

Structure of Enterprises

5.1 Nature and Location of Enterprises

All micro-enterprises in the sample had been established on a sole ownership basis, i.e., the enterprise was family-owned and family run. Some entrepreneurs use family labour for the entire production and distribution process, but the greater proportion use family members only for managerial inputs, and outside labour is contracted for manual work.

Seventy-two of the 100 enterprises function within the residential premises of the family. The remaining 28 enterprises operate on separate rented premises (Table 19). Products run in independent premises include Nepali paper, bamboo furniture, dairy farming, and wooden furniture. Of these, paper and dairy enterprises are relatively larger than other enterprises, employing on an average more than 10 workers each. The production of paper in any case requires more space, and this is not generally available on the household premises and has, therefore, to be located outside the residential area.

Table 19: Location of Micro-enterprises

Type of Enterprise	In House	Separate Location		Total
		Rented	Owned	
Rice Mills	17			17
Garments	10	4		14
Handloom Products	10	3		13
Nepali Paper		10		10
Hosiery	8			8
Wooden Furniture	3	3		6
Bamboo Furniture		3		3
Dairy Farming	2	3		5
Rabbit Farming	3			3
Tea Packaging	3			3
Sericulture	3			3
Broom Making	4	1		5
Metal Crafts	9	1		10
Total	72	28		100

Source: Field Survey 1996

For dairy enterprises, milk has to be collected from many farmers. Therefore, the location has to be convenient for collection and has to be close to the farmers; access to transportation facilities is an added advantage. Normally, bigger dairy units have greater processing capacities and require larger quantities of milk, therefore, more space is needed. Bamboo furniture units are small in size and yet are located outside the residential premises. This is because handling the raw material is cumbersome, therefore, proximity to the source is important

5.2 Capital Structure of Micro-enterprises

The micro-enterprises surveyed have average investments of Rs 96,002, of which Rs 49,009 (51.9%) is invested as fixed capital and the rest, Rs 46,003 (48.1%), as working capital.

Working capital is not needed for rabbit farming as the grass needed to feed rabbits is grown around the homesteads, and sericulture also does not need working capital. The remaining enterprises use both fixed and working capital. The survey results reveal that sericulture, bamboo furniture, rice mills, dairy farming, Nepali paper, garments, hosiery, and handlooms need a greater proportion of fixed capital investment, whereas wooden furniture, broom-making, tea packaging, and wooden furniture require a greater proportion of working capital (Table 20). All units in the sample use traditional technology. No mechanical devices are used and most activities are undertaken manually. Bamboo furniture is manufactured exclusively with traditional non-mechanical methods. Only a few units use mechanical devices. Rice mills, tea packaging, wooden furniture, garments, and hosiery are the principal users of mechanical devices.

Table 20: Capital Structure of Micro-enterprises

(Rs '000)

Type of Enterprises	Average Total Capital	Average Fixed Capital	Average Working Capital	Fixed as % of Total Capital
Rice Mills	110.6	75.8	34.8	68.5
Garments	31.5	17.4	14.1	55.1
Handloom Products	28.8	15.4	13.5	53.3
Nepali Paper	162.1	89.5	72.6	55.2
Hosiery	58.1	31.4	26.8	54.0
Wooden Furniture	105.8	39.0	66.7	36.9
Bamboo Furniture	20.0	14.0	6.0	70.0
Dairy Farming	360.2	217.2	142.8	60.3
Rabbit Farming	1.7	1.7	0.0	100.0
Tea Packaging	233.3	55.0	178.3	23.6
Sericulture	3.0	3.0	0.0	100.0
Broom Making	121.8	25.4	96.4	20.9
Metal Crafts	101.6	44.5	57.0	43.8
Total	96.2	49.9	46.3	51.9

Source: Field Survey 1996

It was found that a significant proportion of the investment was for start-up capital, which is reflected in the larger proportion of fixed than of working capital in most cases. Some enterprises, however, need very small initial investments. The size of the initial investment depends on the nature of the product or service and equipment required. Some enterprises prefer to initially start manually and install equipment later when capital is available. Some enterprises do not need heavy equipment at all — such as rabbit farming, sericulture, and bamboo furniture. Some enterprises, such as tea packaging and dairy farming, require big investments in machinery initially; in these cases businesses were first established with little capital and, as the activity expanded and capital became available, heavy equipment was installed.

In the case of rabbit farming, small initial investments only are needed to buy rabbits and operating the enterprise needs no working capital. Broom products involve very little equipment as production is carried out manually; but the greatest proportion of working capital is used to purchase broom grass.

5.3 Size of Enterprises by Capital Investment

Enterprises vary in capital investment depending upon the type of enterprise, machinery, and equipment required; the technology used; and raw material required and source of raw material. The average amount needed is Rs 96, 002 (Table 21).

Table 21: Size of Enterprises by Capital Investment

(Rs '000)

Type of Enterprise	Less than 10	10 to 25	25 to 50	50 to 100	100 to 200	200 to 400	More than Rs 400
Rice Mills			7	5	2	3	
Garments		12	2				
Handloom Products		9	4				
Nepali Paper			1	3	4	2	
Hosiery		4	4				
Wooden Furniture			3	2		1	
Bamboo Furniture		3					
Dairy Farming			1			1	3
Rabbit Farming	3						
Tea Packaging					1	2	
Sericulture		3					
Broom Making				4	1		
Metal Crafts			4	3	1	2	
Total	3	31	26	17	9	11	3

Source: Field Survey 1996

Rabbit farming, garments, hosiery, handlooms, and bamboo furniture units are generally run with small capital investments, while dairy farming, paper making, tea packaging, and rice mills need relatively larger investments. Enterprises of most other products can be set up with either large or small capital investments. The survey showed that nearly two-thirds (60%) of the enterprises had been established with a capital of less than Rs 50,000 and, of this, about one-third (31%) of the enterprises had been established with a capital of less than Rs 25,000 and three per cent of the enterprises with less than 10,000. Twenty per cent of the enterprises had been established with capital investments of more than Rs 100,000, and three per cent with capital investments of more than Rs 400,000.

5.4 Employment Generating Enterprises

The micro-enterprises sampled provide employment opportunities to a total of 523 persons. Thus, the average employment per micro-enterprise is 5.23 persons. Nepali paper enterprises provide the highest level of employment (13.1 persons per enterprise), followed by dairy (farming 11.4 persons). Tea packaging, broom-making, metal crafts, and wooden furniture units on average employ five to seven workers per unit (Table 22). Rice mills, handloom products, bamboo furniture, and garment units employ about three persons each. Each rabbit farming unit employs only one person, mostly a woman and only on a part-time basis.

Table 22: Size of Micro-enterprises by Number of Employees

Number of Employees	1	2	3	4	5	6-10	11-16	16 +	Average Employment
Rice Mills			14	1	2				3.3
Garments	2	3	4	2	1	2			3.3
Handloom Products	6	2		2	2	1			2.9
Nepali Paper					3	2	2	3	13.1
Hosiery			1	3	3	1			4.5
Wooden Furniture		1	1	1	1	2			6.0
Bamboo Furniture		1	1	1					3.0
Dairy Farming			1			1	3		11.4
Rabbit Farming	3								1.0
Tea Packaging					2		1		6.7
Sericulture	3								1.0
Broom Making		1	1		1	1	1		6.6
Metal Crafts			3	2	3	2			5.3
Total	14	8	26	12	18	12	7	3	5.2

Source: Field Survey 1996

Sixty per cent of the enterprises provide employment to up to four workers each, while three per cent provide employment to 16 workers and more. Nepali paper generates the most employment per unit, while rabbit farming, handloom products, and garment units provide self employment.

Micro-enterprises surveyed, though family-run and mostly located within residential premises, use a high proportion of hired labour. Outside labour constitutes 73 per cent of the total labour force. The majority of the enterprises use hired labour along with family labour. Metal craft units use the highest proportion of family members, while those manufacturing Nepali paper employ the largest proportion of hired labour (Table 22).

About seventy-four per cent of the workers are male and the remaining 26 per cent female. Among the paid workers, however, women account for only 22 per cent and for 39 per cent of unpaid workers. A majority of the employees in rice mills, Nepali paper, tea packaging, wooden furniture, dairy farming, broom-making, and bamboo furniture are male. On the other hand, 83 per cent of the workers in garments, 89 per cent in handloom products, 78 per cent in hosiery, and 21 per cent in the metal craft enterprises are female (Table 23).

5.5 Age of Enterprises

Micro-enterprises in the survey represent both young and old enterprises; but a majority (58%) have been established only in the last five years (Table 24). All enterprises making brooms, rabbit farming, and tea packaging are new, less than five years' old, while all metal craft units have been established for longer than five years. Rice mills and wooden furniture units are both new and old, whereas handloom and garment units and most of the hosiery, bamboo furniture, and dairy units are relatively new.

Table 23: Employment Structure of Micro-enterprises

No.	Category	Paid			Unpaid			Total
		Male	Female	Total	Male	Female	Total	
1	Rice Mills	40		40	12	5	17	57
2	Garments	2	31	33	6	8	14	47
3	Handloom Products	1	24	25	3	10	13	38
4	Nepali Paper	110	11	121	10		10	131
5	Hosiery	4	20	24	4	8	12	36
6	Wooden Furniture	30		30	5	1	6	36
7	Bamboo Furniture	6		6	3		3	9
8	Dairy Farming	52		52	4	1	5	57
9	Rabbit Farming					3	3	3
10	Tea Packaging	17		17	2	1	3	20
11	Sericulture					3	3	3
12	Broom Making	27		27	3	3	6	33
13	Metal Crafts	9		9	33	11	44	53
	Total	298	86	384	85	54	139	523
	Per centage	77.6	22.4	100.0	61.2	38.8	100.0	

Source: Field Survey 1996

District-wise classification of the micro-enterprises shows that 74 per cent of those in Ilam are from one to five years' old, 17 per cent from six to ten years' old, and only nine per cent are more than eleven years' old. In contrast, only 36 per cent of the enterprises in Bhojpur are from one to five years' old. Nearly one-third of the enterprises are more than ten years' old (Table 24). This indicates that more new micro-enterprises are coming up in Ilam than in Bhojpur district. The development of transportation facilities in Ilam, rapid expansion in banking facilities, and increase in NGO activities, along with an expanding market across the border, have created an environment for establishment of micro-enterprises in this district in comparison to Bhojpur where the topography is more rugged and where there are no roads.

Both old and new enterprises face competition from local and imported products. In particular, metal crafts have to compete with the market in imported urban products that are manufactured with the latest technology. There is a growing interest in establishing activities that are simple to operate and have a ready market. There is also a proliferation of small units producing similar products. Bamboo, paper, and wooden furniture units have to be registered with the District Forest Office, and there are numerous procedures to be completed. In contrast, production of garments and handloom products is easy. Very little capital is needed, and there is no formality to be completed. So, such units can be set up quickly.

5.6 Employment Intensity of Capital Investment

The survey found that the average capital investment for micro-enterprises was Rs 96,000 with average employment per enterprise at 5.23 persons. This implies an average capital require-

Table 24: Age Structure of Micro-enterprises: by Product and District

	Ilam			Bhojpur			Total			Grand
	1-5	6-10	11+	1-5	6-10	11+	1-5	6-10	11+	Total
Rice Mills	5	4	1		4	3	5	8	4	17
Garments	11			2		1	13		1	14
Handloom Products	6			6	1		12	1		13
Nepali Paper	3	1		2	4		5	5		10
Hosiery	2		2	3		1	5		3	8
Wooden Furniture	2	1	1		1	1	2	2	2	6
Bamboo Furniture				2	1		2	1		3
Dairy Farming	3	1	1				3	1	1	5
Rabbit Farming	3						3			3
Tea Packaging	3						3			3
Sericulture		3						3		3
Broom Making	5						5			5
Metal Crafts					3	7		3	7	10
Total	43	10	5	15	14	13	58	24	18	100

Source: Field Survey 1996

ment of Rs 18,004 for generating one job. Rabbit farming, sericulture, and bamboo furniture are the least capital-intensive enterprises and need only Rs 1,000-6,000 capital investment per unit of employment. Tea packaging, rice mills, and dairy farming are the most capital-intensive enterprises and need more than Rs 30,000 of capital investment per unit of employment (Table 25). Garments and handloom units require less than Rs 10,000 of capital investment per unit of employment, whereas Nepali paper, hosiery, wooden furniture, broom, and metal craft enterprises require more than Rs 10,000 of capital investment per unit of employment. The average employment generated is depicted in Figure 2.

Figure 2: Average Employment Generation

(No of persons employed)

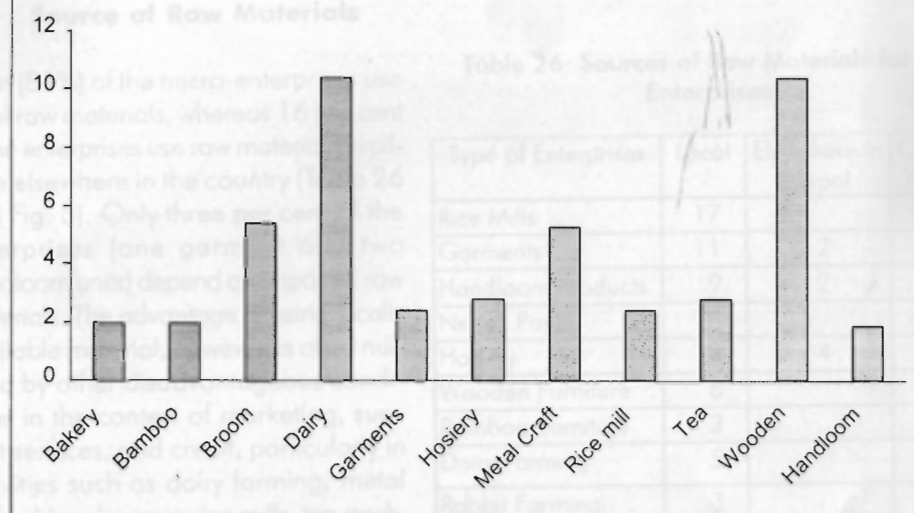


Table 25: Total Investment and Employment Generation in the Micro-enterprises

Type of Enterprise	No. of Enterprises	Total Capital (CAP)	Average Capital	Total Employment (EMP)	Average Employment	CAP/EMP (Per 000 Rs)
Rice Mills	17	1,880	110.6	57	3.3	33.0
Garments	14	441	31.5	47	3.3	9.4
Handlooms	13	375	28.8	38	2.9	9.9
Nepali Paper	10	1,621	162.1	131	13.1	12.4
Hosiery	8	465	58.1	36	4.5	12.9
Wooden Furniture	6	635	105.8	36	6.0	17.6
Bamboo Furniture	3	60	20.0	9	3.0	6.7
Dairy Farming	5	1,801	360.2	57	11.4	31.6
Rabbit Farming	3	5	1.7	3	1.0	1.7
Tea Packaging	3	700	233.3	20	6.7	35.0
Sericulture	3	9	3.0	3	1.0	3.0
Broom Making	5	609	121.8	33	6.6	18.5
Metal Crafts	10	1,016	101.6	53	5.3	19.2
Total	100	9,617	96.2	523	5.2	18.4

Source: Field Survey 1996