



## Development of Micro-enterprises in Mountain Areas

### The Context

Mountain economies have remained predominantly self-contained in the past with most of the needs being met internally and only a limited external input. Over the years, this self sufficiency or containment has been breaking down owing to two reasons. First, with rapidly growing populations, traditional agricultural systems are proving increasingly inadequate to meet basic needs, leading to compulsions to extend cultivation on to marginal and forest lands, resulting in environmental degradation. Second, improvements in access to other areas and an increased flow of information have exposed the mountain people to the higher and different standards of living elsewhere, resulting in raised aspirations.

*Rapid population growth and raised aspirations created an imperative for finding alternative employment and income-generating opportunities.*

This situation has necessitated changes in economic activities of mountain areas from predominantly food-centred subsistence activities to others that are based on comparative advantages and which use limited land resources more efficiently. As agriculture will continue to be the main activity in most mountain areas, the first step lies in promoting those high-value activities

that are also environmentally sound. The emphasis should be on those products and activities that have special advantages in mountain areas in terms of resource endowments and skills and which can also improve the livelihoods of mountain families.

### Past Findings: Rural Non-farm Activities

Considerable work, in terms of studies and programmes, has been undertaken on the subject of non-farm enterprises in the rural and backward areas in different countries in the region, though not specifically in the context of mountain areas. Research work, both by individuals and institutions, has been carried out on the subject under differently designated themes such as 'rural industrialisation', 'off-farm sector', 'non-farm sector', 'cottage and small-scale industries', 'agroprocessing activities', and 'informal sector'. Reviews and evaluations of programmes run by governments for the promotion of rural industries and micro-enterprises have also been carried out. (See box for some important conclusions.)

*Mountain areas should focus on those products and activities that use scarce land resources efficiently and are less land intensive, maximise the use of abundant labour resources, are environmentally friendly, are in great demand in the plains (off-season), optimise the use of available environmental resources such as micro-climatic variations, etc.*

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Comments are Welcome.

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### **Some Important Findings (based on work by different agencies)**

- A minimum level of agricultural development is a necessary, though not sufficient, condition for development of non-agricultural enterprises in predominantly agricultural areas.
  - Enterprises engaged in traditional product lines have languished due to competition from urban products and also due to lack of technological improvement, including use of power, to bring products up to the standards needed to meet changing demands.
  - Enterprises in non-traditional product lines, linked with modern agriculture, have done well.
  - In some cases, product lines specialising in traditional skills (such as handicrafts) have progressed, but, due to the prevailing marketing arrangements, the benefits have mostly gone to the traders and middlemen and not to the rural producers.
  - Programmes for development of rural enterprises have not proved very effective due to the lack of a 'package' approach in providing various inputs and services (e.g., credit, training, and marketing support) and due also to the absence of linkages with other sectoral and infrastructural development programmes.
  - Off-farm work tends to bring more benefit to those groups with limited or no assets of their own and when effective is an important mechanism for redistributing incomes.
  - Off-farm work when effectively directed to the poor is also a very efficient use of scarce capital resources.
  - Major hurdles for rapid expansion in off-farm work for the poorer sections have been existing laws and regulations and administrative bottlenecks that limit the access of the poor to information credit, trading, and markets.
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### **ICIMOD's Initiatives**

To identify viable off-farm alternatives and promote practical approaches to employment generation, income enhancement, and sustainability of mountain development, ICIMOD carried out a series of studies in the mountain regions of China, Pakistan, and Nepal from 1990 to 1992. These studies revealed additional dimensions that needed to be taken into account in the development of off-farm activities, particularly in mountain areas (see box on the following page).

### **Proposed Thrust on Mountain-enterprises**

ICIMOD's new programme on Micro-enterprise Development in Mountain Areas aims to identify the opportunities for and constraints to developing micro-enterprises with a view to devising appropriate policy and programme packages; programmes for technological improvement, including use of different types of energy; and training programmes for the development of technical and entrepreneurial skills. Enterprise development will be approached in an integrated manner, keeping in mind the following aspects:

- scale of activities in the area,
- linkages with other activities, e.g., agriculture and allied activities as sources of raw materials and outputs,
- infrastructure - general as well as specific to the activity,
- skill availability and need for improvement,
- technology, including the possibility of improvements in order to raise productivity,
- energy flow and use patterns,
- access to services and inputs, particularly credit,
- marketing, including access to market towns,
- government policies and programmes, specifically for the promotion of micro-enterprises in mountain areas,
- environmental implications of enterprises in different activity sectors, and
- the role of women as participants and entrepreneurs in micro-enterprises

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## **Off-Farm Employment in Mountain Areas: Findings from ICIMOD's Past Work**

- Availability of food at affordable prices is a necessary condition for diversification from food-centred subsistence production to enterprise-based commercial production.
- A focus on non-traditional agriculture, including horticulture and off-farm activities related to agriculture, is needed.
- Mountain-specific resources available in the mountain environment should be used.
- Development of transport infrastructure is obviously necessary, but the level and type of road and non-road transport need to be related to the type of economic activity and its development stage.
- Institutional infrastructure in the form of organisations providing inputs, technology, basic support services, and marketing is very important.
- Energy (non fuelwood-based) is an important input for facilitating production and for raising the productivity of enterprises and, at the same time, alleviating fuelwood-related environmental degradation.
- Lack of access to markets is a major reason for the present low level of development and limited profits of mountain enterprise products. Here, the role of modern communication facilities, along with support institutions and extension agents, could be very significant.
- Development of small towns and market towns with adequate infrastructure, and with a specific focus on their role, would prove an effective mechanism for development of mountain enterprises.
- Locally-evolved institutions and organisations of entrepreneurs and producers can play an important role in mitigating the various disadvantages of micro-enterprise production.
- A shift from traditional, subsistence-based agricultural or non-agricultural production for local markets to enterprise-based production for a wider market needs human resource development, in general, and training for technical and entrepreneurial skills, in particular, for successful enterprise development.
- There is a strong relationship between off-farm work and women's activities in mountain areas.
- Policies should recognise mountain enterprises as a crucial mechanism for diversifying economies and raising income levels and should try to build appropriate linkages between farm and off-farm activities; develop infrastructure and services; and support their development through fiscal credit and extension measures.

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As an initial step, ICIMOD will be undertaking studies in the mountain areas of the HKH Region relating to the topics listed below to develop a closer understanding of the nature and status of micro-enterprises.

- Enterprises of all types in a selected area
- Enterprises in a selected, important activity
- Specific aspects such as credit, marketing, technology, energy use, and training
- Policies and programmes relating to micro-enterprises with a specific focus on their relevance for mountain areas

### **Future Research Issues**

Substantial work has already been carried out on the problems of development of the non-farm sector in rural areas and, to a certain extent, in mountain regions. Therefore, the thrust of further studies should be on enterprises, the process of their origin and growth, and the constraints they face as individual micro-enterprises, with a view to devising appropriate policy, programme, and training packages. Some important aspects requiring focus are given below.

#### *Characteristics and Types of Mountain Micro-enterprises and Their Products*

Information on the types of mountain enterprise products and their various characteristics is generally lacking. Therefore, documentation of this information for the HKH Region will in itself be a good starting point for further research and analysis for policy and programme formulation. It would be useful to examine the characteristics of the enterprises and entrepreneurs

in this perspective, on the basis of micro-level case studies, as a background for evolving programmes and training packages.

#### *Women Entrepreneurs*

Studies need to be undertaken to especially assess the role and status of women, the nature of enterprises run by them, and the special problems they face, in order to devise ways of facilitating their development as successful entrepreneurs. A review of programmes particularly meant for women entrepreneurs would also be a useful undertaking.

#### *Factors in Development of Mountain Enterprises*

Micro-enterprises face problems everywhere because of limitations in size and lack of resources. What are these problems specifically in the mountain areas? How do mountain entrepreneurs cope with these problems in order to succeed? Are appropriate mechanisms evolved by themselves or others? These aspects will form the central components of the studies, along with a detailed account of successful cases and failed attempts.

#### *Policies and Programmes for Micro-enterprise Development in Mountain Areas*

Studies undertaken should closely review the performance and effectiveness of the existing policies and programmes, particularly in respect to appropriateness and relative effectiveness of various alternatives and their combinations - infrastructure to improve access, human resource development through training, provision of appropriate forms of energy to improve production and productivity, dissemination of technological and marketing information through demonstration and extension, access to institutional credit with or without subsidised rates of interest, tax incentives, and marketing support and marketing organisations.

#### **Contact:**

*Dr. T. S. Papola*  
Mountain Enterprises and  
Infrastructure Division  
e-mail: [papola@icimod.org.np](mailto:papola@icimod.org.np)

Established in 1983, ICIMOD is dedicated to the cause of environmental conservation and poverty alleviation in the Hindu Kush-Himalayan range of Afghanistan, Bangladesh, Bhutan, China, India, Myanmar, Nepal, and Pakistan. ICIMOD is a focal point for documentation and information exchange, training, applied research, and demonstration on a wide range of issues affecting mountain peoples.

ICIMOD, P.O Box, 3226 Kathmandu

Tel. (977-1)-525-313, or Fax (977-1)-524509, (977-1)-524317

e-mail: [dits@icimod.org.np](mailto:dits@icimod.org.np)

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