

Micro-Enterprises Development for Poverty Alleviation

Volume II



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Micro-Entrepreneurship Development and Empowerment in the Districts of Nuwakot and Nawalparasi under MEDEP¹

Abstract

Micro-enterprise development has always remained the backbone of the national economy due to its contribution to employment opportunities, income for the poor and overall empowerment as a consequence. This research was conducted to assess the relationship between micro-enterprise development and empowerment of people in MEDEP. Although the analysis was carried out with data from two districts only (Nuwakot and Nawalparasi), this study has provided indications on how MEDEP's approaches to MED contributed to empowerment and development. MEDEP activities were found to be more effective in creating micro-enterprises. After operating an enterprise, micro-entrepreneurs, have experienced change in their position in households, status in society, mobility and political processes. This study has concluded that the MEDEP model is a holistic approach to enterprise development. It has recommended that MEDEP approach to enterprise development should be disseminated widely. MEDEP's key learning on micro-enterprise development and empowerment should be documented and shared among relevant stakeholders including planners and policy-makers. Awareness among planners and policy-makers on contributing factors of micro-enterprise development to empowerment should be made to transform into policies.

1. Introduction

1.1 Background of the Study

Despite the abundance of micro-enterprises (MEs) and the vital role they have played in the socio-economic development of the country, the government has paid little attention to it due to which only a few of them survived long enough to grow into small enterprises. Before the 1990s, Nepal pursued inward-looking policies primarily focused on import substitution. The introduction of structural reform programmes in 1992 brought about a liberalization of trade and foreign exchange regimes, removed trade barriers, relaxed industrial licensing systems, and introduced financial sector reforms and privatization programmes. These reforms opened the economy and made the domestic market more competitive. On the other hand, poor infrastructure in the form of limited road access, inadequate energy sources, and limited access to water and sanitation increases the cost of doing business in Nepal, thereby reducing the competitiveness of the MEs.

¹ MA Thesis 2011 by Ramesh Kumar Adhikari - Nepal: Purbanchal University, College of Development Studies

1.2 Statement of the Problem

Micro-enterprise development (MED) has remained the backbone of the Nepalese economy, as a source of income and employment opportunities for poor and disadvantaged groups. It is a strategy designed to improve the economy and social life of a specific group of people. Various studies conducted on assessing the impact of MED on rural livelihood, upliftment of the poor and disadvantaged groups, have revealed MED initiatives to be powerful to generate income, employment and diverse aspects of social development such as education, health and nutrition improvement. Support to the empowerment process of the poor and disadvantaged groups had been the policy-based strategic activities of the governmental and non-governmental organizations and the private sector in Nepal. MED among the rural poor, Women, Dalit and disadvantaged groups (DAGs) are the major activities of these agencies in the process of empowerment. It has been observed that MED contributes to empowerment (social, economic, political and legal) of the poor and disadvantaged groups, but the exact nature and magnitude of the contribution of MED to empowerment of the poor and disadvantaged groups is yet to be documented.

1.3 Objectives of the Study

The prime objective of this study was to assess the established relationship between MED and empowerment of the poor and disadvantaged groups. The specific objectives were to:

- identify the channels through which MED supports towards uplifting the livelihoods of the poor and disadvantaged groups,
- establish the linkages between MED and the empowerment of the poor and disadvantaged groups, and
- analyze the factors contributing towards empowerment of the poor and disadvantaged groups through MED interventions, and recommend to promote empowerment of the poor and disadvantaged groups through MED interventions

2. Literature Review

2.1 Entrepreneurship

Entrepreneurship is a process through which individuals identify opportunities, allocate resources, and create value. This creation of value is often through the identification of unmet needs or through the identification of opportunities for change. Entrepreneurs' traits, creativity, innovation, business planning and growth management are five of the main concepts of entrepreneurship (Cunningham and Lischeron (1991). Dedication and commitment, honesty and integrity, and knowledge and expertise are the three important characteristics of entrepreneurial traits. Entrepreneurial creativity requires a paradigm shift and there are many techniques available to help the entrepreneur to see things from a different perspective and come up with new ideas. Innovation involves implementing newly created ideas and the process can be classified as invention, extension, duplication and synthesis. Strategic

planning is used to assess entrepreneurs' position in external/internal environments, identify key success factors/competencies and to implement a strategy.

2.2 Enterprise, Entrepreneur and Development

Micro-enterprise: The definition of micro-enterprise varies from one country to another because there are variations in the social, economic and cultural contexts in which enterprises are found. The most common criteria used on the bases of the number of people employed, value of annual turnover, value of capital invested, and quantity of power required by plant and equipment (ILO, 2005). Likewise, the definition of micro-enterprise according to the Industrial Policy, 2010 of Nepal states that the enterprise self-managed by entrepreneur, fixed capital investment up to NRs 200,000 except land and building, employment for up to nine persons, annual transaction not exceeding NRs 2 million and, electronic and fuel engine or equipment, if used, less than the capacity of 10 KW (MoI, 2010).

Entrepreneurs: Those people who have the ability to see and evaluate business opportunity; together with necessary resources to take advantage of them; and intimate appropriate action to ensure success. Micro-entrepreneurs perform the function of micro-entrepreneurship.

Development: Development of the society is directly related to income generation capacity of its members with agriculture. Entrepreneurship on a small scale is the only solution to the problems of unemployment and proper utilization of both human and non-human resources (Sigh, 2009) to create wealth. Hence, entrepreneurship is the dynamic process of creating incremental wealth (Kuratka and Richard 2001). This wealth is created by individuals who take the major risks in terms of equity, time and career commitment of providing value to some products or services. The product or service itself may or may not be new or unique but value must somehow be infused by the entrepreneur securing and allocating necessary skill and resources.

2.3 Micro-Enterprise Development and Empowerment

Empowering the poor and disadvantaged group is a challenge as it requires creating employment and generating income. Micro-enterprises in rural area can help meeting these challenges. Micro-enterprises not only enhance national productivity and generate employment, but also help developing economic independence, personal and social capabilities among rural people and more particularly among women.

Empowerment is a multi-dimensional social process that helps people gain control over their own lives. It is a process that fosters power in people, for use in their own lives, their communities, and society by acting on issues that they define as important (Bailey, 1992). The three components multi-dimensional, social and processual are the integral parts of empowerment which are important parts of micro-enterprise development as well.

Empowerment can take place in a hierarchy of different levels such as individual, household, community and societal and is facilitated by providing encouraging factors e.g., exposure to new activities, which can build capacities and removing inhibiting factors e.g., lack of resources and skills (Krishna Raj and Kay, 2002) which are the major strategic aspects of micro-enterprise promotion.

3. Research Methodology

3.1 Conceptual Framework

Micro-enterprises play a significant role to create off-farm employment opportunities, income generation and to improve livelihoods of the people. They could be instrumental in empowering the poor, women and disadvantaged group by increasing their income. Besides this, micro-enterprise would be instrumental in the social, legal and political empowerment of the rural people. The development effect of micro-enterprise activities undertaken by the rural people is anticipated to support in reducing poverty through the socio-economic, political and legal empowerment of entrepreneurs. This conceptual framework is presented in Figure 1.

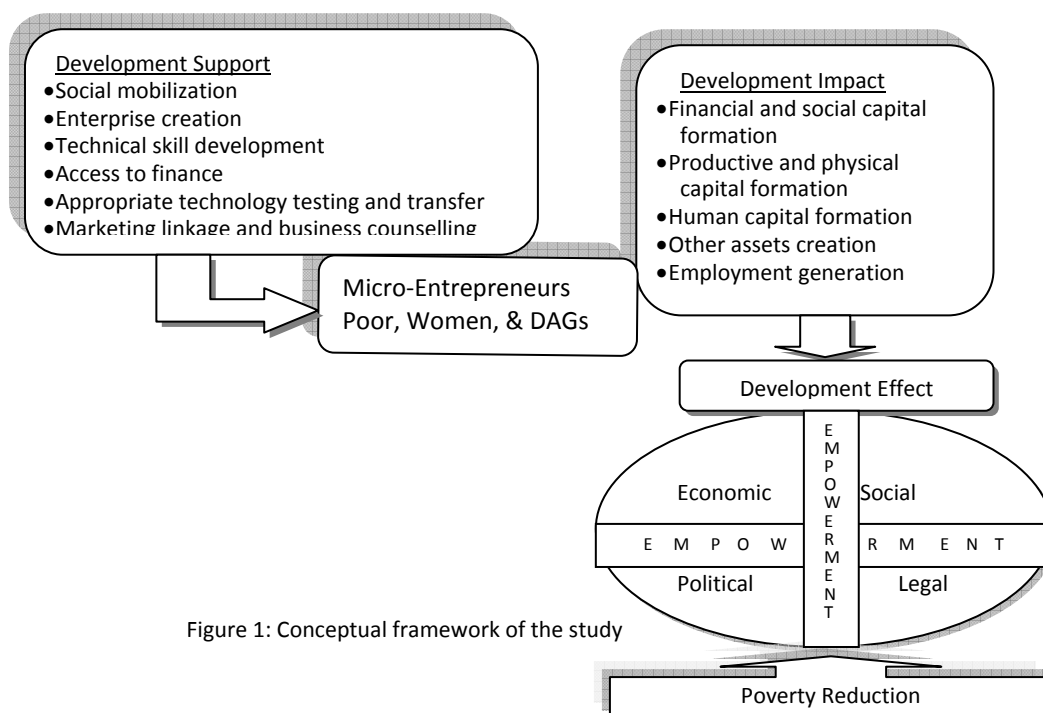


Figure 1: Conceptual framework of the study

3.2 Analytical Framework

The impact of poverty as well as other social impacts of microfinance services was assessed considering the situation before and after the project by using income, employment generation and asset creation as proxies. Relationship between microfinance and poverty reduction was analysed by comparing the results between

the credit borrowers and non-borrowers. Enterprise assessment was done based on the initial investment, scale of operation, product marketing and revenue generation, employment creation, and empowerment of the poor and disadvantaged groups. Based on remoteness and the scale of operation, three MEGAs and four MEGs under each MEGA were selected from each district.

3.3 The Data

This study was based on the primary data collected from two purposively selected districts (out of 31): one from the hills (Nuwakot) and one from the Terai (Nawalparasi). Micro-entrepreneurs developed by MEDEP in these districts were randomly selected for in-depth study. A total of 103 micro-entrepreneurs (54 from Nawalparasi and 49 from Nuwakot) were surveyed in this research. The primary data was collected through individual interview. Secondary data was taken from books, papers, journal, and published and unpublished research papers, the annual reports and progress reports in the study area.

4. Results and Discussions

4.1 MEDEP in Nuwakot and Nawalparasi Districts

Both Nuwakot and Nawalparasi are the first phase districts of MEDEP where programme implementation started in 1998. By following its micro-enterprise development creation and development process, MEDEP created a total of 3,618 (1,907 in Nawalparasi and 1,711 in Nuwakot) entrepreneurs by June 2009 who are currently managing enterprises. They were organised into 425 (258 in Nawalparasi and 167 in Nuwakot) MEGs. These MEGs have federated into 38 (18 in Nawalparasi and 10 in Nuwakot) MEGAs. These MEGAs have formed one DMEGA in each district.

4.2 Socio-Economic Situation of the Surveyed Micro-Entrepreneurs

Demographic feature: The average age of micro-entrepreneurs was 40 years (range 23-53). The average family size was 6 members per household.

Social feature: Average years of schooling were 2.2 years with 2.8 for borrowers and 1.7 for non-borrower members. The average literacy rate was 68.2 percent with 77.4 percent for male and 58 percent for female; and 73.3 percent for borrowers and 64.5 percent for non-borrowers.

Economic feature: The average land holding was 0.3 ha with 0.4 ha for borrowers and 0.2 ha for non-borrowers. On the whole, there were 4 percent landless, and about 79 percent below the average. Land holding size signifies a household's economic status.

4.3 Savings and Loan Operation by Surveyed Micro-Entrepreneurs

Many micro-entrepreneurs (85%) had savings with MEGs. All these members were socially mobilized for social capital formation and preparing them for micro-enterprise development. The average savings balance of the micro-entrepreneurs (MEs) surveyed was Rs 2,505 (Rs 2,301 in Nawalparasi and Rs 2,683 in Nuwakot). Amount saved in MEGs has been used for internal lending among MEG members. Average outstanding loan balance of the MEs was Rs 1,541.

4.4 Micro-Enterprise Development

Typology: There were 27 different types of micro-enterprises established in the study area. They were mostly agro-based (46.5%), followed by forest-based (30%), trade- and service-based (14%) and non-farm-based (9.5%). It was interesting to note that the number of non-borrowers was higher than that of the borrowers.

Investment and source of finance: There was a significant difference in average amount invested by the borrowing and non-borrowing Mers for enterprise establishment. The average investment was Rs 24,618 (Rs 33,972 among borrowing and Rs 15,263 among non-borrowing). While non-borrowing Mers have managed part of the finance through borrowing from informal sector and use of accumulated savings; borrowing Mers have managed such capital using accumulated savings as well as borrowing from informal and formal sectors. Amount of fixed investment was higher among borrowing Mers. The borrowing Mers have obtained access to finance for enterprise development from different MFIs.

Table 1: Profitability of micro-enterprise

Particulars	Borrowing Mers	Non-borrowing Mers	Total
Average gross income (Rs)	90,689	51,112	72,926
Average gross expenses (Rs)	46,571	23,925	36,346
Net income (Rs)	43,930	27,074	36,440

Profitability: As shown in Table 1, the Mers have earned substantial income from enterprises they have managed. Net income of the borrowers was higher than the non-borrowers indicating that the borrowers take risks and make more profit. Some activities like bamboo works (mat-making, rack-making, etc.), dalmoth/bhujjiya, briquettes, poultry and vegetable farming, goat trading, buffalo trading, hotel/restaurants, etc. are highly profitable while doll-making, strawberry, rope (babiyo)-making, etc. were less remunerative.

Marketing arrangements: About 80 percent have marketed their product by themselves while 18 percent have managed marketing function through MEGs. There are cases where middlemen (2 percent) were also involved to handle the marketing of their products. Since most of the products produced by these micro-entrepreneurs are focused on ensuring local self-sufficiency for supply of products and services, they have taken initiatives to address marketing problems (80 percent). This approach has been quite effective to ensure sustainability for solving market problems.

Problems encountered and adopted solution measures: Typical problems faced by the micro-entrepreneurs are: cash crunch, health/hygiene, raw materials, marketing and others. Micro- entrepreneurs surveyed have adopted measures to address different problems outlined above. MEDEP officials and its institutional structure were the

immediate measure adopted by these micro-entrepreneurs (67 percent) in order to find out solutions to their problems. MEDEP has cultured a self-help feeling to micro-entrepreneurs and mobilized them properly enabling them addressing their problems by themselves through mobilization of their own MEGs.

4.5 Impact of Micro-Enterprise Development

Capital formation: Access to loan has contributed to increase capital/asset formation among surveyed micro-entrepreneurs. Capital formed in micro-entrepreneurs household can be broadly grouped into three categories as follows:

Financial capital formation: The MErs save small amount under compulsory savings, voluntary savings and other savings on a regular basis in MEGs.

Productive and physical capital formation: Improved housing (white wash, roof repairs and additional room) and purchase of household assets (small tools, fans, gas-stoves, animals, push carts, handloom, gold, TV, radio, mobile phone set, cycle, rickshaw, etc.) are frequent cases and this reflects consumption to enhance the quality of life.

Human capital formation:

One of the first things the poor people do with new income from micro-enterprise is to invest in their children's education. It was evident in terms of increased investment in education and increased evidence of sending their children to school.

Other asset creation: Other assets found being created were livestock and land.

Incremental income consumption: The MErs were found to have used their incremental income mainly in household consumption (45.5%), followed by children's education (22.1%), asset creation (12.3%), clothing (6.7%), health care (5%), buying ornaments (1.5%), and others (7%).

Employment generation: Full time average employment generated has been estimated at 0.8 (0.4 men and 0.4 women) person year and part-time employment generated has been estimated at 1.1 (0.3 men, 0.6 women and 0.2 children) person year. Using the conversion factor that one part-time employment equals 50 percent of the fulltime employment, total employment generated by one micro-enterprise has been estimated at 1.35. It shows that the promoted micro-enterprises have created more employment opportunities for women.

4.6 Empowerment of Micro-Entrepreneurs

It was opined by the respondents that after taking up an enterprise and being a member of a MEG, they have become more confident, more assertive in family and community decisions, and better able to confront systemic gender inequities. From the focus group discussions and case studies, it was further found that there has been a positive change in the (a) ability to save and access loans (b) opportunity to undertake economic activity (c) mobility i.e. opportunity to visit nearby villages and towns (d) awareness on local issues, banking procedures and banking transactions (e) skill for enterprise creation and management (f) decision-making within household (g) group mobilization in support of individual micro-entrepreneurs: action on social issues and (h) role in community development activities.

5. Conclusions and Recommendations

5.1 Conclusions

MEDEP's efforts to empower the people through enterprises development were effective because it was output-oriented delivering services with integrated and sequential order in a demand-driven basis. Empowerment among the micro-entrepreneurs seemed to have possible because the MEDEP model tied up various key components. Access to loan made the MErs able to take up an enterprise and their affiliation with MEG supported them to solve their problems by themselves and market their produce. By taking up an enterprise, the MErs were more assertive because they had an employment opportunity and income to finance the family needs and send their children to better schools. Though the analysis was limited to the data from two districts only, the findings of this study have indicated how MEDEP's approaches to MED contribute to empowerment and development. On the whole, MEDEP seemed to be a best model to empower the poor and disadvantaged groups for poverty alleviation through entrepreneurship development.

5.2 Recommendations

On the basis of the findings and conclusions drawn, this research has made the following recommendations for policy implications:

- MEDEP approaches to empowerment and enterprise development need to be disseminated widely by joining hands with the organizations working with similar vision and mission for the sustainable development of the poor and disadvantaged groups.
- MEDEP's approach to linking MED and empowerment should be extensively used by various I/NGOs, GOs and concerned stockholders in their development interventions.
- Key learning from MEDEP's experiences in the empowerment of the poor and disadvantaged groups should be documented and disseminated among relevant stakeholders.

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