Surya Silks (Pvt.) Ltd.¹ KATHMANDU, NEPAL

s if her situation were not already difficult enough, Maggie Shah now sat face-to-face with an obstinate government official. Ever since she had proposed buying a government silk reeling unit for her company, Surya Silks, she continuously ran against seemingly insurmountable odds. In this morning's meeting with the Minister of Agriculture, she was told it was impossible to turn over the government silk reeling unit at the Khopasi Sericulture Development Project to her or any other private sector company. Doing so, he feared, would jeopardize the silk development funding and assistance that Nepal received from the South Korean government.

As she walked out the front door of the Agriculture Ministry, Mrs. Shah looked up to see the Ganesh Range of the Himalayas (23,500 ft.) coming into view under a crisp blue sky. The mountains had just received their first snowfall of the autumn season, and they were now emerging from behind a shroud of thick clouds. Residents of the Kathmandu Valley had their first brilliant view in several weeks. Mrs. Shah pondered how much the scenery differed from her own situation, now much less clear than ever before.

Ever since she began discussions with the government about the reeling unit, Mrs. Shah felt dark clouds of confusion settling in. She now saw no resolution to her situation. The public sector provided little information about the equipment she wanted, and that which was made available was inaccurate and contradictory. She regularly encountered the conflicting interests of different government ministries. Two years ago when she had first heard about the government's new economic liberalization and privatization policies, she established Surya Silks to take advantage of the country's new free market-based growth. At that time, it appeared that there would be abundant opportunities for business offered by His Majesty's Government (HMG). As time went by, however, it had become more apparent that the positive words she originally heard were little more than hollow rhetoric.

Now she faced her biggest challenge: developing a plan to acquire a silk reeling unit so Surya could profit from her silk-producing venture. This would be a difficult task indeed, especially since she had little more than four months to acquire the unit before silkworm cocoon rearing season began in March. It had taken five months just to collect information to make a reasoned, fact-based decision to purchase the unit. Now, with little time left, she had to write a suitable proposal, win HMG's approval, and then push it through the bureaucracy in time for the start of the season.

Reeling and the Silk Production Cycle

Mrs. Shah flagged a tempo and climbed into the back.² As she bounced along the narrow and unpaved side streets of Kathmandu, she reflected on her previous two years in the silk business, realizing how much she

had learned about silk in a very short period. Before founding Surya Silks, she had had no idea what a silkworm looked like, and had never seen a silkworm's cocoon. Now she could completely describe the entire silk production cycle (see Exhibit 1).

Silk production is separated into two distinct phases, pre-cocoon and post-cocoon. Within each operation, producers use a great deal of unique, advanced technology. The silk industry began nearly 2000 years ago. It has long been the basis for large segments of the economy of countries like China and Japan.

During the pre-cocoon phase, most production activities are performed on a sericulture farm. The cycle begins with the raising of mulberry bushes, a silkworm's staple food. The bushes are planted on relatively small plots of land because most farms in the world are operated by single family groups. Traditionally, I hectare of land is sufficient to provide work for 7 to 10 workers or family members.³

Silkworm rearing begins at the egg stage. Eggs laid by moths are hatched at the farm site; one standard box of eggs produces 20,000 worms which, in turn, produce approximately 25 kg of fresh cocoons. During their month of growth, the worms shed their skins four times, once for each significant growth stage or instar. They increase their weight 10,000 times, growing in length from less than ¹/₄ inch to up to nearly 4 inches. After 30 days, the worms develop two large silk-producing glands from which the silk secretion is formed.

Just before cocoon spinning, worms are removed from rearing trays and placed in mountages that resemble tree branches. They begin spinning by attaching silk fibers to the mountages to form a support frame, then they spin the cocoon itself. Silk fiber flows through two channels to one common tube in the insect's head. It consists of two fibrion filaments connected together by a silk glue, or sericin. The worm builds an oval cocoon by adding layer after layer, moving its head in figure eight shapes. The 2-inch, capsule-shaped cocoon is completed in 24 to 72 hours. The cocoons are removed from the mountages within six days—before the moths are allowed to emerge.

The moth pupae are stifled in the cocoons by drying in the sun or an oven. The cocoons are then transferred to either an in-house filature (reeling unit) or to an open market where they can be sold to other reeling companies.

Enough moths are allowed to emerge from non-production cocoons to lay eggs for the next generation of worms. The moths are whitish-gray, with non-functioning wings and no mouth. They exist for one to four days; barely enough time to lay about 600 eggs.

Major cocoon markets in the South Asia region included West Bengal and Karnataka, India and Sichuan County, China. Mrs. Shah had several occasions to visit the Karnataka market, and she always enjoyed her work in this overwhelming environment. The simple but huge corrugated steel structure that housed the market had the unique stench of dead insects and resonated with every noise made inside. There was always an abundance of noise, with thousands of farmers and cocoon traders screaming prices and throwing large bags of cocoons at each other. Because cocoons were perishable items that had to be sold for processing within

Exhibit l						
ADDED VALUE OF EACH SILK PRODUCTION PROCESS						
OPERATION	Percent of Total Value Added					
Silkworm Rearing/Cocoon Production	55					
Cocoon Reeling	5					
Twisting and Doubling of Thread	4					
Fabric Weaving	17					
Fabric Dyeing and Finishing	9					
Trading/Marketing	_10					
TOTAL VALUE	100%					

Exhibit I (continued) ADDED VALUE OF EACH SILK PRODUCTION PROCESS PHOTOGRAPHS



Silkworms in "nanglo" rearing basket; silkworms increase their weight by 10,000 times during their 30-day lifecycle



Detail of Khopasi reeling unit



Silkworm cocoons: from each cocoon, 1,000 meters of continuous silk fiber can be reeled



Mulberry bush, a silkworm's staple food



Nanglo spinning racks, where silkworms spin their cocoons

about one month of their spinning; there was a real sense of urgency in these markets. Mrs. Shah had developed a great deal of respect for the simple silk farmers she met in the markets. Although they were generally impoverished and illiterate, they possessed tenacious bargaining skills and exceptional entrepreneurial savvy.

Before they are reeled, cocoons are boiled in water to soften the gummy sericin, causing the original figure eights of the cocoon filament to loosen up and straighten out. After boiling, the loose ends are picked up through a brushing process and the necessary number of filaments to form the proper size of raw silk fiber are passed through porcelain guides. Only one kg of reelable silk fiber is produced from 10 kg of cocoons. The rest of the overall cocoon weight is made up of the pupae, silk waste, and unusable sericin. From five to nine cocoon filaments are typically twisted together to create a thread.

Once the basic fiber is formed, it can be passed along for post-cocoon processes like dyeing, weaving, etc. The benefits of reeled silk are its international demand and long-term storability. Unlike cocoons, silk fiber is a compact and valuable product that can be sold and shipped directly to customers all around the world. It can also be stored indefinitely to await a rise in the volatile price of silk.

Surya Silks (Pvt.) Ltd. and Maggie Shah, A Brief History

Mrs. Shah founded Surya Silks in 1990 after attending an Agro-Enterprises Seminar.⁴ She decided to name the company Surya after an ancient Hindu solar deity introduced in Nepal by conquering Indians two thousand years before Christ. Her original plan was to operate Surya as a "farm to fabric" manufacturer—to perform all operations from silkworm rearing through fabric weaving. Although Surya was not Mrs. Shah's first business venture in Nepal, it was certainly the one closest to her heart.

Mrs. Shah, or Maggie, first came to Nepal from the United States in 1970. She grew up and attended nursing school in Cincinnati, Ohio, when she first met Mr. Vijay Shah, a Nepali expatriate studying at Xavier University. She arrived in Nepal to marry Mr. Shah at the age of 19. During her first years in Kathmandu, Maggie fulfilled

the traditional Nepali role of an elder brother's wife, raising four children plus taking care of her younger brothers- and sisters-in-law. In Nepal, a household almost always contained an extended family, wherein all brothers and sisters lived in the same house with their parents and older siblings right up until the time they were married. Often the eldest brother or sister shared some of the responsibility with the parents for finding a proper husband or wife for younger relatives. Nearly 85% of all Nepalese marriages were arranged. During her early years, Maggie spent almost all of her time with the family, and she took great pride in introducing them to many Western ideas which, at that time, were quite revolutionary to Nepal. Meanwhile, Mr. Shah continued developing his family's traditional business of sugar-based vodka distillation.

As time went by and the family grew up, Maggie became more involved in the family business, eventually becoming President of the family's Jawalakhel Distillery, the largest in the Kingdom of Nepal. Through the years, Maggie developed a reputation among Kathmandu's business and government community as a resolute and successful businesswoman, an unusual person in the man's world of Nepalese business. She attributed a great deal of her success to her ability to communicate in Nepali and adapt to Kathmandu's closed official environment. It was only at times when she exited these familiar surroundings that Maggie realized that she, a 5' 7''—prodigious by Nepali standards—Western woman wearing a sari and speaking Nepali, was quite a curiosity to some.

The formation of Surya Silks was, for Maggie, the culmination of many of her personal and career objectives. She saw Surya as an opportunity to develop a new and lucrative business while improving the living conditions of many impoverished Nepali farmers.⁵

Maggie employed Mr. Shanker Pandey, a recent MBA graduate from Tribhuvan University in Kathmandu, as Managing Director for the firm. In this capacity, Mr. Pandey oversaw all aspects of Surya's operations, including procurement of equipment, marketing, and accounting.

Surya's sericulture farm was established in late 1990 in Nepal's southern Chitwan District. Land and facilities for the farm were obtained from another family business that had since closed. It included two very critical resources that were rare commodities in Nepal: abundant water and independent electricity. These two factors were very important because of Nepal's current utility limitations.⁶ The abundant water was particularly important for sericulture because of its predominant role in silkworm rearing. Altogether, it required nearly one ton of water to produce I kilogram of silk thread, including mulberry watering, cocoon boiling, and reeling. Because the farm was located on the banks of the Narayani River, one of the largest in the country, any current or future water needs could easily be satisfied free of cost.⁷ The farm operated on 1.5 hectares of land and produced silk in increasing volumes over its two-year existence.

In early 1992, Surya Silks also constructed a weaving unit in Patan, a city across the Bagmati River from Kathmandu (see map on page 146). This five-loom facility ran for a short period, primarily as a prototype for a larger facility. Mr. Pandey oversaw the day-to-day operation of the unit and its 12 employees. Although capable of producing between 400 and 500 meters of gray silk fabric per month, the weaving facility never truly became profitable.⁸ Surya's customers, which consisted entirely of clothing boutiques and individual buyers within the Kathmandu Valley, were not satisfied with the quality of the fabric. One prominent boutique owner had this to say about the fabric:

Surya's silk is somewhat difficult to work with; it is generally woven quite loosely with different dernier threads on the warp and weft.⁹ I can't use the fabric on garments that don't have linings because it is not durable enough to hold its shape.

Therefore, after five months, the weaving facility was closed down. It did not take Maggie or Mr. Pandey long to realize that the "farm to fabric" goal was quite difficult to achieve because of the extensive expertise required at each step of production.

Because his primary interest was in fabric weaving, Mr. Pandey departed from Surya Silks to establish his own fabric weaving company shortly after the weaving unit was closed.

Current Company Strategy

For its 1993 silk rearing season, Surya Silks planned to focus most of its efforts on pre-cocoon production

because it promised a great deal of added value for a relatively low level of technology. It had been the most successful part of the company, the production segment to which Surya had best adapted. Maggie, therefore, hired Bhanu Bhakta Mainali, a recent MS graduate of Sri Lanka University, as a Sericulture Extension Officer and offered him a salary of Rs. 3500 per month.¹⁰ In this capacity, Mr. Mainali provided not only technical assistance to Surya's farm, but he was also assigned to develop other sericulture farms within the Chitwan District. Eventually, it was hoped that these farms would provide Surya with supplemental raw material inputs. Maggie also employed B.G. Ghale as Farm Manager at a salary of Rs. 1,500 per month. In addition, she increased staff to include seven farm laborers at Rs. 1,000 per month each.

The company planned to expand its mulberry garden threefold by planting on all of the farm's available 3.5 hectares of land. Mr. Mainali assumed that mulberry planted in December would be useable as silkworm food by the end of the monsoon season in September. A typical rearing season in Nepal contained four silkworm production cycles and ran from the middle of March to the end of November. Surya hoped to capitalize on the warmer climates of the Chitwan District by adding a fifth rearing cycle to the season to further increase cocoon volume. It was anticipated that this would bring the total farm output up to 1700 kg of cocoons in 1993 from only 250 kg in 1991.

Currently, the only function being performed at the Jugedri farm was cocoon rearing, and Maggie was interested in making use of the currently unused resources of a 40,000-square-foot distillation building. In her opinion, installing a reeling unit in the plant building was the appropriate next move. She put it this way:

Purchasing the reeling unit would take the next logical step up in the value chain. It would match the current resources at the farm to new operations. What's more, it would allow Surya Silks to produce a product that is marketable to the world (reeled silk) as opposed to a product that can only be sold in regional markets (cocoons). Now, if I can only design a proper and feasible offer to HMG for the machinery ...

The World Silk Industry

Silk is one of the world's most profitable agro-based enterprises. It has, for centuries, retained its appeal as a

luxury fabric for consumption by the rich and privileged. Consequently, silk has remained one of the highest value cash crops in the world. Traditionally, the bulk of the industry has remained in Asian countries like China and Japan. However, due to its extremely high earnings potential, other countries have established extensive silk industries.

Exhibit 2 outlines the production volumes of the world's largest silk producers. China was by far the largest exporter in the world. It currently exported over 80% of the world's demand for silk yarn, fabric, and garments. India also produced a large volume, but due to the extremely high demand inside the country, it only exported 15% of its overall volume. Other countries producing significant amounts were Japan, the Republic of Korea, and Brazil. All other countries' volumes did not come close to that of the five largest producers.

It was expected that China would continue to dominate the silk industry. However, at some time in the near future, it would likely place limitations on the amount of arable land available for silk production instead of food crops.¹¹ Silk production in developed countries like Japan and the Republic of Korea declined by an average of 55% in the years between 1975 and 1985 due to those countries' higher labor costs, scarcity of land, and availability of more profitable industries. In fact, China and India were the only two major producers that had steadily increased production for the past two decades. Conversely, American and European markets had seen rapid increases in consumption of silk products. In the years 1987 through 1990, demand for silk and silk products rose an average of 27% annually. Beginning in 1991, global production of silk had consistently fallen short of world demand. For this reason, silk had become a very attractive industry for many countries that had traditionally been uninvolved.

In particular, sericulture—or the rearing of silkworm cocoons—as an economic enterprise became a focal industry for many developing countries. The agricultural basis for raising mulberry bushes and rearing silkworms naturally matched the agricultural culture of many areas in the third world. In addition, the high labor intensity, cottage-industry nature, low investment requirements, and high earnings potential of sericulture made it quite suitable for rural, poor populations. As a consequence, countries such as Afghanistan, Bangladesh, Burma, Colombia, Indonesia, Malaysia, Vietnam, Zambia, Zimbabwe, and Nepal had all taken up extensive development projects, primarily through foreign assistance or development agency intervention.

Silk in Nepal

The history of silk developments in Nepal was as short and turbulent as Nepal's modern history. Attempts to promote silk had been made at various times throughout this century. The first began during the reign of the King Tribhuvan (1911 to 1955) during the Rana dynasty. This occurred along with similar efforts in

Exhibit 2 WORLD RAW SILK PRODUCTION (in tons)								
Country	1983	1984	1985	1986	1987	1988	1989	1990
China India Japan USSR Rep. of Korea Brazil Othere	28,140 5,681 12,456 3,899 2,292 1,362 2,770	28,140 6,895 10,800 3,999 2,088 1,458 2,720	32,000 7,029 9,592 4,000 1,850 1,558 2,671	35,700 7,905 8,341 4,000 1,650 1,780 2,874	35,800 8,455 7,864 4,000 1,608 1,780 2,874	35,800 9,683 6,862 4,000 1,60 1,70 2,874	40,700 10,905 6,078 4,000* 1,200 1,697 2,285	46,400 11,487 5,720 4,094 1,200*** 1,693 2,285
TOTAL *estimated **1989 data repea	56,600	56,100	<u> 2,071</u> 58,700	<u>2,874</u> 62,250	62,381	<u>2,874</u> 62,527	<u>-2,205</u> 66,865	72,879

Kashmir, India. The effort was quite successful in Kashmir because it represented a new and profitable venture for individual silk farmers. However, it failed miserably in Nepal because of government policy at the time.¹² Premier Juddha Shumsher (1940 to 1945) also tried to create interest among the Nepalese people by organizing an exhibition of Eri, a wild breed of silk, in Kathmandu. This, too, failed due to a lack of farmer and investor interest. The complexity of rearing silkworms made it simply unattractive to farmers who would not make any money from it.

One final attempt was made during the early years of King Mahendra (1951 to 1977). However, due to the upheaval in the country that followed the post-Rana revolution and the lack of technical expertise, the program was doomed from the start.

The current sericulture development project for Nepal had been the longest running and, by far, the most successful. It was initiated in 1967 through a pre-feasibility study carried out by Nepal's Entomology Division of the Department of Agriculture. Later, support in the form of free capital equipment, technical assistance, and funding from Japan and South Korea helped influence Nepal to enter the industry because of the ideal agro-climatic conditions. As a result, HMG launched a Sericulture Development Project (SDP) and established a station for silk development in 1975. The station was located in Khopasi, a small village in the Kavre District, about 35 kilometers (or one and one-half hours by car) from Kathmandu. The Khopasi station was developed to be the state-operated nucleus of the new industry.

Because of the natural match between sericulture and rural development, several nongovernmental development organizations (NGOs) became involved in Nepal's silk development. The most significant of these was a project run in Ilam, in the eastern part of the country.¹³ Begun by Lutheran World Service in 1984, the Ilam project achieved the most impressive growth in cocoon production in the country. It also played a very important role in proving the economic viability of sericulture for Nepal and spurred growth in other areas. All of the growth within the industry was monitored by Khopasi since the SDP was founded.¹⁴

A chart outlining the expansion in Nepal's sericulture activity and the country's cocoon production as defined

by an independent consulting firm is included as Exhibit 3.

Nepal's Socioeconomic Condition and Industrial Policy

GEOGRAPHY AND HISTORY

The small kingdom of Nepal is about the same size and shape of the state of Tennessee, but it packs more geographic diversity into its borders than most other countries. Located directly between India and China, Nepal is home to 8 of the world's 10 highest mountains, and compresses subfreezing mountain ranges to lush tropical jungle climates into a space barely 200 km from north to south. Nepal's people are as diverse as its geography. The kingdom's ancient development as a loose association of nation-states has preserved a variety of cultures rivaled by few nations. There are at least 13 distinct ethnic groups that share the country, but maintain their own languages and customs.

These diverse groups were first united into modern Nepal in 1769 by King Prithivi Narayan Shah, the first ruler of the Shah dynasty. The impact of Nepal's domestic colonization by the Shahs was very anti-development. Under the regimes' medieval systems, all of the products and earnings generated within the country went directly to the personal wealth of the rulers.

In the late 1850s, Nepal's Prime Minister staged a nonviolent revolution against the Shah regime and formed a similarly autocratic and family-run government. The Rana family's Prime Minister dynasty lasted until 1950 and stifled economic development in the same way that the Shahs had-the Ranas built hundreds of lavish Victorian-style palaces all over the country as the general population continued to live in squalor. After a revolt and chaotic decade of searching for a "Nepalese" approach to politics in the 1950s, the country had an unstable 18 months of multi-party democracy. King Tribhuvan overthrew this system in 1960 and established a non-party system that lasted until 1990, when a popular revolution occurred. A constitutional monarchy with a two-house, multi-party parliament was established and the first peaceful and democratic elections were held at the end of 1990. The second elections took place on May 12, 1991.

Exhibit 3								
NEPAL'S SERICULTURE PRODUCTION VOLUME								
Period	Mulberry Saplings Distributed (number)	New Area Covered (hectares)	Silkworm Seed Distributed (kilograms)	Total Periodic Cocoon Production (1000 kg)				
1977 to 1981	1,310,000	160	1.25	1.30				
1982 to 1986	860,000	264	20.00	10.00				
1987 to 1990	1,616,000	354	45.50	50.00				
1991	1,000,000	100	16.00	16.00				
TOTAL (until 1990/91)	4,786,000	878	82.75	77.30				
Source: No-Frills Co	onsultants, Kathmandu, Nepal							

ECONOMIC CONDITIONS¹⁵

Nepal's population was the tenth poorest in the world, according to the World Bank. Even considering its cost of living, it was one of the 25 poorest. The total value of production in the kingdom was less than half of the smallest U.S. state (Vermont), and a third of the District of Columbia's. The annual government budget was less than the budget for Jacksonville, Florida. The largest company in Nepal, Salt Trading, claimed an annual sales turnover of less than \$200 million.

Although the government made efforts to unite it more effectively, Nepal's economy continued to be bifurcated. The southern part of the country was linked to India, while the hills contained isolated pocket economies. Furthermore, as the economy developed, it became more reliant on India. The free convertibility of the Nepalese Rupee to the India Rupee and the open border tied the two currencies, involved Nepal in India's protectionist policies, and linked their monetary and fiscal policies. Virtually every product produced in Nepal had an Indian counterpart, and the small size of Nepal's economy forced it to abide by India's pricing and import/export policies.

RECENT ECONOMIC DEVELOPMENTS

Until the revolution of 1990, governmental attitude toward business was one of control, seeking bribes and favors in exchange for political influence. This was considered a right associated with government employment as salaries were too low to sustain a lifestyle appropriate to a bureaucratic position. There was no interest in creating a second, business-based financial elite, and officials built as many obstacles as possible to prevent independent action by business people. Most bureaucrats received advanced education from India during the Nehru/Gandhi socialist period, thus propagating the attitude that intellectual and scientific methods were to be used for development. In other words, new knowledge was to be developed internally, not built upon that developed by and imported from the outside world.

After the revolution, many of the upper government officials began to change their stance on private sector development. The government altered its policy to promote private sector development by instituting programs such as expanding currency convertibility and eliminating income taxes on selected sector enterprises.¹⁶ Privatization became the current trend for many politicians on the podium, but in actuality, less than 15% of all state-run businesses were turned over to business people. This dichotomy, in the opinion of USAID-Nepal, was due to government attempts to appease all of Nepal's primary developmental donor agencies at the same time.¹⁷ In the words of Neal Cohen, a USAID official:

Nepal's government officials have never internalized privatization and made it their own. Doing things through money and pressure only results in Nepalese seeking loopholes, or waiting for your back to be turned to undo the activity. They still resist, although they mouth the right words to keep structural adjustment on track. Similarly, many donor agencies do not accept privatization and continue to provide assistance to establish new state enterprises and expand existing ones. Some examples include the following: the ADB's work with a new government textile factory, new vehicles for state-run Nepal Oil to replace privately contracted ones, Japanese assistance to establish a new HMG cement factory, French assistance to the state transportation corporation, etc.

Nepal's Sericulture Development Project

The SDP station at Khopasi was situated on a total of 7.5 hectares of land. Of this land, three hectares were under mulberry plantation, one hectare was a mulberry sapling nursery, and the rest was reserved for buildings and infrastructure. The project was funded initially by grants from the Republic of Korea and later received its funding from UNDP, Nepal's Ministry of Agriculture, as well as continued Korean support.

The original plan for Khopasi was to act as a prototype farm and to administer the distribution of silkworm eggs throughout the country. Over time, the SDP expanded its role to several other functions, including:

- Procuring silkworm eggs from South Korea for distribution to farmers and for in-country egg production,
- Producing and supplying mulberry saplings for sericulture farmers,
- Providing subsidies to farmers to purchase all sericulture production inputs,
- Purchasing cocoons from the farmers,
- · Conducting applied research,
- Providing training to farmers and some NGOs, and
- Providing technical guidance to farmers and some NGOs.

G. P. Kafle, the Managing Director, became distressed by the ever-increasing responsibility being shouldered by the relatively small Khopasi center. He recently told Maggie that:

... the prospects for me and this facility to perform all our assigned tasks are growing ever dimmer. Four years ago, we were shouldered with the responsibility of reeling all silk cocoons produced in Nepal. Last year, we were instructed to promote a training program to all parties involved in sericulture. These programs, in addition to the subsidized support for farm inputs, have already strained our small budget.¹⁸ We have been operating at a loss in all categories, including the ones that are supposed to be making money, like the reeling facility. Next season, I understand that our budget is going to remain the same, although the country's output is going to skyrocket (see Exhibit 4).¹⁹ It is obvious to me that we need to shed some of our responsibilities. We are doing so many things that I fear we are not doing any of them properly.

One of the SDP's largest functions was to purchase all of Nepal's cocoons for a fixed price set yearly by the government, then to reel the silk into a usable fiber. SDP then sold the reeled silk to a buyer for another fixed price. This enterprise had been in existence for four years, but had yet to produce a profit. Moreover, the prices paid for cocoons and sold to the market had consistently been out of phase with the world industry because Mr. Kafle was required to obtain approval from the Ministry of Agriculture for any price changes, a bureaucratic process that generally took about four months. SDP, therefore, almost always bought and sold for the wrong price. This year, for example, Khopasi had been buying fresh cocoons for Rs. 150 per kg and selling reeled raw silk fiber for Rs. 2000 per kg.²⁰ At the same time, cocoons were being sold in India for significantly lower prices (Exhibit 5) and in Russia for US\$1 per kg.21

The actual equipment used in the reeling process was donated to SDP as a part of a South Korean–Nepal Sericulture Development Program that was instituted in 1982. Exhibit 6 outlines the equipment that was donated by South Korea in 1988.

The Khopasi reeling unit had never been operated at full capacity. At rated capacity, the equipment should have been able to reel 7.2 kg per day. In reality, Khopasi had been unable to produce more than 3 kg per day. Mr. Suman Adhikary, the reeling supervisor, adamantly gave the following reasons for this lack of productivity:

... I can't reel silk because they [Khopasi's management] keep stealing my workers. I spent two months training each of these reelers at the beginning of this season and I haven't even been able to get a full week's work out of them yet. Apparently, Mr. Kafle has decided that rearing silkworms for egg production is more important than producing reeled silk for sales. He keeps shutting down my reeling unit and using my workers to rear silkworms for egg production. My reelers are over in the rearing facility cutting mulberry leaves and collecting

Exhibit 4

NEPAL SILK PRODUCTION FOR 1993

District	Mulberry Coverage (hectares)	Number of Cultivators	Number of Silkworm Rearers	Cocoon Production Expected for 1993 (tons)
llam	100	750	300	15.00
Kavre	102	150	60	4 00
Makawannur	3	10	3	2 75
Chitwan	10	15	4	2.75
Ihana	12	11	5	2.00
Morang	6	12	2	2.50
Svangia	80	100	50	2 50
Mahottari		5	3	1.00
Rautahat	0	0	0	1.00
Dhading	25	50	10	1.00
Nawalparasi	8	20	11	1.00
Siraha	3	41	8	0.80
Sindupalchok	20	20	6	0.80
Tanhun	10	15	5	0.80
Sindhuli	1	10	5	0.60
Palpa	15	25	5	0.60
Dhankuta	10	20	5	0.50
Lalitour	2	5	Ĩ	0.20
Lamiung	Ī	4	2	0.20
Dang	1.5	2	1	0.18
Bhoipur	Ĩ	4	1	0.10
Nuwakot	5	18	4	0.10
Bhaktapur	1	3	1	0.10
Kathmandu	3	10	4	0.10
Kaski	2	5	2	0.10
Kapilbastu	2	5	I	0.10
Parbat	2	5	I	0.10
Banke	0	0	0	0.10
Ramechhap	I	4	I	0.05
, Dolakha	I	8	I	0.05
Surkhet	I	4	I	0.05
Sunsari	0	0	0	0.00
Gorkha	I	2	0	0.00
Rupendehl	I	0	0	0.00
TOTAL	431.5	1333	503	41.48
Source: His Majes	sty's Government Sericultur	e Development Center		

eggs, while I sit here with moths coming out of cocoons because I cannot begin reeling them.

Estimated Costs of Establishing a Reeling Unit

As Maggie arrived back at her office, she sat back in her chair and sipped on her favorite Nepali chia, a hyper-sweet concoction of milk, tea leaves, and three teaspoons of sugar. She picked up another fax transmission from the Korean Sericulture Company, the builders of Khopasi's reeling unit. This fax, like the others, told Maggie that pricing information on the unit of interest was not available because the equipment was too old to find records. Although she had tried several different tactics to obtain the reeling unit's cost, Maggie had not been successful. On one hand, she understood that the Korean company might not want to divulge the information because that might represent a breach of client confidence or conflict with company interests. On the other hand, Maggie could not understand why Khopasi and the Ministry of Agriculture could not or would not—provide her the information. After all, everyone at HMG knew that she was interested in

Exhibit 5 **ARTICLE TAKEN FROM THE HINDU** May 20, 1993

(All prices are in Indian Rupees.)

Sericulture farmers in a fix

From Our Staff Reporter SALEM, May 19 About 1.5 lakh farmers engaged in sericulture in the State remain shell-shocked over the crash in the price of cocoms over the past few months. The price in the 20 scoon

The price of cocous over the part few months. The price in the 20 cocoon markets in Tamil Machu which was ruling Rs. 70 a kg in January 1991 shot up to Rs. 174 during the corresponding period the next year. During the first weak of this month it slumped to tis lowest in the past few years --Rs. 60. Correspondingly, the price of basin silk had its ups and downs. In January 1991, one kg of basin silk was quoted at Rs. 847. During the same pariod the next year, it skyrocketed to Rs. 1,829 and since March this year it was hovering between Rs. 754 and Rs. 790. it was 1 Rs. 790.

Re. 790. The farmers are so much frustrated that a number of them have threatened to switch over from mulberry to other crops which would be more remunerative. They gave vent to their despair by gheraoing the field staff of the department of sericulture last week at the local coccon market, which is one of the biggest in the State.

which is one of the bigget in the State. Nowever, Mr. K. Shanmugham, Director of Sericulture, says there is no need to panic as the Centre has assured to initiate immediate remedial measures. "This is a countrywide phenomenon at present." Almost 50 par cent of the national production, Andhra Predesh and West Bengal are the other major producers followed by Tamil Nadu produced about 10 par cent. As against the requirement of 1,500 tonnes of silk in the State, Tamil Nadu produced about 1,200 tonnes and the rest was bought from Karnataka. Quite remenerative: The mulberry area in Tamil Nadu is 70,000 occoss are produced par acres. The met profit per acre could be between Rs. 5,000 and Rs. 10,000 depending upon the quality of coccoms. Even at Rs. 45 to Rs. 50 per kg of coccom, it second year onwards as only the first year which requires considerable investment. If the price rules between

Rs 80 and Rs. 120, it is quite resumerative.

Re 80 and Rs. 120, it is quite remunerative. Mr. Shanmugham pointed out that there was an absorval increase in January 1992. While the price of coccoms rose by virtually 1509 per cent, a similar steep rise was reflected in raw silk also. Then the weavers who were unable to put up with the sever increase started demanding import of silk. Once the Central Government decided to import raw silk, the price crashed in the domestic market. 'After January 1992, the prices of coccons and silk had a tailspin and they never looked up. The prices of silk which was ruling at Rs. 1,829 per kg in January 1992 crashed to Rs. 1,200 in just a month. Tapact of libertlisation: Asked about the reasons for such a crash, Mr. Shanmugham said while the import started, the production of silk in the country had also increased by 20 per cent. Besides the government took policy decisions like allowing import of raw silk for 20 per cent of the value of their exports under REP which later on became schame was introduced according to which for every kilogram silk actrials exported. This was duty free too. 'The superties like the Kanchipuram variety which required only coarse deriver silk, the exporters were able import for the value silk could be imported. This was duty free too. 'The superties like the Kanchipuram variety which required only coarse deriver silk, the exporters were able import for wareptitiously entered the domestic market, though there is a specific rule that such imports were meant only for value addition and re-export. The suspicton is that a considerable portion of this imported silk is being used for ware which has one-third of the total raw material component. 'This we balive has substantially influenced the market.' Besides the Government removed silk from the restricted list and under the open general licents and under the open general licents and under the open general licents (OIL) import of raw silk was permitted on payment of 30 per cent duty.' Above all there is a suspicton that raw silk is being muggied into the

Nepal. All these have glutted the market."

Asked about the proposed measures, the Director said the Central Government had already assured the sericulture States that stringent action would be taken against smuggling. Besides when the State demanded that the import of silk be monitored, the Centre had promised that it would introduce preshipment inspection to check whether the guality of silk items exported was commensurate with that of the raw silk immorted. imported.

commensurate with that of the raw silk imported. Mr. Sharmaupham said that Tamil Nadu had specifically urged the Centre to extend a price stabilisation assistance, under which some agency would be provided sufficient funds to enter the market.. Worst is over: Asked whether the present situation would have any advarse effect on sericulture projects in the State, Mr. Sharmaupham said he was confident that the worst was over. 'Prices have regained upward trend.' In the Rasmagar market in Karnataka, the price of coccons last week was between Rs. 90 and Rs. 100 per kg. In Tamil Nadu also it increased to Rs. 90. Thought the subserry crops, they have not done so because of this trend. Besides as the rainy season from June, prices would because of this trend. Besides as the rainy season from June, prices would further improve. The Directorate has also decided to complete only the remainder of the target of 12,000 hectares spread over four years envisaged under the national sericulture project instead of launching further expansion programmes. "Thus this year we will expand the mulberry area by only 2,200 hectares and will concentrate more on productivity and quality." the Director said.

NO	DESCRIPTION	YEAR MF'D	POWER	CAPACITY
I	Hot Air Cocoon Drying Machine MODEL HJ-CD-3 (Cabinet Type	1983 e)	30, 7.5 Hp	Fresh Cocoon: 500kg/day
2	Cocoon Cooking Machine MODEL HJ-SUS-33	1977	30, 1Hp	Dried Cocoon: 210kg/day (Basket: 33 pcs.)
3	Multi-ends Silk Reeling Machine (6 Basins, 120 Ends)	1983	30, 3Hp	Raw Silk (21D): 4.8–7.2 kg/shift
4	Vacuum Treating Machine	1983	30, 0.5Hp	Raw Silk (21D): 750 kg/day (2,000 small reels)
5	Silk Re-reeling Machine (40 large reels)	1977	30, 3.5Hp	I Large Reel: 30 Skeins/day
6	Silk Booking Machine	1981	30, 0.5Hp	200 Books/8hrs (20 Skeins/Book)
7	Cocoon Floss Remover	1982	30, 0.3Hp	Fresh Cocoon: 300-350kg/hr
8	Testing Equipment: Seriplane Machine	1977		
	Dernier Meter Dernier Scale	1973 1973		

obtaining the reeling unit; would not it be in their best interest to give her the original price so that she could make a fair offer for it? Many, including Mr. Kafle and the Minister who had angered her so much in the day's meeting, repeatedly told her that they did not have any figures. Maggie wondered, could this be true? Or, did they simply wish not to give her the prices? In other words, had HMG truly lost important documentation, or were they merely trying to mislead her into making an overgenerous offer?

Essleibie 4

Maggie felt her temperature begin to rise as she pondered this point over her chia. After five months of diligently gathering information, she still came up empty handed. In fact, she would have had absolutely no idea what a reeling unit might cost if she had not requested a quotation for a similar unit from a company in India (Exhibit 7). Still, she had very little idea what to offer HMG.

To clear her head, Maggie took a short walk around the Jawalakhel Distillery complex. In the distillery, she looked around at the capital equipment she had bought over the years to maintain and expand the distillery. How much easier it was to purchase equipment from the private sector! People were actually *eager* to sell something. Perhaps she should look into buying new reeling unit equipment, she thought, from India or Korea. After all, purchased new equipment would be delivered on time and with a warranty, and that would certainly eliminate the problem of meeting the March deadline. In addition, the relatively low reeling equipment price would not make much difference to her overall cost structure.

Inspired by her new option, she headed back to her office to evaluate the numbers for purchased equipment. As she walked across the complex, Maggie spied Duanne Poppe from Lutheran World Service wheeling his scooter through Jawalakhel's large main gate. He had obviously been on the road for quite a while, for there was a thick layer of dust covering him from head to toe...

"Got caught behind a Momo wagon," he said.²²

"Yeah? You look and smell like it," Maggie cracked. She invited him back to her office for a cup of chia and told him about the ongoing saga of Khopasi's reeling unit.

QU(SILk	bit 7 OTATION PROVIDED FOR INDIAN-MANUFACTUR (REELING EQUIPMENT	RED		
MECH C-16,	Estd. 1957 A Registered Small Scale Indu Approved Suppliers of Stores to Central QUOTATION	usiny & State Govis. Mrs. Maggie Sha M/a Surva Sill	ahi	
INDIA Your	Enguiry No	P.O.Box 423, KATHAMANDU - M	PAL	
Our	Ref. No. 162-5(SRT) 90-91 Dt 12-5-1990	<u> </u>	P	rice
S1.	NAME AND SHE CIFICATION OF THE	(F.(QTY.	D .R.	BANGALC: E) AMOUNT
1.	MULTIEND SILK REELING MACHINE :		1	NDIAN RUPEES
	4 basins of 10 ends each, double dock type two basins on either side, with Nylon reeli reek, having individual reel stop motion, reels of standard size, 40 reels on the basin and 40 spare reels (total 80 reels) jetteboutte feeding system with necessary fittings, steam and cold water connections, drying pipe to dry the Silk while reeling, fitted in two rows near the reels, electric drive arrangement with 1 HP motor and speed reduction arrangement mounted on MS Frame with provision for 3 variable speeds. Stainless steel reeling basin with 3 compartments, planatary system distribution. All Mylon gears (as per specification approved by C.S.T.R.I.)	a Unit of 4 basins double deck	ß.	1,29,360.00
2.	COCCON COCKING UNIT: 3 Pan System Open Pan type, with steam and cold water connections, with copper cooking vessels provided with perforated covers.	Ong Unit	₿s.	9,480.00
3.	RE-REELING MACHINE: 4 Window capacity of double deck type, two windows on either side, with motor driv arrangement with 1 HP motor and drying pipe in three rows for drying silk while reeling	I 9 I One Unit 9, I of 4 1. I windows.	₿.	28,920.00
	-		-	

Ex	hibit 7 (continued)				
Q SI	UOTATION PROVIDED FOLL REELING EQUIPMENT	OR INDIAN-MANUFACT	URED		
Ļ	11Tex	Estd. 1957 A Registered Small Scale Approved Suppliers of Stores to Cen QUOTATION	Industry tral & State Govis. N		
MEC C-1 RAJ IND You	CHANICAL & CIVIL ENGINEERS 8, INDUSTRIAL ESTATE IAJINAGAR, BANGALORE-560 044. 14 14 15 17 Enquiry No	Dt 27-4-1990 Dt 12-5-1990	Mrs. Ma M/s. Su P.O.Box KATHAMAN	ggie S rya Si 423, NDU -	Shah lks NEPAL.
TE	STING AND OTHER ACCESSO	RES		(1	Price .O.R. BANGALO INDIAN RUPEES
1.	Denier Scale		One	Rs.	1,475.
2.	Epprouvette		One	Rs.	1,520.
3.	Silk Examination Stand teak wood.	made of	One	₨₊	760.
4.	Skeining Machine with	tubes	One set	Rs.	560.
5.	Bundling Press		One	Rs.₀	1,710.
6.	COCCON HOT AIR IRIER ((STIFLER)			
	With circulating Fan, Trays for keeping Cocc electrical load of 6.5	24 Nos. G.I. oons, with a 5 Kw.	One	₿s₀	45,360.
	Capacity: 80 to 100 Kg Duration 60	s. of Coccons to 80 minutes			

"I know," he said, "Kafle was telling me about it while I was there this morning. I was trying to get Khopasi to reel cocoons for us as a contractor this season. West Bengal (India) buyers have shown a lot of interest in our cocoons and want us to sell reeled silk to them directly from the Ilam project. Kafle told me that he would look into it, but he said that even if Lutheran World Service made an agreement with him, it wouldn't last for long because you will be taking over the reeling unit soon."

"What?!"

"That's what I said, too. I thought that you were still working on your proposal, Maggie, but Kafle was almost boastful about how interested you were in the unit and that you were making very generous offers to him." Then, Duanne said more delicately, "I actually came to see you to find out how much baksheesh²³ you were going to give Kafle. We at LWS had sort of an informal betting pool going; we figured that you would offer about I lakh.²⁴

Exhibit 6

LIST	OF	KO	REAN	SERICULT	URE	CO.	MACHINER

Provided by the Government of South Korea

		YEAR		
NO	DESCRIPTION	MF'D	POWER	CAPACITY
I	Hot Air Cocoon Drying Machine MODEL HJ-CD-3 (Cabinet Type)	1983	30, 7.5 Hp	Fresh Cocoon: 500kg/day
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8	Testing Equipment:			
	Seriplane Machine	1977		
	Dernier Meter	1973		
	Dernier Scale	1973		

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"Got caught behind a Momo wagon," he said.²²

"Yeah? You look and smell like it," Maggie cracked. She invited him back to her office for a cup of chia and told him about the ongoing saga of Khopasi's reeling unit. Maggie was dumbfounded by this comment. She could not believe that this would be such an informal subject of conversation. Moreover, she was absolutely furious that all parties involved in this situation actually expected her to give individual HMG officials money to take over their reeling unit.

Sensing her anger, Duanne went on to say, "Come on, Maggie, you knew that this was going to come up one time or another. Kafle is fully expecting some sort of contribution for his efforts to give you the unit, and it's not going to be less than about a lakh. After 22 years here, you know the way things work."

This was true, Maggie knew how certain gifts were necessary to get things done, but to hear another person put such a flagrant act into such casual terms truly infuriated her.

After another cup of tea and some frank conversation about the reeling unit and Khopasi, Duanne departed and left Maggie alone with her anger. She pulled out the cost estimates she had been working on for the past three months (Exhibit 8). She wondered if Surya Silks could ever make any money running a reeling unit. In addition to the costs of supplementary equipment, land, and raw materials, Maggie kept turning over all

Exhibit 8

COST ESTIMATES FOR ESTABLISHING REELING UNIT

all costs in Nepali Rupees (NRs.)

CATEGORY	COST	REMARKS
LAND* BUILDING*	135,000 4,962,743	I acre (.404 hectares) is allotted to reeling unit building current estimate made by MP Dabadi & Associates Engineers
EQUIPMENT Reeling/Twisting Unit Generator Boiler Equipment Maintenance (annual cost) Total Equipment Cost	0 400,000 155,000 138,750 693,750	pricing on IEP equipment not available Korean Steel Products Model HV-10 (1 ton of steam/hr) Kohler 40k VA assume 25% of total equipment cost
RAW MATERIAL (Annual Cost)**	2,700,000	250 days per work year in Nepal
DIRECT LABOR (Annual Cost) Reeling Manager Cocoon Cooking Manager 6 Reelers 2 Material Handlers/Gophers Total Direct Labor	45,500 45,500 8,750 6,250 106,000	
UTILITIES (Annual Cost) Fuel for Boiler	210,000	diesel price is Rs. 10.5/liter, boiler uses 80 to 90 liters/ day
Fuel for Generator Total Utilities	35,700 245,700	generator uses 143 liters/day
ONE-TIME RELOCATION COST Moving Charges Piping, electrical, and hardware Total Relocation Cost	300,000 250,000 550,000	estimated estimated
SALES AND ADMINISTRATION (Annual Cost) Sales & Expenses Administration Total Sales and Administration	24,000 24,000	assume 10% of gross sales
*land and buildings appreciate by 10% per year o	n average in Ch	itwan District

of these hidden costs that seemed to make the whole project completely unprofitable.

She looked up one more time at the Ganesh range and realized from the orange glow on the western sides of the mountains that the hour was getting late. She decided to call it a day before any more bad news came her way.

But getting home to her family in the evening did not make the problem go away. Maggie felt a deeper urgency than ever before to decide immediately what actions to take with the reeling unit. After a good meal of dal bhat,²⁵ she pulled out her pencil and paper and began to play "what if?" She decided to examine systematically the following questions:

- I. Would it be profitable to take over the Khopasi reeling unit from the government?
- 2. If so, what price should be offered? Should Surya lease the reeling unit instead?
- 3. Was it more advantageous to purchase the reeling unit from India?
- 4. Given the analysis above, should Surya Silks (Pvt.) Ltd. expand its operations to include silk reeling in Nepal?

Notes

¹This case was written by David White of Case Western Reserve University. It is intended as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

 ^2A tempo is a noisy, three-wheeled taxicab that resembles a golf cart with a hard back seat and a black canvas roof. Some people humorously claim that these vehicles were designed to maximize the amount of road dirt that blows inside.

 3 I hectare = 2.5 acres.

⁴The Agro-Enterprises Seminar was held in December of 1989 by the Federation of Nepalese Chambers of Commerce and Industry and the U.S. Agency for International Development. These organizations frequently sponsored events to promote economic development in Nepal. The seminar was held in part to promote sericulture as an income-generating occupation for impoverished farmers.

⁵The average annual earnings in Nepal was US\$170, among the poorest in the world. Farmers outside of the Kathmandu valley often made even less because they operated on a purely subsistence level, making enough food for their family to eat, plus a little extra to trade for other necessities.

⁶Currently, Nepal had an electricity load sharing program. The entire country experienced electrical shutdowns from 5:00 to 9:00 am and from 5:00 to 9:00 pm on alternate days. Current prices for water were .09 Nepali Rupees (NRs.) per liter—roughly 1/2 penny per gallon.

⁷Provided, of course, His Majesty's Government continued its policy of allowing water to be drawn directly from rivers free of cost.

⁸Silk fabric that is woven directly from undyed silk yarn is called gray fabric. Before weaving, the sericin coating on the silk fibers is removed by a degumming process, allowing the shining fibrion portion to show through. Gray fabric has an off-white color and is typically used for silk screened and fabric dyed products. In the fashion industry, it is not unusual for designer houses to purchase low-cost gray fabric, then dye or silk screen it to create premium scarves and garments.

⁹Dernier is the term used to define the weight and thickness of silk thread. If 9000 meters of silk weighs one kilogram, it is called single dernier silk. Similarly, if the same length of silk thread weighs 20 kilos, it is 20 dernier thread. Warp is the threads of fabric that run along its length, weft runs across the fabric. When producing silk fabric using different derniers on the warp and weft, it is extremely important to weave the fabric tightly. Otherwise, it will tend to fray easily.

¹⁰NRs.50 = US\$1. Nepali employees received salaries for thirteen months every year. One additional month's bonus was given during September—October's Dashain holiday, the most auspicious and joyous time of the year. Dashain was celebrated by innumerable puja (ritual ceremonies), holy bathing in the Bagmati River, and countless animal sacrifices to celebrate the ultimate victory of the Great Mother Goddess's victory over the various forces of Evil.

¹¹The average land holding per person in China was less than .5 hectares. In some of Western China's counties, local governments imposed levies on individuals who did not effectively cultivate their land. Moreover, because of poor infrastructure in Western China, it was difficult to import foodstuffs to the area. All of this means that, within the next few years, if a new mulberry garden is started, someone will no longer eat locally grown rice that evening.

¹²For 100 years leading up to the revolution of 1950, Nepal existed as a medieval-style autocracy ruled by the hereditary Rana Prime Minister Dynasty. All products and money generated by the agro-based economy contributed directly to the Rana family's wealth, while the general public was relegated to producing subsistence farm products for themselves. In order to further protect their absolute control, the Ranas kept the country isolated from most of the outside world. It was not until the populist revolution of 1947 in India that

the people of Nepal, spurred by their own King Tribhuvan, began to show resentment toward the suppressive Ranas.

¹³The Ilam District is on the far-Eastern Border of Nepal directly across from India's Darjeeling District. Although Darjeeling developed a tremendous tea industry during Britain's occupation of India, Ilam developed no significant industry because of the Rana government's isolationist policy. The district remained underdeveloped and impoverished and thus, ideal for a cash crop development project supported by Lutheran World Service.

¹⁴Khopasi's level of funding from the South Korean government was based upon performance of Nepal's sericulture industry, (i.e., tons of cocoons produced).

¹⁵Information reported by Neal Cohen, "Lessons Learned about Development in Nepal," Washington, D.C.: USAID, March 28, 1991.

¹⁶Agro-enterprises, cottage industries, handicrafts, and strategic crops were some of the industries exempt from income taxation for the first seven years of their existence.

¹⁷In addition to multilateral agencies such as the Asian Development Bank (ADB), United Nations Development Program (UNDP), and the World Bank, Nepal received bilateral aid from Australia, Britain, Canada, China, Finland, France, Germany, India, Italy, Japan, the Republic of Korea, Sweden, and the United States. ¹⁸Actually, Mr. Kafle never enlightened Mrs. Shah on Khopasi's entire budget. Only the budget for the reeling unit was provided during a conversation about privatizing it.

¹⁹Although funding from the Republic of Korea was based on industry growth, the Ministry of Agriculture was responsible for budgeting funds for the Khopasi SDP.

 20 I.602 Nepali Rupees (Rs.) = I Indian Rupee (IC), while 50 Nepali Rupees (Rs.) = US\$1. Ten kilograms (10 kg) of fresh cocoons produce one kilogram (1 kg) of reeled silk.

²¹The Russian cocoon price was actually a result of the economic conditions that Russian farmers faced in early 1992. Because of the hyper-inflation of the ruble, Russian farmers were eager to earn any type of stable foreign currency, especially the U.S. dollar.

²²Trucks loaded with water buffaloes headed for slaughter in Kathmandu are called Momo wagons. The buffalo meat is primarily used as a filling for a popular local snack food called Momos, rice dough pockets of meat, chicken or vegetables.

²³Baksheesh is actually an Arabic word for "gift" that has been adopted by Hindus of India and Nepal. It is generally associated with sizable and subtle donations made to officials who help accomplish certain delicate jobs more easily.

 24 I lakh = Rs. 100,000

²⁵Dal bhat is Nepal's staple food. It consists of white rice covered with a lentil soup and served with potatoes and vegetables in curry seasonings.