

Micro-Enterprises Development for Poverty Alleviation

Volume II



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Economic Analysis of Existing Micro-enterprises for Poverty Alleviation in Kailali District¹

Abstract

Though having the potential to develop, the micro-enterprise sector could not grow significantly in the recent past due to lack of access to services. In order to address this issue, the GoN has been according high priority to the development of micro-enterprises. MEDEP is one among them implemented as a tool to alleviate poverty and unemployment since the Ninth Five-Year Plan. This study was undertaken to analyse the economics of existing micro-enterprises for poverty alleviation in Kailali district. Though the study used simple statistical tools, the results showed that the standard of living of the entrepreneurs increased significantly after MEDEP intervention. It was found that MEDEP was able to include youths and retain them in the country. It was concluded from this study that micro-enterprises have a tremendous potential in the socio-economic upliftment of the rural women. In order to harness this potential, the entrepreneurs should be provided with a package of technology to enhance productivity.

1. Introduction

1.1 Background to the Study

Nepal embarked on a far-reaching programme of economic reforms in the late 1980s. The overall objective of these reforms were to stabilise the economy by reorienting production structure towards the market, involving the private sector in economic activities by creating the correct incentives, increasing openness by limiting the state involvement in the economy. However, the reform could not take pace. The economy was agriculture-dominated (absorbing 65% people) (ABPSD, 2006). About 68 percent hill districts and 88 percent mountain districts remained food deficient (UNDP, 1997).

The slow growth of agriculture indicates the need of a new approach (Rajbhandari, 2002). With limited skills and education to compete with formal sector jobs, people find economic opportunities in micro-enterprises. However, due to lack of access to services such as marketing, training in business skills, and technology transfer, promotion of micro-enterprises is also limited. The GoN has given priority to micro-enterprise as a means of poverty alleviation in all development plans since the Eighth Five-Year Plan.

1.2 Statement of the Problem

In collaboration with various agencies, the GoN since the recent past has been according high priority to the development of micro-enterprises as a tool to alleviate

¹ BS Thesis 2008 by Chandra Joshi - Nepal: Purbanchal University, Himalayan College of Agricultural Science and Technology

poverty and unemployment. MEDEP is one among them. MEDEP aims at enhancing livelihoods of local people through their own resources. Kailali is one of the MEDEP districts. Though it is recognised that local enterprises are the vehicle for development of local area, their potentials have rarely been studied. Hence, this study was undertaken to answer some questions like: Whether there has been any change in people's status after taking up an enterprise? What is the financial benefit situation of the enterprises?

1.3 Objectives of the Study

The broad objective of the study was to analyse the economics of existing micro-enterprises for poverty alleviation in Kailali district. The specific objectives were to:

- assess the socio-economic status of the entrepreneurs,
- analyse the financial benefit situation of the enterprises, and
- assess the change in income status of the entrepreneurs after MEDEP intervention.

2. Literature Review

2.1 Conceptual Review

Poverty: Poverty has been defined in various ways. People are defined poor if they do not have sufficient income to satisfy their basic needs (WB, 2004). Since developing countries receive immense foreign aid from developed (western) countries for poverty alleviation programme, the poverty concept is influenced by westerners accordingly (Marklund, 1990). UNDP (2004) has defined poverty as a state in which opportunities and choices most basic to human development are denied to lead a long, healthy, creative life and to enjoy a descent standard of living, freedom, dignity, self-respect and respect for others. In the recent days, it is a multidimensional phenomenon that encompasses low-income, lack of assets, skills, resources, opportunities, services and the power to influence decisions that affect an individual's daily life (SEEP, 2006).

Micro-enterprises: Enterprise means an organisation primarily for production and commercial sale of the industrial products for the material benefit of the owner (Harper, 1984). In Nepal, micro-enterprise is defined as an economic entity that carries the features of self-employment, self-managed, employing 1-9 persons, fixed capital investment up to Rs 200,000 (excluding land and building), power machine (not exceeding 5 KW and no licensing requirement - Industrial Act, 1992 (Mol, 1992).

2.2 Review of the MEDEP Model

MEDEP has been established itself as a low-income community-focused programme implemented with the goal of reducing poverty in rural areas by helping them produce goods and services for the local consumption. This is designed with a new approach to creating rural employment through micro-credit to entrepreneurs. Although profit is the main motive for operating micro-

enterprises, the support to low-income families contributes to mainstream them in economic development.

MEDEP's this model for sustainable livelihoods and enterprise development is presented in Figure 1.

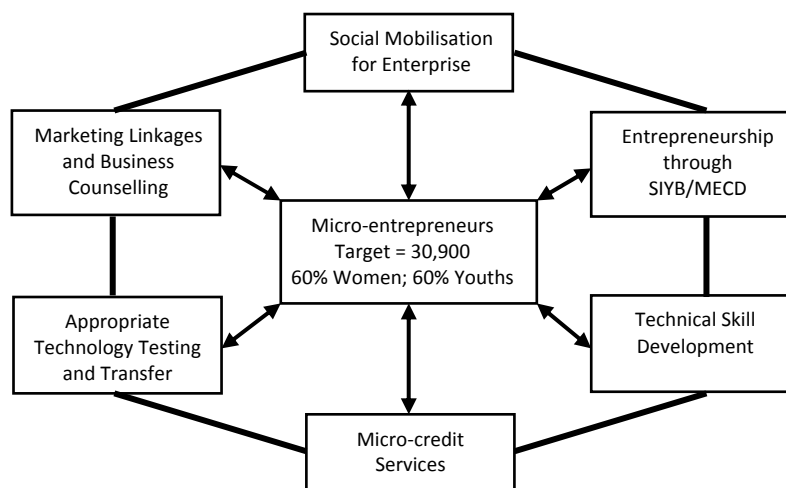


Figure 1: MEDEP Model for sustainable livelihoods and enterprise development

3. Research Methodology

3.1 Conceptual Framework

Micro-enterprises play a crucial role in alleviating poverty. In order to promote enterprise in Nepal, there is a need to stimulate entrepreneurial culture among the people so that the overburden of employment can be shifted from the agriculture sector to the industrial sector. Micro-enterprise forms an essential element in the promotion of broad-based economic growth and improvement in the well-being of the poor and women by providing significant income and employment-generating opportunities.

3.2 Analytical Framework

In this study, gross margin has been estimated by considering the variable costs. The variable cost must be specific to single enterprise and thus varies in proportion to the size of the enterprise. The cost and return in this study were estimated as follows.

$$\text{Gross margin} = \text{Gross return} - \text{Total variable costs}$$

$$\text{Gross return} = \text{Quantity of product sold} \times \text{Price per unit product}$$

$$\text{Total variable cost} = \text{Sum of all variable costs}$$

$$\text{Net profit } (\Pi) = \text{Total revenue } (TR) - \text{Total costs } (TC)$$

$TR = \text{Quantity of output (Y)} \times \text{Price per unit output}$

$TC = \text{Total fixed costs (TFC)} + \text{Total variable costs (TVC)}$

$\text{Cost-benefit ratio} = \text{Gross return} / \text{total costs}$

3.3 The Data

This study was conducted in Baliya, Darakh, Shreepur, Masuriya and Sadaypani VDCs and Dhangadhi Municipality of Kailali district. There were 1,435 entrepreneurs involved in 33 enterprises in the study area. Out of them, nine different types of enterprises were selected for this study. From these nine enterprises, 75 entrepreneurs were selected randomly. The data was collected by using structured questionnaire.

4. Results and Discussions

4.1 Demographic Characteristics of the Sample Households

Majority (69%) of the respondents were Tharus followed by 19 percent Bhramin-Chhetries and 12 percent others. There were more women entrepreneurs (75%). Most of the entrepreneurs (87%) were in the age group of 20-40 year (where 64% were between 20 and 30). It clearly indicates that the programme was able to include youths and retain them in the country. There was a very low level of literacy - 56.7 percent illiterate and 22.4 percent just literate. Agriculture was the major occupation (44%) followed by 33 percent wage labour, 11 percent business, 12 percent others.

4.2 Land Holding of the Sample Households

Land holding ranged from 0.5 to 5 Kattha. There were 77.3 percent households having only up to 2 Kattha land followed by 6.6 percent holding 2-4 Kattha and 16 percent holding more than 4 Kattha. It shows that MEDEP has reached to small land holders.

4.3 Micro-enterprises in the Study Area

There were nine types of enterprises in the studied sample (Table 1). Majority (48%) of the enterprises were agriculture-based beekeeping, vegetable and fishery). People took up these enterprises after they were given an enterprise development training named SIYB (start and improve your business). SIYB has four stages namely ToPE (training to potential entrepreneurs), ToSE (training to starting entrepreneurs), ToEE (training to emerging entrepreneurs), and ToGE (training to growing entrepreneurs). There were several areas covered in the training out of which the entrepreneurs chose the nine types (Table 1). As encouraged by MEDEP, all the entrepreneurs were associated with the enterprise groups. Majority (92%) of the sample entrepreneurs were operating their

Table 1: Types of micro-enterprises

Enterprise type	Number	Percent
Beekeeping	18	24
Vegetable farming	15	20
Incense stick-making	11	14.7
Candle-making	10	13.3
Tailoring	7	9.3
Dhakiya	5	6.7
Tika	3	4
Fishery	3	4
Bamboo crafts	3	4
Total	75	100

own enterprise whereas eight percent were operating in a group. Out of them, 87 percent were selling their produce in the local market, 12 percent in the national and one percent in the international markets.

4.4 Economic Analysis of Micro-enterprises

Distribution of Respondents by Income from Micro-enterprise

There was a great variation in the income made from micro-enterprises. Though majority (46.7) of them were making less than Rs 10,000, others were making good income from taking up a micro-enterprise (Table 2). Though the income was only partially sufficient to alleviate poverty, other benefits of the programme such as women empowerment through various training and exposures and support to children's education were noteworthy.

Table 2: Distribution of respondents by income from micro-enterprises

Income group (annual)	Number	Percent
Less than 10,000	35	46.7
10,000 to 20,000	16	21.3
20,000 to 30,000	13	17.3
30,000 to 40,000	5	6.7
More than 40,000	6	8.0
Total	75	100
Range = Rs 1,500 to Rs 540,000		
Mean = Rs 23,891; S.D. = Rs 62,551.50		

Cost-Benefit Ratio

The micro-enterprise conceptually employs self and family labour. Most of the entrepreneurs were marginal farmers and they were involved in agricultural works. Hence, the cost of labour remains with the family as a return to labour. In order to assess the benefit from the enterprises, the total cost was computed with and without including labour cost and the cost-benefit ratio was also computed accordingly as with and without including labour cost. It was found that the cost-benefit ratio of the enterprises without labour cost was higher. Cost-benefit ratio including labour was much lower indicating that the enterprise is not viable (Table 3). The cost-benefit ratio of candle-making was lower than 1 even when the cost of family labour was excluded. Because this cross-section study could not capture the effect of business cycle, it should be further studied by including time series data to make any conclusion on its profitability. With MEDEP intervention, there was an increase in the farm activity as well. There were more number of livestock added by the entrepreneurs' families, there was increased agricultural production and productivity. The entrepreneurs' training and exposure to market was found to have contributed to this achievement as well.

Table 3: Cost-benefit ratio from the sample micro-enterprises

Enterprise	Gross return	Total costs		Cost-benefit ratio	
		With labour	Without labour	With labour	Without labour
Beekeeping	19,725.00	17,612.30	8,462.32	1.12	2.33
Fishery	40,000.00	30,443.30	21,293.30	1.31	1.88
Incense stick-making	16,818.00	29,684.30	11,384.30	0.57	1.48
Candle-making	2,000.00	16,265.80	7,115.83	0.12	0.28
Tailoring	25,500.00	32,815.30	5,365.33	0.78	4.75
Bamboo crafts	7,000.00	19,115.10	815.14	0.37	8.59
Vegetable farming	22,933.00	35,823.30	8,373.25	0.64	2.74
Tika	34,500.00	26,058.90	7,558.94	1.32	4.56
Dhakiya	3,800.00	16,506.00	1,506.00	0.23	2.52

4.5 Changes in Poverty Parameters after MEDEP Intervention

As presented in Table 4, there was a positive effect of the enterprise on poverty alleviation in the study area. The parameters like income, social respect, position in the society, social gathering, social awareness and general household cleaning were found increased after MEDEP intervention. Similarly, the aspects like gender disparity and caste discrimination was found decreased.

Table 4: Changes in poverty parameters after MEDEP intervention

Parameters	Increased		Decreased		Same	
	No	%	No	%	No	%
Income	69	92	-	-	6	8
Social respect	62	82.7	-	-	13	17.3
Position in society	65	86.7	-	-	10	13.3
Social gathering	58	77.3	-	-	17	22.7
Gender disparity	-	-	67	89.3	8	10.7
Caste discrimination	-	-	61	81.3	14	18.7
Social awareness	62	82.7	-	-	13	17.4
Household cleaning	66	88	-	-	9	12

5. Conclusions and Recommendations

5.1 Conclusions

It was found that women's participation in the micro-enterprises was high and the income made from the enterprises was satisfactory for them. It is concluded from these findings that micro-enterprises have a tremendous potential in the socio-economic upliftment of the rural women. However, there is a need to provide proper technology to enhance productivity.

5.2 Recommendations

From the major findings of this study, the following recommendations are made for policy implications:

- The entrepreneurs should be provided with a package of technology to enhance productivity.

- Since MEDEP's market-led and integrated approach was found effective in promoting micro-enterprise and raising income of the rural poor, especially of women, the poverty alleviation programme should replicate this approach.
- There should be a regular interaction between field workers, entrepreneurs and researchers to discuss emerging issues on enterprise management.

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