Training on market networking provided to the outlet operators has helped improve their understanding and capability to coordinate and develop links with medium and large enterprises, and traders of specific commodities (wholesalers and retailers).

Market networking for MEs is poor and not well organized as they have weak linkage with other chain actors on marketing side. These groups are not integrated into the supply chains of Fair Trade Organizations / shops which could be one of the future strategies for developing strong market linkages for Dhaka weavers. Saugat Micro Promotion Pvt. Ltd. (SMPPL) the business wing of NMAFEN operates a sales outlet *Saugat Griha* at Tripureshwor, Kathmandu dedicated to market products of micro entrepreneurs including Dhaka products.

- *Product Quality Improvement and Quality Assurance*

To enhance quality assurance MEDEP has supported Dhaka entrepreneurs by raising the level of awareness on the importance of using yarn that are coloured with azo-free chemical dyes. MEDEP hired the services of two experts through FHAN who provided training to 13 Dhaka entrepreneurs (12 female and one male) representing eight districts including Tehrathum from 26 September to 8 October 2010 (about two weeks) at Myanglung (Tehrathum) with local facilitation by SEDAC, Nepal (NGO/BDSPO). The training included the following main activities:

- Information dissemination on Azo card and use of Azo-free yarn.
- Imparted knowledge on primary and secondary colours based on 2011/12 colour forecast
- Imparted knowledge on traditional design, border design, floral design, strip design, cheque design, and diagonal design.

The training programme helped increase capacity of Dhaka producers to improve product quality with the anticipated introduction of new design patterns and colour combinations to suit the demand of importing countries as well as to meet the quality standards for export.

Chapter-4

Value Chain Constraints, Possible Solutions, and Enabling Environment

4.1 Value Chain Constraints and Possible Solutions

The Dhaka value chain constraints as identified including possible solutions to address to these constraints are presented in Table-7.

Table-7: Identified Constraints and Possible Solutions

Category	Constraints	Possible Solutions
Inputs Supply	• Increasing price of cotton yarn • Lack of knowledge on Azo-free dyes	• Reduce cost of production of yarn locally by increasing scale of production. • Link producers 'groups to reliable yarn suppliers using Azo-free dyes.
Technology	• Lack of adequate knowledge on repair and maintenance of jacquard looms	• Provide TOT on operation, repair and maintenance of Jacquard looms (increase the number of master trainers)
Market Access	• Lack of knowledge on export markets • Lack of product diversification • Weak linkage with wholesalers/retailers/exporters	• Improve access to sources of information • Integrate MEs into the supply chains of Fair Trade organizations. • Diversify into new products with the potential for export. • Provide training on designing patterns and colour combinations especially to suit export markets.
Organization and Management	• Lack of association of Dhaka entrepreneurs at the national level • Weak capacity of DMEGAs /NMEFEN • Poor functioning of sales outlets of DMEGAs and NMEFEN	• Formation of Dhaka Entrepreneurs' Association at the national level • Strengthen the capacity of DMEGAs/NMEFEN to access quality services for members • Prepare business plan for sales outlets operation.
Finance	• Lack of access to credit (less than 50% weavers have access to credit from formal sources). • Lending procedures of MFIs not friendly to MEs • Lack of collateral to access loan from commercial banks.	• Facilitate credit flow in reasonable terms through SCCs • Make MFI's loan procedures friendly to MEs (weavers). • Project funding for up scaling enterprises by commercial banks.

Input supply: Dhaka fabric subsector is fully dependent on imported cotton yarn both undyed and dyed from India. This make s Dhaka weaving industry susceptible to the market demand, supply situation and price fluctuations of cotton and cotton yarn in India.

Cost of yarn is one of the main determinants of the cost of Dhaka weaves and products (constituting 42.8% of the total direct cost of fabric production per meter). The profitability of Dhaka fabric and products is therefore affected by the cost of the main input which is cotton yarn. The price of cotton is in increasing trend in India. The good thing is India, the second largest cotton producer in the world after China has been a competitive supplier of yarn in the international market.

> "Though China continues to be the world leader with 4.2-crore bales (1 bale is 170 kg) against India's cotton production of three crore bales, Indian mills can flex their low-cost production muscle in the world market. As per the International Textile Manufacturers Federation (ITMF) data, India's cotton yarn production cost is estimated at $2.13 per kg, much lower than China's $2.89 per kg and the US's $2.81." (Trivedi, 2009).

The price dyed cotton yarn produced in Nepal has increased by about 40 percent in one year due to the increased price of imported yarn. The increase in yarn prices will lead to higher production cost and higher prices of products. One way to reduce per unit costs will be to increase the scale of production of yarn dyeing and packaging units. There is also a need to connect Dhaka weavers with the reliable suppliers of quality yarn that supply yarn dyed with Azo-free dyes.

Technology: Technical aspects of operation repair and maintenance of Jacquard looms are also important areas to support in capacity strengthening of entreptreneurs/weavers. There is a need to provide TOT (Master trainers) as there are only a few skilled trainers/private service providers on operation, repair, and maintenance of Jacquard looms.

Market Access: To facilitate and improve marketing of products produced by micro enterprises MEDEP has been supporting the establishment of sales outlets at district level managed by DMEGAs (a total of 23 sales outlets in operation at present). At central level Micro Promotion Pvt. Ltd, (SMPPL), the business wing of NMEFEN has been a operating a sales outlet *Saugat Griha*. However, most sales outlets are performing poorly primarily due to lack of sufficient working capital and account for only a small proportion of total sales of Dhaka products produced by MEs.

Market access can be improved by integrating the products of MEs into the supply chains of fair Trade organizations that have significant expertise in the sales and export of handicraft products.

An important area to improve especially for increased access to the export markets is for traditional Dhaka weavers to be able to diversify into new product range besides the traditional weaves, and the introduction of new patterns and colour combinations.

Organization and Management: In terms of organizational strength DMEGAs and its national federation NMEFEN are weak in terms of professional management. The poor record keeping by members of MEGs is a constraint for monitoring the success or otherwise of the promoted enterprises. It is recognized that the BDSPOs/NEDC (the service providing organizations) and DMEGAs/NMEFEN (organizations of MEs) are yet to be fully institutionalised and therefore in need of continued support for their institutional capacity strengthening. The performance of sales outlets (Saugat Grihas) should be improved by preparing business plans for their operation.

Dhaka entrepreneurs till recently lacked an organization of their own to safeguard the interests of weavers and entrepreneurs in the Dhaka fabric and products value chain. Dhaka producers in

Tehrathum formed and registered ***Tehrathume Dhaka Entrepreneurs' District Federation*** on 12 October 2010. The organization has already registered a collective logo with the department of Industry. There is a need to enlarge the association to be inclusive of Dhaka entrepreneurs from all over the country.

Finance: Finance is another weak link in the Dhaka value chain development. It is estimated that overall only 23.7 percent of MEDEP entrepreneurs have access to credit. A recent study (MEDEP 2009) however, shows that in the districts surveyed 52 percent of micro-entrepreneurs had access to finance. The formal link (for access to credit) through ADB/N that existed during Phase-1 of MEDEP was discontinued after ADB/N withdrew from micro-finance sector in 2005 resulting in reduced access to micro credit funds to members of MEGs. As a consequence the new MFIs with whom MEDEP has now entered into partnerships are charging interest rates between 18%-24% which are higher than that previously charged by ADB/N. In the given situation where established MFIs are not extending their coverage to the remote areas, MEDEP has turned its attention to the identification and mobilization of local MFIs such as SCCs, FINGOs, and Rural Development Banks to increase the access to credit.

4.2 Enabling Environment

The value chain based approach recognizes the importance of an enabling environment in the absence of which chain actors will not be able to function in an effective way. The government has the main responsibility to ensure a proper enabling environment. The Ministry of Industry and Ministry of Finance are two main government agencies with the most relevance for Dhaka industry in the country. The enabling environment may include the following areas of policy, regulatory, and promotional support from the government:

Regulatory environment: The import of Azo-free dyes as well as import of dyed yarn using Azo--free dyes should be ensured. The development of local capacity to test the Azo-free dyes is crucial for quality assurance of Dhaka products especially to expand in the international market.

Customs Duties: MoF sets the customs duties for imported chemical dyes and undyed cotton yarn that obviously add to the cost. Presently such rates are set at 5 percent.[11]

Partnerships with Private sector: The government and private sector through the commodity association can jointly work to improve the enabling environment in the field of providing insurance service for weavers as means of social security. The increasing shortage of skilled workers mainly due to out migration of youth to overseas countries is a potential threat to Dhaka weaving industry. Hence, creation of skilled workers to support the expansion of the Dhaka weaving industry is a challenge that can be addressed by the joint effort of the government and the private sector.

[11] Customs Tariff 2009/2010, Government of Nepal, Ministry of Finance, Department of Customs, Tripureshwor, Kathmandu, September 2009 (web assessed at: www.Mof.gov.np).

Chapter-5

Recommendations

Dhaka weaving industry has grown into a vibrant cottage industry in Nepal due to the strong local demand for traditional Dhaka products. The previous section has already presented a detailed listing of constraints by category and the possible solutions to address to these constraints in addition to an enabling environment that will facilitate growth of the industry. Dhaka weaving has the potential to contribute to alleviate poverty in the rural areas specifically targeting women belonging to the disadvantaged communities (Adivashi Janjatis and Dalits). The under employment problem in the rural areas can be addressed by promoting Dhaka weaving activities and additional income can be generated to uplift poor families out of poverty especially in the mountain districts.

The sustained growth of the subsector depends on a chain based approach that recognizes the importance of linkages among the various chain actors. Since, MEDEP focus is on the microentrepreneurs we present the main recommendations based on the present study especially to support the microentrepreneurs as one of the actors in the Dhaka fabric value chain.

Technical support: There are only a few technically qualified persons available to micro-entrepreneurs to provide technical support on loom fitting, repair and maintenance, and designing using new techniques. Training programme to selected MEs as trainers is very essential for future up scaling of weaving enterprises.

Appropriate Technology and CFCs: The CFCs promoted by MEDEP have not been effective as planned in the case of Dhaka weaving and product making. It is recommended that hard core poor weavers be supported by providing traditional handlooms on an individual basis with the access to micro-credit. These will be easy to operate and maintain especially for start up enterprises. Those entrepreneurs in a position to upscale may be provided support leading to the transition to the more complex but relatively more efficient Jacquard looms.

Marketing support: The market for Dhaka products is not well organized from the viewpoint of MEs and small producers. There is a weak linkage with the wholesale/retail chain. The linkage is basically through collectors/middlemen-traders that have the link with important wholesalers based in Kathmandu.

- Integrating products of MEs into the supply chains of Fair Trade organizations
- Promoting the use of collective logo for product identity of Nepali Dhaka products.
- Operation of sales outlets (DMEGAs and SMPPL) based on business plans.

Access to credit for up scaling enterprises: Micro-entrepreneurs at the stage of up scaling are often constrained by capital cess to credit from commercial banks as they lack adequate collateral. Credit flow from MFIs has not been conducive due to their operational modalities. MFIs may still be able to provide financial services to start ups with low capital requirement.

MEDEP should facilitate the linkage of micro-entrepreneurs with commercial banks to provide credit for scaling up based on project funding approach.

Strengthening Commodity Association: The recently established association of Dhaka entrepreneurs in Tehrathum needs capacity strengthening to be able to offer effective support to weavers and small scale producer of Dhaka goods. Such supports may include the provision of insurance and other facilities for the welfare of poor weavers.

Strengthen the Capacity of Service Providers: Continued support is needed to improve the capacity of private service providers especially in the areas of technical services on skill training to weavers, new product development, designing and colour patterns etc. for the improvement of products quality and quality assurance. The laboratory services should be available for testing colour fastness, and for conducting tests on *azo*-free status of colour dyes used in Dhaka products.

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Annex-1: Dhaka Kapada Value Chain Analysis Workshop

Myanglung Tehrathum

11 July 2009

SN	Participants Name	Designation/Address
1	Rajib Dhungana	Chairperson, FNCSI Tehrathum
2	Rajan KC	MES, MEDEP-APSO Udayapur
3	Tara Shrestha	FNCCI Tehrathum
4	Netesh Kumar Yadav	CSIDB Tehrathum
5	Bhimendra B. Katwal	MEDEP, Value Chain Development Consultant
6	Maiya Dhungana	District Women Development Office
7	Tulasi Adhikari	Chairperson, D-MEGA, Tehrathum
8	Kiran Dahal	D-MEGA
9	Kumar Shankra	D-MEGA
10	Bidhya Gautam	Chairperson, SEDAC Nepal, Tehrathum
11	Chhatra Shrestha	SEDAC Nepal
12	Ranjana Rai	Nabin Dhaka Kapada
13	Santila Phudung	Phaktalung Dhaka Kapada
14	Dhanga Parajuly	Parajuly Dhaka Kapada
15	Rupa Limbu	Ujjalata Dhaka Kapada
16	Subhadra Raj Bhandari	Participant Myanglung
17	Jiban Kala Adhikari	Participant Myanglung
18	Dikura Maya Dahal	Participant Myanglung
19	Sarmila Basnet	Participant Myanglung
20	Kumari Tamang	Participant Myanglung
21	Sita Dahal	Participant Myanglung
22	Nirmala Nepali	Participant Morahang
23	Gayatra Nepali	Participant Morahang
24	Bhim Maya Mabohang	Participant Sankranti
25	Muna Nepal	Participant Tamfula
26	Susila Paudel	Participant Tamfula
27	Ram Kumari Tamang	Participant Tamfula
28	Kamala Limbu	Participant Tamfula
29	Bishnu Maya Limbu	Participant Tamfula
30	Prem Kumari Rimal	Participant Jajale
31	Ranjana Shankar	Participant Piple
32	Sita Shrestha	Participant Piple
33	Muna Shrestha	Participant Piple
34	Santila Theguwa	Participant Piple
35	Krishna Bidukhi	Journalist Nawa Bihani weekly
36	Manoj Limbu	Menchhaam FM
37	Basundhara Sinjagu	Menchhaam FM

Annex-2: Export of Handicraft Goods from Nepal

Fiscal Year 2059/060 - 2065/066

(Amount Iin Nrs.)

	2059/60	2060/61	2061/62	2062/063	2063/064	2064/065	2065/066
	989,897,860	661,373,832	700,701,035	619,391,984	491,205,766	584,265,083	686,629,566
	277,937,043	432,203,471	555,182,797	657,726,442	475,270,083	373,802,779	473,329,626
	-	-	-	-	224,742,173	226,999,611	296,356,226
	41,489,102	132,354,320	129,084,221	126,521,848	121,662,533	122,082,813	136,530,280
	96,199,631	113,720,701	110,769,595	92,564,129	101,935,371	105,015,940	119,497,630
	43,675,079	45,256,263	62,082,023	51,614,459	29,253,310	31,793,708	34,392,434
	-	-	-	4,764,624	4,884,444	4,841,153	4,739,668
	3,991,182	4,995,352	3,370,222	4,661,928	2,192,217	1,805,730	3,297,600
	10,142,175	7,097,350	8,441,589	13,452,267	14,098,867	12,786,586	6,679,762
	1,463,332,072	**1,397,001,289**	**1,569,631,481**	**1,570,697,682**	**1,465,244,764**	**1,463,393,405**	**1,761,452,792**
:							
	353,059,924	367,498,246	377,448,266	360,079,696	371,174,442	345,695,653	361,907,257
	276,238,090	293,065,733	373,010,297	437,790,118	381,198,709	372,515,583	365,224,811
ucts	275,374,703	301,725,045	263,764,274	269,630,462	242,019,925	236,647,187	264,553,139
	56,211,726	69,881,610	80,824,001	66,806,760	60,984,160	58,204,940	60,231,651
							32,199,520
	12,308,845	10,691,236	14,976,693	23,824,695	26,041,350	23,586,444	25,161,367
	15,970,615	14,864,420	18,716,832	15,081,348	20,647,331	16,115,157	21,399,799
	16,502,523	18,308,356	20,591,579	17,726,273	22,048,909	17,636,657	17,143,054
	24,850,288	23,610,502	25,811,618	20,761,121	21,629,804	15,813,451	17,853,398
	15,761,935	15,002,557	21,009,108	15,411,112	16,397,750	13,608,253	13,380,359
	1,853,942	7,453,119	8,530,634	8,921,345	21,697,113	17,851,699	20,815,171
	7,099,160	6,026,616	7,967,173	9,519,405	8,525,295	6,173,314	11,984,831
	3,616,754	3,458,700	3,372,941	3,018,383	2,749,158	2,584,900	4,088,106
	1,768,574	2,487,826	2,918,536	2,198,939	1,647,215	3,240,493	1,950,571
	29,003,392	40,766,170	60,902,905	59,177,511	54,378,122	89,747,766	50,367,057
	1,089,620,471	**1,174,840,135**	**1,279,844,858**	**1,309,947,166**	**1,251,139,283**	**1,219,421,500**	**1,268,260,091**
	2,552,952,543	**2,571,841,423**	**2,849,476,340**	**2,880,644,848**	**2,716,384,047**	**2,682,814,905**	**3,029,712,883**

e products made from Rayon, Polyester, Velvet and Jute;

goods/products other than classified above

Source: Federation of Handicraft Associations of Nepal, Thapathali Height (data obtained from website: www.nepalhandicraft.org.np)

Annex-3: MEDEP Supported Value Chains

Products	Entrepreneurs (No.)	Total Sales (Rs)	Profit (Rs)
Allo	678	10,836,525	5,338,288
Ginger	1,635	40,239,101	22,482,445
Dhaka	924	75,150,222	40,511,691
Bee Keeping	3,754	94,790,952	61,760,971
Herbal Soap	234	8,253,469	2,920,096
Lokta	249	5,568,789	1,422,917
Incense	982	38,353,645	16,028,521
Bamboo Products	1,484	68,767,117	27,761,149
Lapsi	426	7,628,753	2,437,331
Total	**10,366**	**349,588,573**	**180,663,409**

Note: Data for *allo* represent 12 MEDEP districts only.

Annex-4: Selected Value Chain Actors:

Input (yarn) producers/suppliers:

Bhola Nath and Sons
Sangam Path, Butwal-6, Nepal
Contact person: Narsingh Baniya
Tel: 071-540901, 542901
Mobile: 9857020901
E-mail: kaushal901@yahoo.com
Category: Supplier of cotton yarn

Manakamana Thread Industry
Tamphula-6, Tehrathum
Contact person: Ram Singh Ale
Tel: 026-460184
Category: Manufacturer/Supplier of dyed cotton yarn

Ruby Thread Industries
Janpath Tole Buddha Vihar Marg Biratnagar-15
Contact person: Ramesh Shrestha
Tel: 021-470547
Category: Manufacturer/Supplier of dyed cotton yarn

Swastik Thread Industry
Shree Tole, Dharan-8, Sunsari
Contact person: Ms. Jeena Shrestha
Tel: 025-525913
Category: Manufacturer/Supplier of dyed cotton yarn

Dhaka fabric and product makers/wholesalers/retailers:

Karki Dhaka Kapada Udyog/Prabesh Topi Bhandar
Tansen, Palpa
Contact person: Kapil Karki
Tel: 9847029145
Category: Manufacturer, wholesaler/retailer

Nabin Bikas Dhaka Kapada Udyog
Myanglung-1, Tehrathum
Contact person: Ms. Ranjana Rai
Tel: 026-460172
Category: Manufacturer

New SADLE

Baikunthapuri Nagari, Kapan-6
Kathmandu
Contact person: Chitra Bahadur KC
Tel: 4820680/4821259
Retail: AKAR, Lazimpat
Tel: 4436631
Category: Producer and exporter of traditional Nepali weave Dhaka products such as table cloth, place mats, table runner, bed Cover, and bags etc.

Nikhil Dhaka Kapada Udyog
Gangabasti, Daunnedevi-5
Nawalparasi
Contact Person: Bishnu K. Chaudhary
Tel: 9841-800061
Category: Manufacturer (in the process of relocation to Vyas Nagar Palika-4, Damauli Tanahun district)

Om Textile Industry
Pravash, Tansen-11, Palpa
Contact person: Ganga Ram Nepal
Tel: 075-520713
Category: Manufacturer

Parajuli Dhaka Kapada Udyog
Myanglung-1, Tehrathum
Contact person: Dhanga Prasad Parajuli
Tel: 026-460378
Mobile: 98422-09792
Category: Manufacturer

Poudel Dhaka Topi Udyog
Barudkhan, Tansen-4
Contact person: Manoj Poudel
Tel: 075-520481
Category: Manufacturer

Saraswati Dhaka Kapada Udyog
Tansen-4, Palpa
Contact person: Hari Rayamajhi
Tel: 075-521170/075-520366
Mobile: 98470-28366
Catergory: Manufacturers, wholesaler/retailer

Sobak Palpali Dhaka Topi Udyog
Bhimsentole, Tansen-3, Palpa
Contact person: Dilip Maharjan

Tel: 075-520034
Mobile: 98570-60076
Category: Manufacturer

Sramjibi Mahila Dhaka Kapada Udyog
Tamphula-6, Tehrathum
Contact person: Ram Singh Ale
Tel: 026-460184
Category: Manufacturer

Ujjawalata Dhaka Kadada Udyog
Myanglung, Tehrathum
Contact person: Ujjawalata Subba
Tel: 026-460102
Category: Manufacturer/retailer

Wholesalers/Retailers:

Nepali Dhaka Topi Pasal
Kel Tole, Machhendra Bahal
Kathmandu
Contact person: Rakesh Tandukar
Tel: 9841-318310/9841-542651
Category: Wholesaler

New Balla Dhaka Topi Stores
VIP Chowk, Wotu
Kathmandu
Contact person: Rajendra Balla
Tel: 4269744
Category: Wholesaler

Saugat Micro Promotion Pvt. Ltd. (SMPPL)
Tripuseshwor, Kathmandu
Contact person: Krishna Rai (Manager)
Tel: 01-6215404
E-mail: nmega.nepal@gmail.com
Category: Wholesaler/Retailer of products of micro-entrepreneurs

Subit Dhaka Pasal
Junhall Road, Narayangarh
Chitwan
Contact person: Surya Ale
Tel: 056-525276
Mobile: 9845051911
Category: Retailer

Service Providers:

Bishnu K. Chaudhary
Gangabasti, Daunnedevi-5
Nawalparasi
Tel: 9841-800061
(in the process of relocation to Vyas Nagar Palika-4, Damauli
Tanahun district)
Category: Technical services (trainer) on Jacquard loom operation including loom fitting, repair and maintenance, and pattern design.

Fair Trade Group Nepal (FTG-Nepal)
Contact person: Sunil Sainju (Executive Director)
Kupandole, Lalipur
Tel: 5549848, 5542608
E-mail: ftgnepal@info.com.np
Website: www.fairtradegroupnepal.org
Category: Advisory services related to fair trade practices

Federation of Handicraft Associations of Nepal (FHAN)
Upama Marg -11, Thapathali
Kathmandu, Nepal
Tel: 4244231/4244231/424546/4245467
Email : han@wlink.com.np
Website: www.nepalhandicraft.org.np
Category: Promotional activities such as dissemination of information, arranging participation of members in international trade fairs, exhibitions

Handicraft Design & Development Center (HANDECEN)
Upama Marg, Thapathali, Kathmandu, Nepal
Tel: 4246435
Email: handecen@wlink.com.np
Website: www. nepalhandicraftdesign.org

Category: Product designing (traditional and contemporary designs, virtual 3D products, prototype design), logo and firm registration, training, and consultancy services.

Women's Skill Development Project (WSDPP
Srijana Chowk, Pokhara
Contact person: Anup Khadka
Tel: 061-520393
E-mail: wsdpftg@fewanet.com.np
Category: Non-profit making NGO providing skill training in dyeing, weaving, material cutting, sewing, and other handicrafts skills. Natural dyeing and weaving of heavy cotton.

PHOTOGRAPHS

Weaving on traditional looms of different sizes at Tehrathum (above and below)

Weaving Dhaka pattern on a Jacquard Loom at Tansen, Palpa

Variety of Dhaka products at sales outlet of Ujjawalata Dhaka Kapada Udyog, Myanglung

Dhaka sari displayed at Parajuli Dhaka Kapada Udyog, Myanglung

Dhaka Value Chain Workshop in progress at Myanglung, 11 July 2009