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Summary and Conclusion

The purpose of the present study was to investigate the factors that help or hinder the emergence, growth, and sustainability of micro-enterprises in mountain areas on the basis of a field survey among 100 sample enterprises in eastern Nepal. The study used a comparative framework for analysis by selecting enterprises in different product lines in two districts with very different characteristics in terms of development, basic occupation, infrastructure, and accessibility. Thus, the study covered traditional skill-based and local material-based products, as well as those catering to local consumption demands and those oriented towards the market elsewhere in Nepal and abroad. The two study locations - Ilam and Bhojpur districts — presented somewhat contrasting features insofar as the former is an agriculturally transformed district whereas the latter is still dominated by subsistence agriculture. Additionally, Ilam has a well-developed physical infrastructure, while Bhojpur is backwards and most areas are still inaccessible by road.

8.1 Summary of Findings

Enterprises have a varied structure in terms of commodities produced; size of capital and employment; sources of raw material; and the market, growth, and prospects and problems faced in enterprise expansion. This survey of 100 enterprises brought out some of the dominant and common characteristics as well as differential patterns of growth experiences.

8.1.1 The Entrepreneurs

Most enterprises are run by men. Yet, well over 33 per cent of them are managed by women, particularly hosiery, handlooms, sericulture, and rabbit farming. There are, however, no women entrepreneurs in the Nepali paper, bamboo furniture, broom, and metal craft product lines.

Most entrepreneurs are relatively young. About 66 per cent below 40 years of age, over 33 per cent below 30 years, and 15 per cent are under 20.

Educational levels are low. Only 20 per cent of the entrepreneurs have graduated from high school. Those with high school or higher educational qualifications are still lower (9.5%) among the entrepreneurs in Bhojpur, where almost 25 per cent of them are illiterate. Less than three per cent of the entrepreneurs in Ilam are illiterate.

Given the predominantly agricultural nature of the economy and population, 80 per cent of the entrepreneurs belong to families with farming as their primary occupation. But practically all entrepreneurs in the traditional skill-based activity of metal crafts in Bhojpur consider metal working their principal family occupation. The traditional stranglehold of certain castes in some activities is decreasing as income-earning opportunities in some occupations have attracted members of castes other than those who carry it out traditionally. Yet metal crafts, particularly *khukuri* making, are still exclusively the domain of *Kami*(s).

Most entrepreneurs were inspired by their families and friends to set up their enterprises. About 33 per cent, in fact, have inherited their businesses from their parents. But, significantly, almost 33 per cent of the entrepreneurs have been motivated by some government or non-government agency. The Cottage and Small Industries' Development Committee seems to have played an important role in this respect, being instrumental in promoting 22 per cent of the entrepreneurs in different product lines.

Most entrepreneurs started business in the product line of their choice in which they saw good market potential. But a good number in rice milling, garments, and broom units were motivated by high profit margins. A majority of those in metal crafts and quite a few in garments chose these activities because they were traditional occupations of their families.

Very few (about 11%) have received formal training in entrepreneurship or skill development. But a sizeable percentage (about 50%) have received apprenticeship training — mostly in the family-run enterprises.

8.1.2 The Enterprises

All enterprises are sole proprietorship concerns, owned and run by families. In fact, 72 per cent are operated from within the residential premises. In the rest of the cases, independent premises, always taken on rent, seem to have been necessary owing to the nature and location of raw materials, nature and size of processing equipment, and scale of production and employment.

Except for dairy farming, tea packaging, and Nepali paper, enterprises are small in size with a capital investment of less than Rs 150,000, the average for the entire sample being Rs 96,200. The lowest investments, i.e., of Rs 1,700 and Rs 3,000 are in rabbit farming and sericulture units respectively.

Similarly, the employment generated by enterprises is also generally very small, averaging 5.2 workers per enterprise (for all the 100 enterprises). Fourteen of them, in fact, are single worker enterprises and only 10 employ more than 10 workers. The Nepali paper units employ the largest number of workers (13 per unit), followed by dairy(11) . In rabbit farming and sericulture, only one worker (a woman) is engaged in each unit.

Of the total workers in the sample enterprises, about 25 per cent are unpaid family workers. Women constitute about 25 per cent of the total workers, but their proportion is higher at 39 per cent among the unpaid family workers. In enterprises in garments, handloom, and hosiery, a majority of workers, both in the paid and unpaid categories, are women. The only other product line in which women are engaged as paid workers to some extent is the Nepali paper units. None of the other product lines employ women as paid workers, though all of them, except those in bamboo furniture, employ women as unpaid family workers.

Employment intensity for the sample enterprises is Rs 18,400, i.e., a capital investment that generates employment for one person. The figure is as high as Rs 35,000 in tea packaging, Rs 33,000 in rice mills, and Rs 31,600 in dairy units, but as low as Rs 1,700 in rabbit farming and Rs 3,000 in sericulture. Nepali paper units seem to generate relatively more employment in total as well in relation to capital investment.

Most enterprises are new. Fifty-eight per cent started only during the last five years and only 18 per cent have been around for longer than 10 years. A larger proportion of new enterprises implies faster growth in the number of enterprises. In that respect, Ilam shows much faster growth, with 75 per cent of the enterprises being less than five years old, than Bhojpur, with a corresponding figure of only about 36 per cent. Applying the same logic, garments, handloom, broom, tea, rabbit farming, and hosiery units turn out to be faster growing product lines than others, and metal crafts, with no new units and having been established over the last 5 years, are the slowest growing product line.

Micro-enterprises in Ilam and Bhojpur are mostly based on locally available raw materials. Only about 16 per cent of enterprises use raw materials from elsewhere in Nepal and three per cent from outside Nepal, wholly or partially. The structure of the enterprises thus seems to have strong backward linkages locally and within the country.

Institutional finance seems to have had a limited role in enterprise development. Only seven per cent of the enterprises use bank loans to finance their operations. Seventy-five per cent of entrepreneurs use their own savings to finance their businesses; and, in another 13 per cent of cases, the relatives help. Moneylenders also play a limited role; funding only four per cent of enterprises; charging an interest of 27 per cent per annum according to the survey findings; only marginally higher than the 24 per cent charged by relatives, but significantly more than the 16 per cent charged by the banks. Most loans are of relatively short duration, repayable within a period of two years.

Micro-enterprises in both Ilam and Bhojpur do not seem to face any acute marketing problems: 66 per cent sell directly to consumers and the rest to traders, mostly retailers. Only about 14 per cent sell on the basis of prior orders, mostly enterprises producing garments, paper, and hosiery. Most of them receive raw materials or credit as an advance on orders.

Raw materials account for 81.22 per cent of the cost of production, labour another 8.53 per cent, and fuel 3.31 per cent.

About half of the enterprises use energy other than human energy; the cost being 5.48 per cent of the total production cost. Fuelwood is used most often (54.3%), followed by petroleum fuel (37.0%), and electricity (8.7%).

8.1.3 Growth, Prospects and Problems

Growth performance of micro-enterprises in the sample is mixed: while over 25 per cent of enterprises have been growing at a rate of over 20 per cent in terms of their physical output, another almost 25 per cent have actually declined in their output over the last five years.

Growth of enterprises in Ilam has been much faster than in Bhojpur. Enterprises in product lines common to both districts have done better in the former than in the latter; and also those specific to Ilam have been growing faster than those specific to Bhojpur. Thus, in fact, in one major product line specific to Bhojpur, namely, metal crafts, nine out of 10 sample enterprises have experienced a decline and another, bamboo furniture, also has experienced relatively low growth. On the other hand, tea packaging, sericulture, and broom, specific to Ilam, have experienced high growth.

Besides the above products, the product groups demonstrating high growth include garments, paper, and wooden furniture; those with moderate growth are handloom, hosiery, dairy, and rabbit farming units; and those with low growth include rice mills.

About 66 per cent of the enterprises want to expand production: all enterprises involved in tea packaging, broom, sericulture, and rabbit farming and most enterprises in wooden furniture, dairy products, and garments. All metal craft units and most of the enterprises in rice mills and hosiery do not want to expand on account of a stagnant market demand. Low profit margins feature as a reason for not expanding in the case of some Nepali paper units and rice mills, while lack of raw materials is the reason given by handloom and metal crafts for not expanding. Those willing to expand have been unable to do so mainly because of lack of capital, followed by problems, in marketing. In garments, Nepali paper, and dairy units, capital seems to be the main problem while marketing is an equally serious constraint in the case of enterprises producing wooden and bamboo furniture. In some units producing Nepali paper and handloom products and rabbit farming, technology is reported to be a constraint to expansion.

8.2 Diversification of Agriculture, Infrastructure and Micro-enterprises : Contrast between Ilam and Bhojpur

The comparative study of the two districts very sharply brings out the importance of agricultural development and transport infrastructure in the development of micro-enterprises in predominantly agricultural, hilly, and mountainous areas. The fact that the enterprises in Ilam have performed far better than in Bhojpur is amply evident. It is also clear that, despite both districts having a predominantly agricultural economy, agriculture in Bhojpur is almost entirely subsistence oriented and is operated on the basis of very small land holdings, whereas, in Ilam, it is significantly commercialised and is operated on the basis of relatively larger holdings. The average size of operational land holdings in Bhojpur is only 0.81 hectares compared to 1.43 hectares in Ilam. Only four per cent of the cultivated area in the former is used for commercial crops, the corresponding figure for Ilam being 19 per cent.

It is, however, not only through the backward and forward production linkages that more productive and diversified agriculture stimulates development of micro-enterprises. No doubt, the largest product group among the registered enterprises in Ilam consists of rice and flour mills, but the product structure of enterprises is quite diversified — including a large number of product lines with no forward linkages with agriculture. A more productive and diversified agriculture implies higher income levels and a higher demand for commodities; and thus an impetus is given to the development of enterprises in diverse product lines. And all this is made possible by developed infrastructure, particularly for road transport. In Ilam, 40 VDCs are connected by road and the remaining seven are in the process of being connected. In Bhojpur, none of the 63 VDCs are connected by road.

An interesting phenomenon observed in the study, that relates to the significance of transport infrastructure, is that the geographical dispersal of enterprises is better in the area served by transport than in the area in which most places are inaccessible by road. Ilam and Bhojpur are almost equally rural with 92 per cent of the population in the former and 94 per cent in the latter living in rural areas. But, in Ilam, there are more enterprises (72 per cent) in rural areas than in Bhojpur (49 per cent). It thus seems that improvement in accessibility not only leads to

faster growth and greater diversification, but also to wider locational dispersal of enterprises. This has significant implications for diversified development and poverty eradication strategies in mountain areas.

8.3 Micro-enterprises and Women

Though the present study did not specifically focuss on women entrepreneurs and the participation of women in micro-enterprises, these aspects were investigated and examined to a certain extent. As reported earlier, over 33 per cent of the entrepreneurs in the sample were women, but they were mainly concentrated in handloom, garments, and hosiery units or in low investment (or no investment) activities such as sericulture and rabbit farming. They also seemed to be doing better in terms of productivity. But it appears that lack of capital resources (or control over them) and absence of marketing support has restricted women entrepreneurs from starting enterprises in more promising but investment-intensive product lines or even from expanding the scale of their current business activities.

Women constitute about 25 per cent of the work force in micro-enterprises, but more often they work as unpaid family labour rather than as paid employees. To that extent, the value of their work is not fully estimated and appreciated and the chances of improving their status through earning cash incomes are reduced.

8.4 Policies, Programmes and Interventions

Besides the broader issues of strategies for development and diversification of agriculture and improvements in accessibility that have emerged as crucial factors in the development of micro-enterprises in mountain areas, some specific implications have also emerged from our study. They relate to overall policies on micro-enterprises, public and institutional support for credit and marketing, and programmatic interventions by the government and NGOs.

In spite of a general recognition that micro-enterprises in diverse products with relative advantages in mountain areas are of vital significance to the development of and poverty alleviation in these areas, there does not appear to be a well focussed policy to promote their development. Policy statements are too general; not directed to area-specific products, nor to the mountain areas. It, therefore, appears necessary to review existing policies in this perspective in order to evolve a more focussed policy framework.

The impact of the limited and dispersed efforts made by government agencies such as CSIDC is visible on the margins. A good number of enterprises has been promoted by the Council. But support is often merely focussed on training and there is very little follow-up and support for sustained development of enterprises. It would be advisable to have an integrated programme providing a package of credit, training, and marketing and systematic follow-up and support. An area-cum-product(s) approach rather than the general one practised may prove more effective.

In spite of the number of credit-based, micro-enterprise development programmes run by government and non-government agencies, there are still very few enterprises that have access to institutional credit: and credit continues to be the main constraint faced by entrepreneurs. A

more systematic and sustained effort based on self-help groups of micro-entrepreneurs in different product lines, on an area basis, needs to be developed in order to improve access to credit.

For marketing, besides whatever support government agencies and NGOs can provide, it is necessary that entrepreneurs organize themselves into different product lines for marketing on a collective basis, with a view to both pooling their resources and improving their bargaining strength.

Finally, women entrepreneurs need to be supported through special programmes meant for them, as they lack the most important inputs for enterprise development, namely, availability of and control over capital and the capacity and mobility required for marketing. Programmes meant for them also need to be more inclusive and integrated in terms of the kinds of inputs and support, as it is not always possible for them to go to different agencies and programmes for different inputs and services such as credit, training, marketing, etc. Special programmes are required for them, because it has been observed that they hardly benefit from the general ones due to their special handicaps and the tendency on the part of men to monopolise the benefits and facilities.