

Micro-Enterprises Development for Poverty Alleviation

Volume II



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Analytical Summary of Research Reports¹

Introduction

There were 18 reports (14 theses: 1 Doctoral, 10 Master, and 4 Bachelor; and 4 research reports: 2 commodity feasibility studies and 2 district feasibility studies) reviewed. This section presents the analytical summary of these theses and reports. The content of this section, therefore, is limited to what was presented by the authors in their original papers. These theses/research were supported/undertaken by MEDEP. The contents of the reviewed papers have been summarised in the following seven sections.

1. Poverty and Livelihoods

Though poverty can be defined in various ways in the reviewed reports, there is one common element in all of them. It is considered as a state in which people cannot satisfy their basic needs. Absolute poverty refers to a state in which the individuals lack the resources necessary for subsistence; whereas the relative poverty refers to a situation in which the individuals lack resources when compared with that of other members of the society. In the reports reviewed, poverty is mainly referred to as income poverty and thus the research have emphasised on a measure of income increase as a proxy of a measure of poverty decrease. These reports have reflected the ways of earning for living from livelihoods approach. In these reports, livelihoods have been considered to consist of both generation of income as well as the ownership of assets that reduce the vulnerability of marginalized communities. The means of livelihoods have been shown revolving around resources such as land, crops, livestock, labour, knowledge, skill, community institutions, and social relationships among others.

These reports have shown that the incidence of poverty is high in rural areas where agriculture is the main source of livelihoods. It is closely linked with geopolitical dimensions, socio-cultural issues and the development process and practices of the past. Hence, poverty eradication is not as simple as it sounds, yet the task is not impossible if the resources available today are properly mobilised.

These studies have shown that poverty can be reduced by promoting farm-based micro-enterprises such as vegetable production and marketing, fruit production and processing, milk production and processing, vegetables and fruit nursery raising, livestock raising (poultry, goats, sheep, pigs), etc.; forest-based micro-enterprises such as bamboo products, *babiyo* rope, *bhimal* and *ketuky* ropes, mat-making, non-timber forest products (NTFPs) trading, etc.; and off-farm micro-enterprises such as food processing (*daltho*-, jam-, pickle-, beaten rice-, and *bhujjiya*-making among others), service providing (tailoring, shoe-making, hair cutting, electronic repairs,

¹ By Prahlad K Thapa, Ph. D. 2012 - Review commissioned by MEDEP

agro-vet, and so on). One common point of the reports is that the production should be scaled-up and commercialised in order to capture the bigger chunk of the market and benefit the large number of small producers. Working in a group and organising into a cooperative was found as one of the ways of doing it.

The studies have recommended that MEDEP should give priority to coordination and linkage with other line agencies (Village Development Committees, non-governmental organizations and others) for external funds. While seeking support from other organizations, priority should be given to those activities which are selected for the poorest of the poor, vulnerable and disadvantaged Dalit communities. There should be a regular training programme to update entrepreneurs' knowledge and skill to improve the quality of produce and to reduce the cost of production to be competitive. To achieve them, related institutions such as Department of Cottage and Small Industries (DSCI), District Agriculture Development Office (DADO), District Livestock Office (DLO), Women Development Office (WDO), District Forest Office (DFO), and other backstopping resources should be integrated in the implementation of micro-enterprises for poverty reduction.

2. Empowerment and Inclusion

Empowerment: The term empowerment in the reviewed papers has referred to the empowerment of women. This term was found to have different connotations in different socio-cultural and political contexts in the reviewed papers. It was found to have been based mainly on value and belief systems. Somehow, all the papers have used the term empowerment very close to the one given by Mathur in her book "Women in Transition in South Asia" where empowerment is defined as "the process of gaining control over the self, over ideology and the resources, which determine power". It indicates that adequate social and economic facilities, employment opportunities, and access to property and wealth, marketing as well as changing the division of labour are necessary conditions for women's empowerment. In this sense, empowerment is a multi-dimensional social process that helps people gain control over their own lives. Empowerment process is governed by various factors such as gaining equal access to and control over productive resources, ownership of land, increased mobility and exposure, access to education, skill development, capacity enhancement, ability to choose and invest, and participation in decision-making at the household and community levels.

Income generation is a step towards empowerment. Micro-enterprises play a significant role to create employment opportunities and generate income. The reviewed papers have commonly presented that empowered women take more active roles at home and community decision-making. The general finding of the reviewed papers was that micro-enterprise programmes have the potential to transform power relations and empower both men and women. Participation in community-based organisations and position held there contributes to enhance decision-making power in women. Most of the papers have reported that majority of women in the study samples

were found independent to go out from home, participate in community organisations and maintain their relationship with the community people. Even at home, the women entrepreneurs were found to have a co-worker's role with their husbands in the family. On the whole, a general conclusion from the reviewed papers is that women's active participation in income-generating activities such as micro-enterprise leads to their empowerment.

The reviewed papers have shown that MEDEP's efforts to empower the people through enterprise 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 been possible because the MEDEP model tied-up various key components. Access to loan made the micro-entrepreneurs (MEs) able to take up an enterprise and their affiliation with micro-entrepreneurs' group (MEG) supported them to solve their problems by themselves and market their produce. By taking up an enterprise, the MEs were more assertive because they had an employment opportunity and income to finance family needs and send their children to better schools. On the whole, MEDEP seemed to be a best model to empower women through micro-enterprise creation and development. In light of the success of the MEDEP model in empowering women through income generation, the MEDEP model should be expanded to more areas and districts.

Social Inclusion: The reviewed papers have touched the issue of social inclusion but have not talked about the concept of social inclusion. Nonetheless, their aspect of problem identification, study approach and discussions on social inclusion is around creating environment for the people, who are systematically disadvantaged, to get the same or more opportunities as available to others to increase their income and escape from poverty. The papers have indirectly reflected that certain categories of people are discriminated against on the basis of sex, caste and ethnicity. The reviewed papers have indicated that these people should have the same rights and opportunities as others in the society.

The papers have argued that socially excluded people such as poor, women, Dalits and Janajati usually lack skills and capital to start an enterprise. The papers have extensively reviewed the Micro-Enterprise Policy 2007 and the periodic plan (Five Year Plans, Interim Plan, etc.) and have appreciated that the government has emphasised on the promotion of micro-enterprises to create employment, generate income and improve the lives of these excluded people.

The reviewed papers have shown that MEDEP has successfully managed to provide credit to those people living on the edge of poverty who are considered as unbankable by the commercial banks. The programme has provided opportunities to the rural poor, women, Dalits, and indigenous peoples. On the whole, though MEDEP has been applauded for achieving the target of reaching 30 percent ultra poor and socially excluded people up to its Mid-term Evaluation time (2006), its achievement in terms of reaching women (60% reached) was still below the target of reaching 70 percent.

3. Access to Financial Services

Access to financial services in the reviewed papers are presented in the forms of access to finance, access to credit, access to micro-credit, access to micro-finance and access to finance. Yet, the papers have talked about the same thing, that is, access to the financial capital that an entrepreneur would need to establish and operate his/her micro-enterprise. These papers have presented with emphasis that entrepreneurship development, gender equality and social inclusion, capacity building, appropriate technology transfer, and micro-credit are the integral parts of MEDEP. However, MEDEP itself did not provide micro-credit to micro-entrepreneurs. It was arranged through partnerships with (i) the private sector, (ii) the MFIs, and (iii) the commercial banks to link micro-entrepreneurs with their credit services. Micro-credit under the arrangement of MEDEP has targeted poor and vulnerable people, especially women, Dalits and Janajati who lack skills and capital to start an enterprise. The reviewed papers have commended that MEDEP has successfully managed to provide credit to those poor people who are considered as unbankable by the commercial banks.

The reviewed papers have shown that all the micro-entrepreneurs could not get credit to start and operate their micro-enterprise. The result on the status of borrowers up to the period of Mid-term Review (MTR) showed only 61 percent micro-entrepreneurs had access to credit and the access was very low in case of Dalit (11%), indigenous communities (23%) and women (43%). Among the borrowers, there were only 23 percent entrepreneurs who secured credit through micro-finance institutions. The reviewed papers have referred to the number of borrowers to analyse the access to credit. However, the papers have not discussed further whether there was no need of a credit for those micro-entrepreneurs who did not borrow or they could not get access to a credit. Among the borrowers, men were borrowing more than women. The younger the enterprise, the lesser was the borrowing of micro-credit. Dalits showed high propensity to borrow. The probability of borrowing was high with those entrepreneurs who were running service-related micro-enterprises.

The overall conclusion was that micro-credit had positive effect in terms of income generation, employment creation and savings. The increase in employment was more for family labour. Hence, as in other countries where self-employment is prestigious, micro-credit programme is thus becoming popular in Nepal too.

The ability of micro-credit in reducing vulnerability of the poor by establishing their own micro-enterprises and increasing their net wealth is well-documented in the reviewed papers. They have also shown that though micro-credit is a necessary condition but integration of micro-credit with training, market linkages, social mobilization, networking, etc. was a sufficient condition for the promotion of micro-enterprises. MEDEP was found to have well considered these facts in its programme design and implementation.

4. Technologies

All the reviewed papers have clearly shown that access to appropriate technology (technology transfer) is an integral part of MEDEP's approach to develop entrepreneurship. MEDEP has adopted a natural resource utilization and sustainability approach which concerns with the use of natural resources by using indigenous knowledge and technology for socio-economic upliftment of the poor and disadvantaged people. The Micro-Enterprise Policy (2007) has also emphasised on indigenous knowledge and technology for the utilisation of local natural resource.

Most of the papers have opined that the lack of knowledge, skill and suitable technology was a big problem for the potential entrepreneurs to take up an enterprise. Thus, it shows that these papers have somehow taken technology as something different from knowledge and skill. Technology should be understood as hardware of production which comprises knowledge, skills and procedures. On the whole, technology in these reviewed papers were found referring to the making, modifying and using procedure (or method) and/or tools (or machines) in order to solve a problem (or improve a pre-existing solution to a problem) in order to perform a specific function. For example, death of poultry birds in Sunsari, yellowing of the plant and dying of mandarin orange fruit trees from the tip in Parbat, rhizome rot in ginger in Pyuthan, lack of spinning machine for Allo yarn, etc. were technological problems being faced by the entrepreneurs to scale-up their production.

These papers have not shown which phase of technology transfer they are referring to. But by the nature of enterprise, it seems these papers were referring to material transfer phase of the technology² in micro-enterprise creation and development. Skill development training was the major component in technology transfer in MEDEP. This was mainly on the procedure of using the materials provided or collected locally to produce a marketable product. There was a common conclusion in most of the papers that the lack of technology was a problem in establishing micro-enterprises. Likewise, the common recommendation was that a package of technology should be provided to micro-entrepreneurs to enhance productivity and achieve competitiveness in business.

5. Markets and Products

In all the reviewed papers it was clearly mentioned that MEDEP's intervention and entry is based on the thorough understanding and study of the local resource potential, people's demand and market opportunity. MEDEP has adopted a cluster approach in the selection of potential market for effective programme implementation. The clustering was done on the basis of accessibility, convenience and implementation/monitoring effectiveness. Both input (backward linkage) and output

² Technology transfer has three phases: material transfer (physical forms such as seeds, machine, stepwise procedure, etc. that can be used directly); design transfer (copying by seeing, local fabrication, adaptive research, etc.); and capacity transfer (education and training for innovation).

(forward linkage) markets are duly considered for the successful implementation of the programme.

It was consistently presented by most of the papers that MEDEP orients and trains micro-entrepreneurs in market-demand analysis at the time of preparing its business plan. Market demand is taken as an indicator for the success of micro-enterprise by entrepreneurs. The target markets of micro-entrepreneurs were mostly the local and district markets. Some of them were producing for national market (products like handmade paper, honey, NTFPs, etc.) as well as international market (products like vegetable seeds, herbal soaps, carpets, etc).

On the product front, the major farm-based micro-enterprises were vegetable farming, fruit production, livestock raising and NTFP production and collection. The major off-farm micro-enterprises were food and drink processing, fibres and textiles, wool products, leather products, accessories, carpet and home wares, incense, candles, etc. on the product front; and health and beauty, electronic appliances repair, tailoring, etc., on the service front.

Selection of a type of micro-enterprise (products and services) was found to have started with the introduction of existing product in the existing market and then gradually developing the products to meet the emerging quality requirements of the product/services.

However, the reviewed papers were not explicit about the product market diversification. There were some analyses on marketing problems. Some of the MEDEP entrepreneurs were reported to have no systematic market linkage. In addition, quite a good number of entrepreneurs were found relying on external markets for their products as local markets were not able to consume all of the production. There were different recommendations made in the reviewed papers for improving marketing. These recommendations are summarized here in line with four standard product market intervention stages as follows.

Stage I: Market penetration approach

Strategy - *Existing product in the existing market*: Produce what is being produced earlier and sell in the existing market the maximum possible.

Stage II: Product development approach

Strategy - *Improved (or new) product in the existing market*: Once it becomes difficult to sell that produce in the existing market, and then see what improvement can be made in the produce so that more can be sold in the existing market.

Stage III: Market development approach

Strategy - *Existing product in the new market*: Once it is found that no more quantity of that produce can be sold in the existing market, then find a new market where that produce can be sold.

Stage IV: Diversification approach

Strategy - *New product in the new market*: Once it is found that all the identified markets are saturated with the existing (and improved) products, and then diversify production to match changing market demands.

Some of the reviewed papers have commented that Business Development Service Providing Organizations (BDSPOs) do not have sufficient knowledge to support micro-entrepreneurs with these approaches and market their produce in local, district, national and international markets. Henceforth, it has been recommended that there should be sufficient trained BDSPOs in place to deliver skills training and business information. For this, there is also a need to update them through rigorous training to meet the changing needs of the people overtime and thus the market demands for goods and services.

6. Sustainability of Micro-Enterprises

MEDEP aimed to improve poor people's livelihood options by sustainable development of micro-enterprises. The reviewed papers have remarked that it is a unique programme in the sense that it develops sustainable micro-enterprises for low-income families as a means to reduce poverty. MEDEP has been successful in establishing sustainable micro-enterprises because its intervention is based on the thorough understanding and study of the local resource potential, people's demand and market opportunity. In one way or the other, these reviewed papers have identified six elements of sustainability of the established micro-enterprises. A short note on the sustainability of these elements is summarised here.

- *Entrepreneurship development*: through activation of latent entrepreneurial attribute in people by conducting micro-enterprise development training such as Start and Improve Your Business (SIYB) and Micro-Enterprise Creation and Development (MECD).
 - *Technology transfer and skill development*: through action research and practical training
 - *Market linkage establishment*: through thorough identification of input and output markets and the market players
 - *Product development and diversification*: through a thorough research on resource potential, and product-market intervention needs
 - *Access to financial services*: through partnerships with (i) the private sector, (ii) the MFIs, and (iii) the commercial banks to link micro-entrepreneurs with their credit services; and mobilization of savings and credit cooperatives at the local level
 - *Business management*: through business counselling
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In addition to these six key elements, these papers have also appreciated various aspects that have contributed to the sustainability of micro-enterprises. Some of them are summarized below.

- *Organising micro-entrepreneurs in micro-entrepreneurs' group (MEG)*: Since most of the goods produced by these micro-entrepreneurs are focused on ensuring local self-sufficiency for supply of products and services, the MEGs were found effective to ensure sustainability on solving market problems.
- *Participation of target group*: Since the programme was based on the felt need of the poor and disadvantaged people, the participation was sustainable in the long run.
- *Women-focused*: Since the programme targeted more women, their involvement made the micro-enterprises sustainable.
- *Optimum use of local resources*: With their enhanced knowledge on resource management, micro-entrepreneurs are making optimum use of local natural resources leading to sustainable availability of local resources.
- *Local capacity building*: Micro-entrepreneurs are supported by local service providers whose capacity was built by MEDEP.
- *Integration of interrelated elements*: Such as micro-credit with training, market linkages, social mobilization, networking, etc. has also contributed to the sustainable micro-enterprise development.
- *Entrepreneurs' institutional development*: Formation of Micro-Entrepreneurs' Group Association (MEGA) and District Micro-Entrepreneurs' Group Association (DMEGA) was another important aspect for sustainable business development services to micro-entrepreneurs.
- *Collaboration with other stakeholders and actors*: MEDEP's modality of working in collaboration with other service providers has strengthened entrepreneurs' network, thereby contributing to the sustainable operation of the established micro-enterprises. MEDEP provides services like training, social mobilisation, market exploration and business counselling in collaboration with other partner organisations. Micro-credit is provided in close collaboration with financial institutions such as Local Development Fund/District Development Committee (DDC), the commercial banks, and savings and credit cooperatives. Backward and forward linkages are supported in collaboration with District Chamber of Commerce, District Agriculture Development Office, District Forest Office, District Chambers of Commerce and Industry (DCCIs).

7. Scope for Future Research

There are many recommendations made for future research in the reviewed theses/reports. Many of them are general. One common point is that the study was

conducted in a small area and thus the recommendations made should not be generalised. For generalisation, they have opined that further study should be conducted with a large coverage. Nevertheless, some of the theses/reports were specific about indicating scope for future research. Some of them are summarised here.

- The MEDEP evaluation reports and other research are based on information from MEDEP participants. The results would have been more meaningful for policy implication if they were compared with the control group. Hence, it has been recommended by some of the research that a control group should be included in any kind of impact study in the future.
 - The baseline figure for comparison should be generated in the beginning for all potential participants (beneficiaries) in the programme so that their status at the end of the project can be compared with and without project situation. Otherwise, the income status of participants in various years of programme intervention cannot be compared and inference drawn about the impact of the programme. Hence, the future research on the impact of MEDEP should separate the participants by years of intervention.
 - Some of the theses/reports have recommended that future research should include the feasibility of establishing another enterprise by using the by-products of the main enterprise.
 - Some studies have recommended that a separate study should be conducted to ascertain the type of incentives required to enhance livestock enterprise.
 - Commercialisation of agricultural enterprises has been recommended by many studies. However, these reports have not explicitly given any recommendation on how to achieve commercialization. They have, henceforth, recommended to conducting a separate study on commercialization of agricultural enterprise.
 - Some studies have recommended conducting future studies by covering a longer period as agriculture and livestock enterprises require more than two years to give better returns.
 - There were specific recommendation for future research such as weed control in Allo yarn production, and rhizome-rot control in ginger production.
 - Though much has been said about the sustainability of the MEDEP-supported micro-enterprises, these reviewed papers have not dealt anything on the drop-out rates of entrepreneurs. Some future studies should be conducted on drop-out rates as well.
 - MEDEP aimed to develop entrepreneurs to a self-reliant stage before phasing out. For this reason, future research should be on the degree of independence of entrepreneurs and supports required in the future to enhance the participants' self-reliance.
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