

# 7

## Growth, Expansion Plans and Problems

### 7.1 Growth of the Enterprises

Some of the critical questions that relate to the success or stagnation of the micro-enterprises are: what contributes to the growth of enterprises? what are the causes for slow growth or stagnation of enterprises? Are these entirely dependent on entrepreneurs' own capabilities or on external forces or a combination of both? Most often, the commonly used indicator of success or failure is profitability, and this can be measured by examining production trends in physical units over a period of time. Production trends indicate the performance of the enterprise. Financial statistics might exhibit growth due to inflationary trends; whereas in reality the production of physical units might be declining. Growth performance is based on the physical production over a period of five years. Growth of 11 per cent and above is an indicator of success, while negative growth reflects decline or stagnation. In the case of the enterprises under study growth has been uneven. Some products have exhibited high growth rates, while others show stagnation. The growth can be explained by growing demands for these products, while the negative growth rates can be ascribed to declining demands. There is a variation in growth among different product lines.

Table 35: Growth Rate in Production of Micro-enterprises

Types of Product	(Annual Average)			
	More than 20%	11-20%	Less than 10%	Negative
Rice Mills	2	3	10	2
Garments	6	2	2	4
Handloom Products	3	4	4	2
Nepali Paper	4	3	3	0
Hosiery	3	1	1	3
Wooden Furniture	1	3	1	1
Bamboo Furniture	0	1	1	1
Dairy Farming	1	2	1	1
Rabbit Farming	1	1	1	0
Tea Packaging	1	1	0	1
Sericulture	3	0	0	0
Broom Making	2	2	1	0
Metal Crafts	0	0	1	9
Total	27	23	26	24

Source: Field Survey 1996

Twenty-seven per cent of the enterprises under study exhibit an annual average growth rate of more than 20 per cent. Similarly, 24 per cent of enterprises exhibit an annual growth rate of 11-20 per cent, whereas 26 per cent of enterprises have a growth of less than 10 per cent (Table 35). Nearly 25 per cent of the enterprises have a negative growth rate. The enterprises with negative growth rates are those involved in metal crafts. The gradual decline in metal crafts is mainly a result of a fall in patronage due to tough competition from similar products being imported from India. But quite a few enterprises making other products, such as garments, handloom, hosiery, rice milling, have also experienced a decline in output over the previous five years. On the other hand, some of the enterprises making brooms, garments, Nepali paper, and wooden furniture and dairy and tea packaging and all of the sericulture units have a growth rate higher than 20 per cent.

Roads and market accessibility have been crucial for growth patterns. The growth patterns vary among different product lines; viz., traditional/non-traditional, agricultural/non-agricultural, common and exclusive products, in the two districts. Among the common and traditional products, 43 per cent of the garment units show growth rates of 20 per cent and above. The units located in Ilam tend to be performing better than their counterparts in Bhojpur. Also, Nepali paper units in Ilam out perform their counterparts in Bhojpur. Sericulture and broom units demonstrate better growth over all their product lines. All sericulture units have growth rates of 20 per cent and above. Similarly, 40 per cent of the broom units exhibit high growth rates. Forty per cent of the Nepali paper units exhibit growth rates of 20 per cent. This could be ascribed to growing demand, market linkages, and institutional support. What has emerged from the above analysis is that, in all product lines, both common as well as exclusive, entrepreneurs whose motivation and capabilities have been reinforced by institutional support and access to infrastructural facilities and the market perform better than others. From the perspective of gender roles, the survey demonstrates that women are good managers for certain product lines. Sericulture and garments are some of the exclusive products that are owned and operated by women. Among all garment units, those owned by women exhibit higher growth rates than those owned by men.

## **7.2 Expansion Plans**

An enquiry was made concerning the factors affecting the entrepreneurs' decisions about expansion. Of the total enterprises under survey, 65 per cent report that they would like to expand their businesses and the rest (35%) do not want to expand. All broom, bamboo, tea packaging, and sericulture units are in favour of expansion, whereas all rice mills and metal craft enterprises are not in favour of expansion. Sericulture has the highest growth rate and has the potential for expansion of production. The demand for brooms is found to be growing both in the domestic and external markets as well. Thus, the potential for expansion exists in the broom-making sector as well.

Entrepreneurs who are willing to expand their businesses face shortages in capital, lack of market for the products, and no access to technology advancement. Over 50 per cent of the entrepreneurs who want to expand complain about capital deficiency, while 25 per cent of the entrepreneurs feel the market is a hindrance and six per cent complain about the lack of technological advancement. Old and backward technology is thought to be the factor hindering expansion for five rice mills, one handloom unit, two Nepali paper enterprises, and one tea packaging unit (Table 36).

Table 36: Expansion of Business

Type of Enterprises	Willing to expand shortfalls in			Not willing to expand shortfalls in					
	Capital	Market	Technology	Market	Technology	Management	Stagnant Business	Raw Material	Profit
Rice Mills				10	5		6		4
Garments	11	4			1	1	1		
Handloom Products	8	2	1	1		1		5	
Nepali Paper	7	3	2	3					3
Hosiery	4	1					4		
Wooden Furniture	4	4		2					
Bamboo Furniture	3	3							
Dairy Farming	3	2		2					
Rabbit Farming	1	3	2	1					
Tea Packaging	3		1						
Sericulture	3								
Broom Making	5	3							
Metal Crafts				10	2		2	2	
Total	52	25	6	29	8	2	13	7	7

Source: Field Survey 1996

### 7.3 Constraints

All micro-enterprises face multiple constraints. Credit and market availability and access are seen to be the most pressing constraints faced by micro-enterprises in both Ilam and Bhojpur districts. Sixty per cent of the micro-enterprises face credit problems and 47 per cent face market problems (Table 37). Micro-enterprises are mostly established with the entrepreneur's own savings, support from family members, and loans from other informal sources (Table 27). All tea packaging, broom, and most of the garment units face the problem of lack of credit due to the nature of the business. All rabbit farming enterprises under survey face the problem of a market for their products. Availability of raw materials also features as a problem in the case of 28 per cent of the enterprises. Lack of raw materials is a serious problem in the case of handloom, hosiery, metal crafts, and Nepali paper products. Except for sericulture, bamboo furniture, and rabbit farming enterprises, others face problems of shortage of power (Table 37).

Table 37: Major Problems Faced by Micro-enterprises

Type of Enterprise	Availability of Raw Materials	Price of Raw Materials	Labour	Market	Credit	Power
Rice Mills				10	5	15
Garments	3			4	11	5
Handloom Products	5			5	8	5
Nepali Paper	5	1		3	7	2
Hosiery	4			4	4	6
Wooden Furniture	2			1	4	4
Bamboo Furniture				3	3	
Dairy Farming				2	5	4
Rabbit Farming				3	1	
Tea Packaging			1		3	3
Sericulture					3	
Broom Making				3	5	1
Metal Crafts	9			7	1	
Total	28	1	1	53	60	45