

Introduction

1.1 The Context

Mountain economies are mostly based on agriculture. Diversification of farm activities into high-value commercial crops and processing of agricultural produce and other natural resource-based materials are, therefore, the most logical steps towards improving the economic levels of mountain people. Mountain areas are endowed with certain specific resources not found in the plains. Certain agro-forest species are found at high altitudes under specific climatic conditions. The diverse agro-ecological conditions prevailing in the mountains form niches for horticulture, floriculture, spice cultivation, and medicinal plants (Partap 1995). These crops can be grown in the mountains with a comparative advantage and without competition from products produced in the plains. A variety of commodities is produced and resources found in mountain areas. They are based on either opportunities provided by nature or based on the availability of traditional skills among local people. Some skills are traditional, carried over from generation to generation, while others have emerged in response to new demands or knowledge about resource use and technologies.

It is now being realised that, in order to increase the income from use of the limited resource base in mountain areas, any activity, be it agricultural or non-agricultural, should be enterprise oriented. Production, distribution, or service should be for the market. A shift from subsistence to commercial production requires infrastructural facilities, market access, and institutional support. Marketing is an essential link to the growth and development of micro-enterprises. As marketing linkages are strengthened, local and national demands can induce the development of micro-enterprises. Some mountain areas are undergoing this transformation through enterprise-based development of commodities and services, whereas others have stagnated. The improvement or decline in local economies can be ascribed to many factors, but their resource base, specificity of location, and accessibility are seen to be the most important reasons.

Studies of micro-enterprises operating in specific mountain areas are, therefore, of special interest for a better understanding of the factors and processes in their growth, stagnation, or decline. Such an understanding should be found useful in formulating programmes and policies for the development of micro-enterprises in mountain regions.

It is in this context that this study was undertaken in two districts of Nepal, namely, Ilam and Bhojpur. Both districts have some common and distinct characteristics and are at different levels of development. Ilam is located in the eastern-most part of Nepal, in proximity to the Indian border town of Darjeeling while Bhojpur is located further in and away from any main market centre. Ilam has a good network of roads. Most of the villages in Ilam are linked by motorable road. In contrast, Bhojpur has little physical infrastructure. Ilam has come into prominence because of successful experiences in high-value commercial crops, whereas Bhojpur has a long tradition of metal crafts, an activity based on traditional skills. Accordingly, Ilam exemplifies a successful case in commercial crop production and Bhojpur has a predominantly subsist-

ence agriculture and is facing stagnation in one of its main traditional activities, namely, metal crafts.

1.1.1 Objectives of the Study

The present study aims to portray the structure and growth patterns of micro-enterprises in an area-specific context of the two districts, with a view to identifying the processes in and factors of their growth. It attempts to analyse the present position, growth, and prospects of enterprises in a comparative framework, in terms of both products and location.

Categories of enterprises covered in the study include:

- land-based enterprises,
- skill-based enterprises,
- enterprises created in response to local demand,
- enterprises based on local resources,
- enterprises using external resources and local skills,
- enterprises run by households,
- enterprises run by non-households,
- enterprises inherited from one generation to another, and
- newly-introduced enterprises.

On the basis of a historical comparative analysis, the study attempts to identify the strengths, problems, and constraints of micro-enterprises.

1.1.2 Methodology

Selection of the Study Area

Ilam and Bhojpur districts were purposively selected with a view to providing a comparative framework for the study. Ilam is one of the most transformed hill districts of Nepal (Koirala 1992) and is recognised as a successful example of economic transformation through the development of commercial crops. Bhojpur, on the other hand, has a long tradition of metal crafts, and this is currently losing ground. Ilam and Bhojpur are at different stages of development. Ilam is linked by road while Bhojpur is inaccessible by road. Ilam is located in proximity to the Indian market, whereas Bhojpur is located in the interior/hinterland.

Sample Frame

A significant number of micro-enterprises operates in the study area. A majority of micro-enterprises are registered with the district office of the Cottage and Small Industries' Development Committee (CSIDC). Enterprises prefer registration in order to receive the facilities and incentives provided by the government, but some enterprises operate without being registered. A list of micro-enterprises (MEs) obtained from the district offices of CSIDC constituted the formal segment i.e., registered, and those enterprises operating without being registered with CSIDC, i.e., constituted the informal segment. A sample of 88 MEs from the formal and 12 MEs from the informal segment was selected for the survey. The MEs were drawn from 13 product categories. Some products are common in both districts while a few are unique and

produced in one district only. Fifty-eight ME units were selected from Ilam and 42 units from Bhojpur. The details are presented in Table 1.

Table 1: Sample Survey of Enterprises

Types of Micro-enterprises	Districts				Total
	Ilam		Bhojpur		
	Rural	Urban	Rural	Urban	
Rice Mills	10	-	5	2	17
Nepali Paper (<i>Lokta</i>)	1	3	6	-	10
Hosiery	2	1	3	2	8
Garments	11	-	-	3	14
Wooden Furniture	4	-	-	2	6
Bamboo Furniture	-	-	3	-	3
Handloom products	6	-	-	7	13
Brooms	2	3	-	-	5
Tea Processing and Packaging	-	3	-	-	3
Dairy	2	3	-	-	5
Metal Crafts	-	-	-	10	10
Sericulture	3	-	-	-	3
Rabbit Farming	3	-	-	-	3
Total	44	13	17	26	100

Source; Field survey 1986

Data Collection

In order to address the study objectives, a combination of primary and secondary information was used. Secondary information was obtained from the Cottage and Small Industries' Development Committee, the District Development Committee, Village Development Committee, and Municipalities, including the studies carried out by the Asian Development Bank, Frederick Naumann Foundation, the World Bank, and the USAID and reference materials related to the Micro-enterprises in Nepal, South Asia, East Asia, and the Latin American countries.

Enterprise-level interviews were carried out in order to learn from the MEs first hand how they operate in practice, what are the constraints for enterprise operation, their expansion plans, and other issues relevant to enterprise development. All interviews used semi-structured questionnaires. Interviews were held on a broad spectrum of activities that were being conducted on a micro-enterprise level. The survey focussed on a variety of products, including those with a possible comparative advantage, for which entry was possible on a small-scale and which had the potential for expansion. This approach facilitated the acquisition of a reasonably in-depth understanding of the context in which the MEs operate.

Semi-structured Questionnaires

Primary data was generated through semi-structured questionnaires. The perceptions of the entrepreneurs involved in a broad spectrum of activities and producing a variety of products and services were helpful in identifying specific issues and problems related to the management and performance of micro-enterprises.

Discussions

Group discussions were carried out with DDC Chairmen, VDC Chairmen, Municipality Mayors, academicians, and community leaders to elicit information relating to the operation of micro-enterprises, their potential and prospects for expansion, and the obstacles to their development.

Case Study

Case studies on the success and failure of activities were helpful in order to understand the factors that contributed to the success of a specific product in a specific location as well as to explore the possibility of replicating the success model in other areas or reasons for failure.

Organization of the Report

The report has eight chapters. Chapter One gives the background of the study and describes the methodology adopted to generate the data. Chapter Two describes the study area, resource endowments, and the categories of micro-enterprises operating in the area. It also deals with the socioeconomic picture of the study area. Chapter Three gives the various products of the micro-enterprises and presents the cases of success and failure. Profiles of entrepreneurs, structures of enterprises, and functioning of enterprises are presented in Chapters Four, Five and Six. Growth, expansion plans, and problems are presented in Chapter Seven. A summary of the study conclusions arrived at are given in Chapter Eight.