

## CHAPTER I

INTRODUCTIONIntroduction

The Programme of industrial estates has occupied an important place in promoting and guiding industrialisation, both in industrially advanced countries and developing countries, especially after the second World War.<sup>1</sup> It has proved more helpful in those countries which have given the priority to medium and small scale industries in their development programmes on account of the mounting pressure of population, shortage of capital etc. In the same line of thinking, Nepal also had launched this Programme in the year 1960 with suitable objectives for the industrial development of the country.<sup>2</sup> Keeping in view the role it can play in the long run, this study has attempted a detailed review of the Programme. In the process, it has identified the major problems impeding the growth of units operating in industrial estates, which in turn brings out the shortcomings existing in the implementation side of the Programme.

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1. For detail: See "Introduction" to Chapter II in this Thesis.

2. For detail: See "Introduction" to Chapter V in this Thesis.

However, before going into much detail about the importance and objectives of the study, an attempt is made to clarify the conceptual idea of the Programme. Accordingly, a few widely accepted definitions of the term "Industrial Estates" are given here.

#### Concepts of Industrial Estate

The term "Industrial Estate" originated in the United Kingdom in the late 19th Century. According to William Bredo, who has defined this term for the first time in 1960, "an industrial estate is a tract of land which is subdivided and developed according to a comprehensive plan for the use of a community of industrial enterprises. The plan must make detailed provisions for streets and roads, transportation facilities and installation of utilities. The plan may provide for the erection of factory buildings in advance of sale or lease to occupants".<sup>1</sup>

In England, the term has been defined as: "an area of land selected and planned by, as well as being under the control of a development agency whose task is to construct, or allow to be constructed, industrial buildings and to provide those services considered necessary or worthwhile for the development of the estate. The estate can be virtually of any

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1. Bredo, William: Industrial Estates - Tool for Industrialisation, (U.S.A, International Industrial Development Centre, Stanford Research Institute), 1960.

Note: This definition is based on the definition of "an organised and planned industrial district", which was first formulated at the Darmouth College Conference on Industrial Parks, held at Darmouth College, Hanover, New Hampshire, U.S.A (June 1958).

size. The development organisation can be public or private. The factories can be wholly planned and built in advance; they can be partly built in advance; or they can be built on request according to the specifications of the eventual users. They can be of a wide variety, from the basic infrastructure of roads, sewers, lighting, gas, electricity etc. to estate canteens, training schools, etc. The estate can be run at a loss, at a profit or with the aim of only recovering cost".<sup>1</sup>

In 1963, P.C.Alexander defined the term with a few differences. According to him, "an industrial estate is a group of factories constructed on an economic scale in suitable sites with facilities of water, transport, electricity steam, bank, post office, canteen, watch and ward and first-aid, and provided with special arrangements for technical guidance and common service facilities".<sup>2</sup>

Later in 1967, the United Nations defined the term in a more precise form, according to which industrial estate is "a planned clustering of industrial enterprises, offering developed sites, pre-built factory accommodation and provision of services and facilities to the occupants".<sup>3</sup>

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1. English Industrial Estate Corporation, Team Valley Estate, Gateshead, Tyne and Wear, England.
  2. Alexandar, P.C: Industrial Estate in India, (Bombay, Asia publishing House), 1963, P.5.
  3. Policies and programmes for the Establishment of Industrial Estates: International Symposium on Industrial Development, Athens (New York: United Nations Publication, 1967), P.4.

In general, the industrial estate has been a multi-purpose and multi dimensional tool used for promoting and developing the industrial sector of any country concerned. It provides a number of facilities like suitable factory premises, utilities and other essential services to the industrial units. Especially in developing countries, this tool is used for expanding, strengthening and locating small and medium scale industrial units as a part of a broad programme of industrialisation. New industrial establishments would come into existence to avail themselves of these benefits because they will get a chance to safeguard themselves from a large number of problems relating to factory buildings, transport and communication, motive power, lighting, water, watch and ward etc. Over and above these, the industrial estate brings about: economy in the investment on social overheads; increased scope for inter-servicing and inter-trading for the development of complementarity in production and creation of the spirit of cooperation; decentralisation of industry for the development of backward areas; and achievement in specific locational pattern like town-planning, removal of slums and so on. Thus, it serves as a 'development project' for initiating and supporting medium and small scale industrial units.

It is worthwhile to note that the small industrial units established in an estate enjoy a good number of services

and facilities which would not be available to individual industrialists so economically and easily outside the estate. These provisions are aimed at improving the efficiency and productivity of small units. In other words, an industrial estate provides the advantages of external as well as internal economies to small industrial units and permit them to utilize the services and facilities in order to help the maximisation of their beneficial results.

#### Significance of the Industrial Estates Programme

A large number of countries depend upon industrial estates programme for promoting industrialisation and guiding industrial locations. However, the objectives of this programme differ from place to place and have been changing from time to time, according to the needs of the country (refer chapter II of this thesis). The experience of the developed countries clearly indicates that all sizes of enterprises can gain from industrial estates, but the advantages appear to be more pronounced for small scale units. That is why, this programme is basically used for promoting and developing small scale units in developing countries.

In fact, the existence of an industrial estate helps industrial development in several ways some of which are given below:

- a) It encourages potential entrepreneurs to set up industrial units;
- b) It makes possible the expansion, diversification and modernisation of already existing units in the area;
- c) It encourages the development of industries even in its vicinity, thereby becoming nucleus for further industrial growth;
- d) It acts as a positive tool for directing industries in undeveloped areas and thus facilitates decentralization of industries and their development in such areas which have no potential of their own to attract development generating forces; and
- e) It acts even as an important tool in urbanisation policies, as it may become the nucleus of a planned township.

Over and above these, the industrial estate has been used as a tool for serving several purposes in different countries viz.,: attracting foreign investment; promotion of export; nursery function for some selected industries; achieving specific location pattern; rehabilitation of displaced and destroyed industries; modernisation of artisan sectors and training and research orientation.

In this way, the Programme acts like a catalyst for creating environment of industrial investment and growth. It attempts to integrate the best of the facilities together to encourage industrial growth and improve productivity.

#### Importance of the Present Study

As stated earlier since the year 1960, the Industrial Estates Programme as a tool to promote industrialisation has been launched in Nepal. Through this Programme, the Government of Nepal aimed:

- a) to bring about the quantitative and qualitative improvement in industrial production and productivity to become self-reliant in essential goods of daily consumption;
- b) to create more employment opportunities to absorb the excess labour in the agricultural sector in different zones of the country;
- c) to mobilise local capital, skills and resources; and
- d) to minimise regional imbalances.

The Industrial Estates Programme of Nepal is small in relation to its total volume of industry, although about 75 per cent of the industrial enterprises and less than 50

percent of the employment are in rice-milling and oil extraction plants. The industrial estates have a rather higher percentage of firms in the modern industrial sector and house approximately 15 percent of the enterprises in the manufacturing sector excluding rice and oil mills.

It is notable that except the Evaluation Studies made by United Nations Industrial Development Organisation (UNIDO) to find out the effectiveness of industrial estates in developing countries (including Nepal) in 1976 and again in 1978, no exclusive study on industrial estates in Nepal has been undertaken so far.

Although the first industrial estate known as Balaju Industrial District in Kathmandu was set up as far back as in 1960, the Industrial Estates Programme in Nepal registered a very slow progress.<sup>1</sup> Even in 1983, when this study was undertaken, there were only 7 industrial estates in operation. Besides, two industrial estates were under construction at that time. As so many years have passed since the inception of first industrial estate, it seems worthwhile to attempt an objective investigation into the Industrial Estates Programme in Nepal. Accordingly, this study aims to review the working of the existing industrial estates in Nepal, to identify their short-

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1. Note: In Nepal, the terms 'Industrial District' and 'Industrial Estate' have been used interchangeably.

comings which have created difficulties for the industrial units established within their premises. Further, the study also has made some recommendations, which may be helpful in improving the present condition of the Industrial Estates Programme in the country.

### Objectives

In order to probe into the above issues, the study has the following objectives:

- a) to ascertain whether the Industrial Estates Programme has encouraged local entrepreneurs to set up industrial units in the areas concerned;
- b) to find out whether the Programme has been instrumental in generating substantial local employment;
- c) to find out, to what extent the units set up under the Programme have utilised the locally available raw materials;
- d) to find out how far industrial estates have contributed to the growth of cottage and small scale industries in the country;
- e) to identify some major problems faced by units located in industrial estates and suggest remedial measures for making the Industrial Estates Programme more effective in future.

### Methodology

The study is based on both secondary and primary data. As far as secondary data are concerned, the major sources are:

- i) Department of statistics, His Majesty's Government of Nepal (HMG/Nepal).
- ii) Ministry of Industry and Industry Department of HMG/Nepal.
- iii) Industrial Services Centre, Nepal.
- iv) Nepal Industrial Development Corporation, Nepal.
- v) Cottage Industries Department, HMG/Nepal.
- vi) National Planning Commission, HMG/Nepal.
- vii) Federation of Chambers of Commerce and Industry.
- viii) Centre for Economic Development and Administration, T.U.Nepal.
- ix) Nepal Rashtra Bank.

Turning to the primary data, a field survey was undertaken. A questionnaire(Annexure 1.1) was designed for

collecting information from units located in industrial estates. Another questionnaire (Annexure 1.2) was designed to collect data from industrial estate managers. Of the total 162 industrial units in all the industrial estates in Nepal, 119 units (i.e. 73% of the universe) comprising all types of industries and industrial units were approached. Estate management offices of the seven industrial estates were approached, all of whom furnished the information.

Before collecting data on the basis of the questionnaire from industrial units, they were classified into four categories according to their scale of operations. The categories were large scale, medium scale, small scale and cottage scale. It may be added that these categories are the same as provided in the Industrial Policy of 1981.

Table 1.1

Total Number of Units and Their Response

S.N.	Type of Units	Total Number of Units	Number of Units approached	Number of Completed questionnaires	Column 5 as % of Column 3	Column 5 as % of Column 4
1	2	3	4	5	6	7
1.	Large Scale	9	9	5	55.0	55.0
2.	Medium scale	22	22	14	63.6	63.6
3.	Small scale	21	21	16	76.1	76.1
4.	Cottage scale	110	67	33	30.0	49.2
	Total:	162	119	68	41.3	57.1

Table 1.1 shows that there were 52 industrial units in the first three categories. Although all these units were approached during the course of the survey about one-third of them failed to respond to our questionnaire, their total number being 17. This gives a response rate of about 67 percent. As regards the Cottage Scale units, which numbered 110, the researcher initially set out to cover all of them. However, it was found out that some of the units were closed for several days at a stretch and it was difficult to establish any contact with them. Even in those cases, where the units were working, the proprietors were found to be absent and the persons in-charge of the units expressed their inability to give any information in the absence of their employers. In some cases, they even refused to take the questionnaire. Whereever possible, the questionnaires were left with them, but none of them responded. In view of our initial desire to cover all the units in this category, we did not use the random sampling method. However, as many as 67 out of 110 units were actually contacted and 33 of them responded to our questionnaire. Taking all types of units together, we find that, there were 162 units in the universe. Of these 119 units were contacted and 68 of them responded to our questionnaire. Column 6 of the above Table shows the number of responding units as the percentage of units in the universe and column 7 of the same table shows the respondent-units as percentage of the units which were actually contacted in the field survey.

As the postal services in Nepal take a good deal of time, the investigator has to distribute the questionnaires personally to the units and estate management offices. Collection of filled-in questionnaires was also done personally excepting a few, which were mailed by the units. As regards questionnaires given to industrial estate managers, there was complete response, i.e., all the managers responded well.

The data collected through questionnaires have been supplemented with the information during personal discussions with knowledgeable persons such as industrialists and industrial estate managers.

#### Some Limitations

This study, being the first of its type in Nepal which does not have satisfactory statistical organisation, could not cover all the objectives set out by the government for the Industrial Estates Programme. The objectives covered have been specified earlier.

The study has to be carried on under many constraints like insufficient and incomplete primary data.<sup>1</sup> This problem is the outcome of the conservative and reluctant attitudes of the small scale entrepreneurs. They were found to be hesitant

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1. Note: A few other limitations of the study have been referred in the 'Note' attached with Annexure 1.1.

to provide clearcut and complete data especially in relation to the amount of working capital, loan acquired, sales and profit/or losses etc. Basically, this hesitancy is attributable to the facts like unscientific and adhoc methods used in fixing or levying excise duty and/or income tax on small units by the Government offices concerned. In addition, lot of variations and contradictions were found in certain data supplied by institutions and the bodies like ISC, the administrative offices in industrial estates and statistics department of HMG/N. For instance, the information regarding the number of facilities available at all industrial estates, as mentioned in "Present Status of Industries in Industrial Districts of Nepal" 1984 published by ISC did not tally with what was mentioned in Industrial Profiles of each estate. Similarly, a few facilities like workshop and health-clinic were shown as existing in all the estates excepting Butwal Industrial District in the publication "Industrial Services Centre: Introduction and Brief Perspective F.Y. 1980/81". But none of the estates contained workshop run by industrial estate management and none of the clinics was being run properly at the time of the study. Even there were discrepancies in statistics relating to the number of units in operation, number of units not in operation, number of units under trial production, number of units under construction and number of proposed units in the Government publications.

### Organisation of the Thesis

Before we pass on to the next Chapter, a broad area of the main contents of the subsequent Chapters may be given here. The study consists of three parts. Part I and II each contains two chapters and Part III contains three chapters. Part I contains a chapter on introduction and another on Industrial Estates Programme in other countries. It provides information that may be useful for having a wider perspective of Industrial Estates Programme in general.

Part II: Chapter III deals with the general aspects regarding industrialisation in Nepal. This covers such aspects as programmes for industrial development under various five year plans and Industrial Policy of the state. Chapter IV deals with some institutions involved in providing supporting facilities or services to industrial units and industrial estates.

Part III: Chapter V gives an account of the performance of industrial estates covered by the study. Chapter VI discusses major problems faced by the industrial units. It also points out the shortcomings of the Industrial Estates Programme in general. Chapter VII first presents the summary of the foregoing chapters and then brings out the main findings of the study. It, finally, makes several recommendations.