

Micro-Enterprise Development Programme: a Successful Model for Poverty Alleviation through Employment Generation in Rural Areas of Nepal

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Abstract

Micro-Enterprise Development Programme (MEDEP) was piloted for five years from 1998 to 2003 in 10 selected districts of the country by Ministry of Industry (MOI), Government of Nepal, with the technical and financial supports of the United Nations Development Programme (UNDP). The main goal of this project was poverty alleviation through micro-enterprise development creating rural employments. With the success of this pilot phase in poverty alleviation GON and the UNDP extended this project into the second expanding in an additional 15 districts the second with the supports from the UNDP and other donors such as Department for International Development (DFID) of the UK Government, Australian Agency for International Development (AusAID) and New Zealand Agency for International Development (NZAID) for four years from 2004 to 2007. Currently, the project is in its third phase which is being implemented in 36 districts with the support of GON, the UNDP and AusAID.

The project has included a diverse group of target groups mainly low income families and socially excluded communities such as Women, Unemployed Youths, Dalits (untouchable caste), Indigenous Nationalities (Janajatis), Other Castes, Madhesis, Religious Minorities such as Muslims, Conflict and Disaster Affected Families, HIV/AIDS and Injecting Drug Users. The project has applied stringent selection criteria to select these target groups and followed an integrated approach of business development services (BDS) in sequential order to support and promote these poor and excluded to become a successful entrepreneur. The BDS provided by the project are social mobilisation for enterprise development, entrepreneurship development through Start and Improve Your Business (SIYB) and International Labour Organisation (ILO) package of entrepreneurship development replicated in more than 100 countries, skills development training, linkage to financial institutes for access to credit, support for accessing appropriated technology, market promotion of products and services and business counselling.

As of October 2009 the project has created about 41,098 micro-entrepreneurs in the main sectors such as agro-based, forest based, non farm based, artisan based, service based, tourism based, etc. enterprises. Among them 68 percent women, 21 percent are Dalits, 42 percent are Indigenous Nationalities and remaining 37 percent other higher castes. The project has generated employment to more than 46,000 employment in the rural areas. The average per capita income of the targeted groups has increased by 264 percent and the total profit generated by these entrepreneurs is NRs. 1,886,000,000 (US \$ 25,486,486). Issues and Challenges and Approach/Strategy for Greater Rural Employment Generation are discussed.

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Introduction

Micro-Enterprise Development Programme (MEDEP) with main objective of poverty alleviation through creating off-farm employment and income opportunities for the rural poor and excluded, initiated based on the government's Ninth Five-Years Plan. The joint venture of Government of Nepal and the United Nations Development Programme (UNDP) was initiated in 1998 as a pilot programme in ten districts of Nepal which advocated promoting self-employment opportunities in the informal sector to reduce the level of poverty amongst those living below the poverty line and socially excluded by engaging them in the micro-enterprise sector. With the success of the piloting phase from 1998 to 2003 for five years the programme was expanded in an additional 15 districts for a period of four year from 2004 to 2007 and is now the programme covered 36 districts in its third phase from 2008 to 2010. The phase-wise districts are given in Annex 1. During the first phase UNDP provided budget from its core fund of about US \$ 3.2 millions. During the second phase DFID, Department for International Development of the government of UK, Australian Agency for International Development (AusAID) and New Zealand Agency for International Development (NZAID) joined hand with the UNDP to expand the programme. The current third phase is being funded by UNDP and AusAID.

The goal of MEDEP is to improve the socio-economic conditions of the low-income families and socially excluded of Nepal. Similarly, the objective of the programme is to diversify the livelihoods and increase the average income low-income families through micro-enterprise development and employment generation.

Ministry of Industry (MOI) is the main implementing agency where as Ministry of Local Development (MOLD) and Ministry of Forest and Soil Conservation (MOFC) is the co-implementing agency. At the centre there is Project Board (PB) chaired by MOI and represented by MOLD, MOFSC and the UNDP. PB makes policy decision and guide for project implementation. In each district, District Enterprise Development Committee (DEDC), which is chaired by District Development Committee (DDC) Chairperson and backed by other district level government and non-government organizations, takes care for the implementation of the programme at district level. Several other organizations at centre and district level are playing their respective roles. MEDEP executes the programme via DEDC through Business Development Service Providing Organization (BDSPO) promoted and capacitated by MEDEP.

Target Groups

MEDEP's target groups are those living below the National Poverty Line¹ and Socially Excluded² represent the following sub-groups:

- ★ Women – 60 percent
- ★ Unemployed Youths – 60 percent

¹ The absolute poverty line definition of National Planning Commission (NPC), Government of Nepal is per capita income (PCI) of NRs. 7,696 (US \$ 100 approximately) at 2007 market price.

² Socially Excluded groups are defined in UNDP's Country Programme Action Plan as "Women, Dalits, Indigenous Nationalities (Janajatis), Madhesis, Muslims, people with disability, and people from geographically remote areas

- ★ Dalits – 30 percent
- ★ Indigenous Nationalities (Janajatis) – 40 percent
- ★ Other castes – 30 percent
- ★ Madhesis
- ★ Religious Minorities such as Muslims and
- ★ Conflict and Disaster Affected Families
- ★ HIV/AIDS and Injecting Drug Users

MEDEP Demand Driven Strategy

The first step of MEDEP implementation and is the district selection based on several criteria. The market demand of the products and services of micro-entrepreneurs, the existing local resource (raw materials) and the needs and demand of the target groups are assessed (Figure 1) for each selected districts and Rural Market Centres (RMC) are selected in each district as the centre for local economic development.

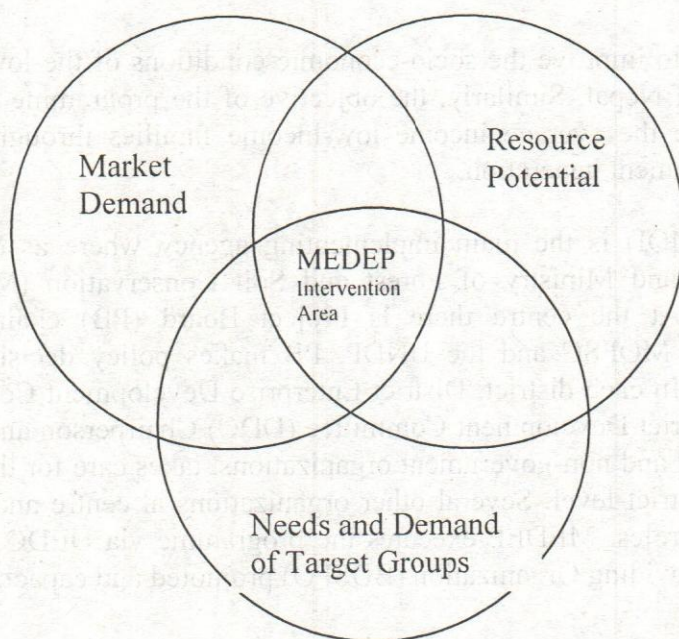


Figure 1: MEDEP demand driven strategy

Since the local Rural Market Centres (RMC)¹ can be the entry market for micro-enterprise products and services MEDEP considers the RMCs as the point of local economic growth. Each RMC covers from one to four Village Development Committees (VDCs) within its periphery. This creates immediate return on investment for low income micro-entrepreneurs, and provides them assurance on sustenance through enterprise activity as **poor peoples' products and**

¹ Rural Markets are considered as the economic growth centres at the rural areas and programme has focused to create immediate market for products produced by the low income people who live on subsistence economy.

services for poor peoples' consumption. This has helped in attracting the rural population in self-employment activities for sustainable livelihoods as an alternative to employment seeking. As the demand-driven strategy is the entry point of the programme, interventions should be based on the thorough understanding of the resource potential, people's need and market demand of products and services.

Demand Driven Model

MEDEP has developed a model which has been recognized by the Government and donor communities. Once it is determined that there is potential to create micro-entrepreneurs, MEDEP then follows an integrated approach that starts from social mobilization process and passes through five more processes in sequential order.

Social Mobilization for Enterprise Development

Social mobilization is an entry point for creating a micro-entrepreneur. Enterprise Development Facilitator (EDF) identifies the potential target groups by conducting either Participatory Rural Appraisal (PRA) or Rapid Rural Appraisal (RRA) or Appreciative Inquiry (AI). During the process, participatory well being ranking is done to identify poor and hardcore poor according to gender and ethnicity classification. Besides, people are oriented and made aware on micro-enterprise development. Identification of local resources is also carried out. MEDEP has developed five types of forms (A, B, C, D, and E), which are filled up during the field survey. These forms also give basic information of an entrepreneur. During the social mobilization, micro-entrepreneurs are oriented to be organized in a cooperative or group, such as Micro-Enterprise Group (MEG).

Entrepreneurship/Management Skill

Once potential target group is identified, s/he will be provided entrepreneurship skill. Basically, there are two types of entrepreneurship training packages tested, adapted, developed and used by MEDEP.

Micro-Enterprise Creation and Development (MECD), which is adapted from "Creation of Entrepreneur through Formation of Enterprise (CEFE)" an Entrepreneurship Development Module developed by GTZ and replicated in more than 100 countries including Nepal, is one of the packages. This package is good if the potential entrepreneurs are literate.

Start and Improve Your Business (SIYB)¹, which has been developed in Nepal with consultation with International Labor Organization (ILO) that has Start and Improve Your Business (SIYB) Level II, is another package which completes after conducting four stages (Figure 4). As most of the MEDEP's target groups were either low literate or illiterate later, this package is lower literate or illiterate friendly as they can easily understand by playing games and observing the illustrations and charts. During the SIYB training, participants are oriented to select enterprise and also taught how to prepare a business plan of that enterprise. The business plan is generally based on real enterprise. In the initial stage, TOPE and TOSE are given. After

¹ SIYB package is popularly used by projects and programmes in Nepal and ILO has replicated SIYB Level I in South Africa and five West African Countries. SIYB Level II is replicated to more than 100 countries including Nepal

one year or if micro-entrepreneurs want to expand their business, then TOEE and TOGE are provided.

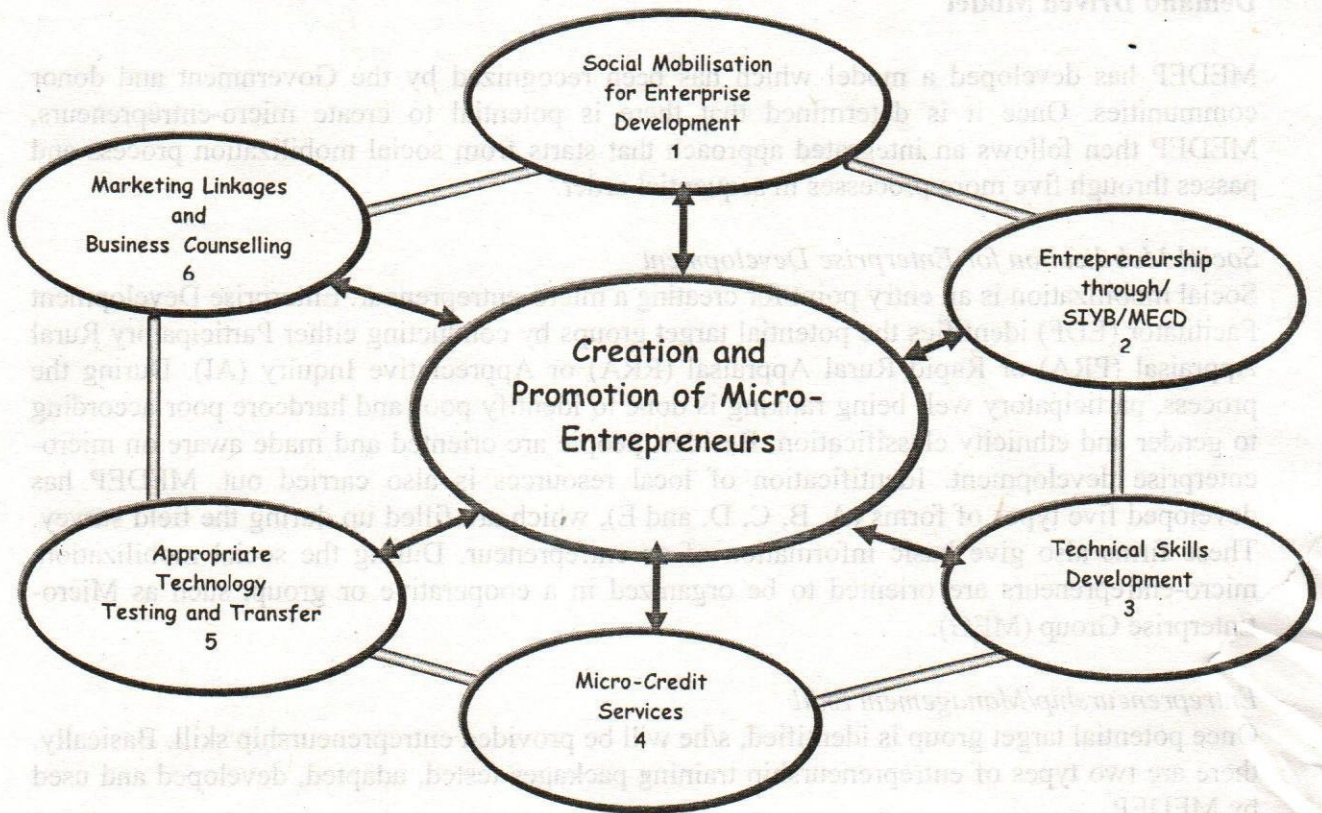


Figure 2: MEDEP Demand Driven Model

Technical Skills

During the SIYB training, micro-entrepreneurs select their micro-enterprise. To start their micro-enterprises, they need technical skill. They are therefore trained on technical skill according to what type of technical skill they require. The technical skill is generally provided to a group.

Micro-Credit

After the selection of micro-enterprise and accordingly having technical skill, micro-entrepreneurs need budget to start their business. In this case, MEDEP does not provide financial support rather it facilitates to have linkages with micro-finance institutions. In the first phase, Agriculture Development Bank (ADB) used to provide loan but it has not been continued due to the internal policy of the bank during the second phase. MEDEP has therefore identified private and public micro-finance institutions in the second phase. At the moment,

micro-entrepreneurs groups association signs memorandum of understanding (MOU) with the micro-finance institutions for getting loan.

Appropriate Technology

Once micro-entrepreneurs start their micro-enterprises, they might need technical support. Here "Appropriate Technology" refers user friendly and low cost technical skill, equipment and machine, and Common Facility Centre (CFC). In this case, MEDEP can provide support for appropriate technology but not to individual rather than in a group. MEDEP also support to carry out Participatory Action Research so that the output can be tested, verified, adapted, fabricated, replicated and disseminated in Nepal and elsewhere.

Marketing and Business Counselling

Marketing is important to sell the products produced by micro-entrepreneurs. For this, MEDEP provides support to micro-entrepreneurs. Support includes linkages with small to big enterprises, levelling and branding of the products, establishing of sales outlets, quality management, organizing and participating in the exhibition, and time to time business counselling.

Broad Sectors of Micro-Enterprises

MEDEP is now promoting various types of micro-enterprises focusing on various sectors. The Broad sectors of enterprises include:

- ★ Non Farm based
- ★ Forest based
- ★ Agro based
- ★ Service based
- ★ Artisan based
- ★ Tourism based

Progress of MEDEP as of October 2009

MEDEP's interventions responded to the emerging needs of the un-reached segments of rural women and men in the current context of political conflict, when lack of home based employment, absence of public services and feminization of poverty exhilarated the rural poverty. By exploiting the existing constraints as challenges for constructive transformation, MEDEP developed capacity of socially excluded groups at local level, specially targeting women clients who are left alone to look after family matters, due to outgoing nature (or migration) of male members. To date (as of October 2009), MEDEP succeeded to create 41,098 entrepreneurs including of 68% female. Out of this Dalit (untouchable and marginalized group of people) and Indigenous represent 21% and 42%, respectively (Figure 3). The achievement against the target is 119 percent.

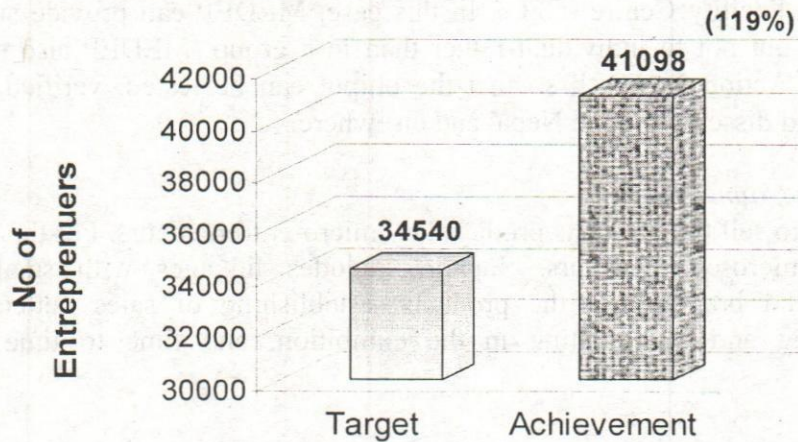


Figure 3: Target vs achievements as of October 2009

Due to MEDEP's intervention, women entrepreneurs, particularly, have been able to raise their status and identity inside and outside their households, and strengthen their role in household decision making. MEDEP initiatives have therefore brought changes in the social status of women, *Dalits*, and the excluded communities but more importantly empowered them in the families, societies and communities. Similarly, the most striking impacts of MEDEP has been contribution in the development of leadership among women, poor, excluded and marginalized communities.

The average change in per capita income (PCI) of entrepreneurs before and after participating MEDEP has been increased by 264 percent (Figure 4). The increase in income of the family of the entrepreneur due to her/his increase in the PCI is 64 percent.

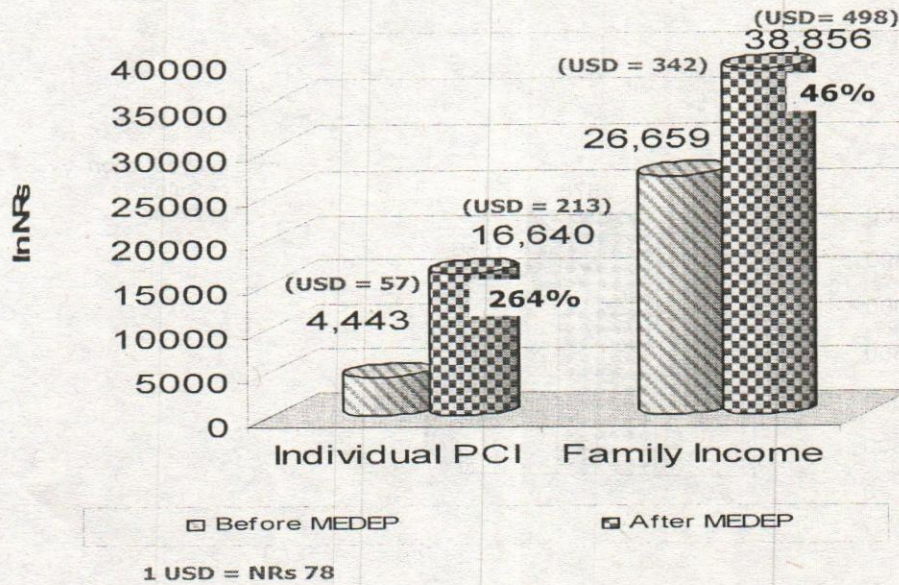


Figure 4: Change in per capita income (PCI) of entrepreneurs and their family income

The estimated value of total production of products and services of micro-entrepreneurs is Nepalese rupees (NRs.) 2,370,000,000 as of October 2009 which is equivalent to US \$ 32,027,027 and the estimated total sales value is NRs. 2,578,000,000 which is equivalent to US \$ 34,837,837 that has generated net profit of NRs. 1,886,000,000 equivalent to US \$ 25,486.486 (Figure 5). This amount of profit of entrepreneurs is already more than the project cost.

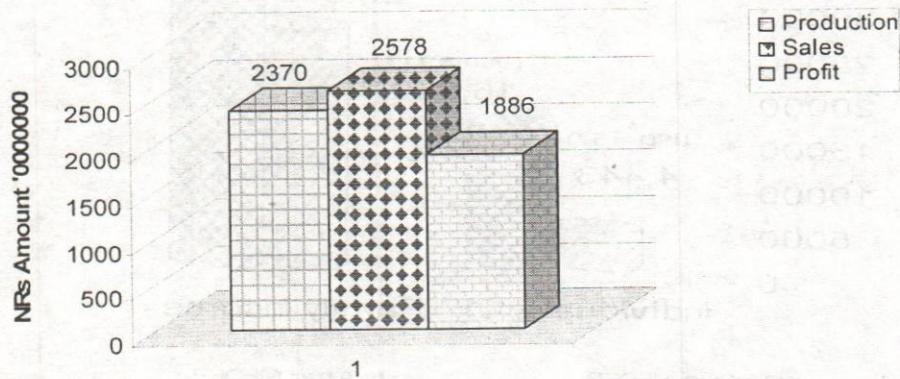


Figure 5: Production, Sales and Profit Values in NRs '0000000

Apart from poverty, the critical problems Nepal is facing lack of generation of adequate gainful employment opportunities. In such situation, MEDEP has created over 46,248 rural jobs (as of October 2009). Among the jobs, agriculture and non-agriculture covers 17,794 and 28,911, respectively.

The cost of creating one employment in micro-enterprise sector is approximately NRs. 15,000 (US \$ 200) which is very cost effective compared to small, medium and large enterprises. The average cost of creating one employment in small enterprise is more than NRs. 100,000 (US \$ 1,350) and in medium and large enterprises about NRs. 300,000 (4,000)¹. This indicates that for massive rural employment micro-enterprise sector is the most potential one.

Because of the job opportunities, many have been successful in adding assets while others have been able to save and deposit in financial institutions. Some have been successful in procuring durable consumer goods. This is a big change in the lives of the poor. In other words these people have been able to make macro impact not only through job creation and income generation but also through savings and investments.

¹ Study by International Labour Organisation (ILO), 2003.

Issues and Challenges

Despite having outstanding successful, MEDEP is still facing the following issues and challenges.

- ★ Despite having linkages with private and public micro-finance institutions, Micro-entrepreneurs are facing problem of getting loan for the expansion of their enterprises. Several reasons exist for having such dilemma. Outreach of existing micro-finance institutions is limited to urban areas. Rate of interest is also high. No policy exists for using informal savings.
- ★ Since more than five years locally elected body has not been in place. This has slowed down the development process of micro-enterprise. Major decisions related to development of micro-enterprise according to local self-governance act have not been taken place. Besides, commitments from DDC side are lacking.
- ★ To sustain Business Development Service Providing Organization, and Micro-Entrepreneurs' Groups Association (MEGAs) has become difficult. Their capacities have not yet been enhanced and they need support for few years.
- ★ MEGAs are still lacking to be more vibrant in participation in identifying and providing inputs to enterprise development policies and resource attraction at Village Development Committee (VDC) and District Development Committee (DDC) level.
- ★ A big challenge is to maintain consistency of products' quality, e.g., amount and regular supply of products, quality packaging, and labelling, branding, storage so as to meet the market standard.

Approach/Strategy for Greater Rural Employment Generation

MEDEP model has become the most cost effective for mass employment generation in rural area and therefore this model should be implemented nationwide. For this purpose Government of Nepal has taken initiative to implement it in all 75 districts of Nepal. National Planning Commission (NPC) and Ministry of Industry (MOI) have jointly prepared a strategy paper to expand this programme in phase-wise manner to cover all districts in the next five years and have started allocating budget since last year. The budget allocated by local body mainly 21 District Development Committees (DDCs) during the last fiscal year (2008/09) was NRs. 11,775,000 - 25% and MEDEP contribution was NRs. 35,100,000 (Figure 6).

Likewise, although in a small amount the central government has started allocating budget since the current fiscal year (2009/10). The budget allocated by the central government through Ministry of Industry (MOI) is NRS. 50,000,000 (25%) and local bodies such as DDCs, VDCs and Municipalities is NRs. 16,125,000 (8%), NRs. 56,280,185 (28%) and NRs. 2,700,000 (3%) respectively. MEDEP's contribution as matching fund for six months for overlapping period until December 2009 is NRs. 73,500,000 (36%) (Figure 7).

Ratio of Budget Allocation by DDC 2008/09

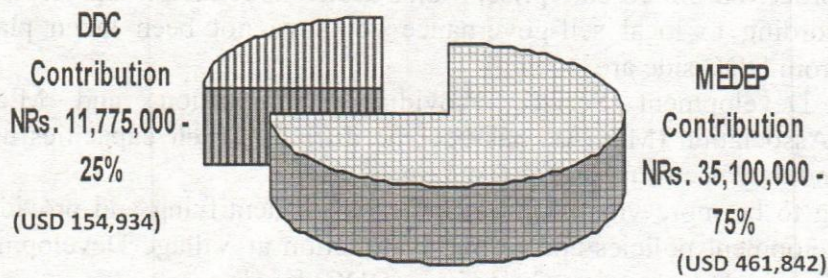


Figure 6: Amount of budget allocated by MEDEP and District Development Committees (DDCs) in fiscal year 2008/09.

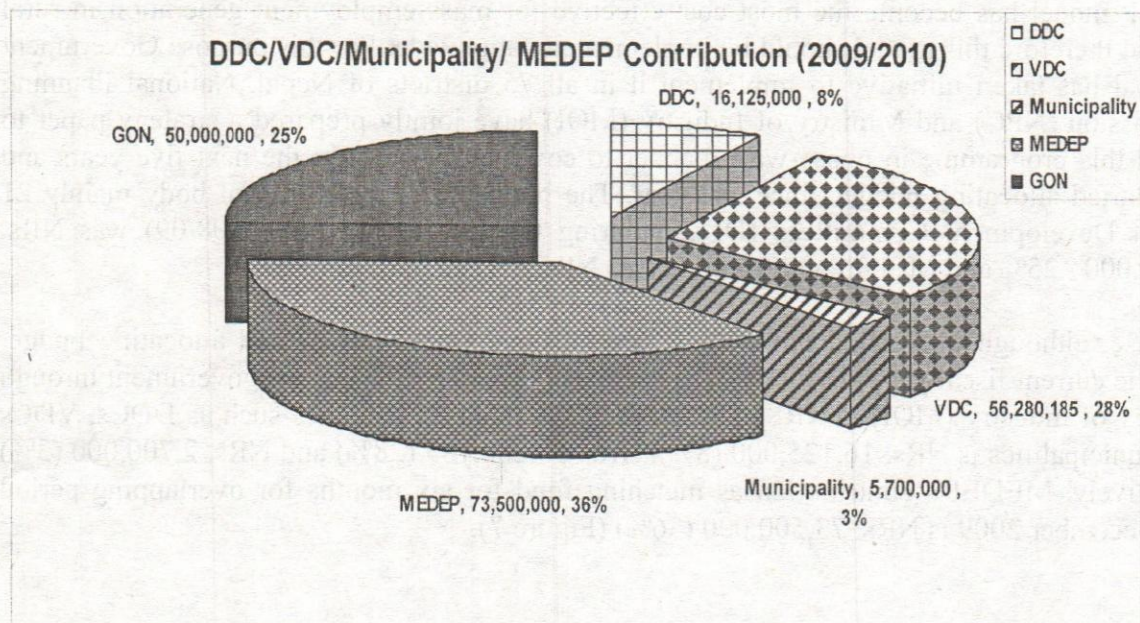


Figure 8: Amount of budget allocated by MEDEP and Central Government, District Development Committees (DDCs), Village Development Committees (VDCs and Municipalities in fiscal year 2009/10.

Government of Nepal has taken following initiatives to internalise MEDEP model into its national development programme such as:

- ★ Develop a Sector Wide Approach (SWAp) for expansion of MEDEP model from the existing 36 districts to 75 in the next four to five years
- ★ Allocate as possible as maximum resources from the central fund as well as local bodies such as DDCs, VDCs and Municipalities
- ★ Request donor agencies to put matching fund in the SWAp model basket fund
- ★ Increase the production skills of the entrepreneurs graduating them from micro to small enterprises to meet the market demands through economy of scale.
- ★ Develop linkages between micro-enterprises with small, medium and large enterprises
- ★ Develop poor and excluded friendly policies in enterprise sectors covering all potential areas such as agriculture, forestry, tourism, etc.
- ★ Add another milestone in success model of Community Forestry which has international recognition by judiciously and without depleting conserved forest by utilising the resources through value addition and marketing of high value products that will greatly help in poverty alleviation.
- ★ Extend MEDEP for another few years to use its expertise for capacity development of central, district and local level institutions wherein this model will be internalised. During this expansion phase Government of Nepal will focus on the following areas which are high labour intensive to create local level employment.
 - High value agro-based enterprises mostly Dairy, Sericulture and Honey Enterprises in Terai and Low Hills, Fruits and Vegetable Enterprises in Mid Hills, Sheep Rearing in High Hills for Meat, Carpet and Pashmina production.
 - Forest-based enterprises focusing on Non-Timber Forest Products (NTFPs) . e.g. medicinal and herbal, natural fibre, etc.
 - Artisan-based enterprise focusing on indigenous skills knowledge such as weaving, handicrafts, etc.
 - Tourism-based enterprises linking the existing enterprise products
 - Service based enterprises

The Export Potential Products Identified by MEDEP

Based on the past ten years experiences of MEDEP the following products have been identified having export potentials.

- ★ Honey: India and Third Countries: approximately annually 10,000 mt.
- ★ Allo (Natural Fibre Products): Third Countries – 50,000 meters hand woven fabrics and products annually
- ★ Herbal Soap (Chyuri and Neem): India and Third Countries - unlimited quantity
- ★ Bamboo Based Products: India and Third Countries - unlimited quantity
- ★ Ginger and Ginger Products: India – 10,000 mt. annually
- ★ Dhaka Fabric: Third Countries – 50,000 metres hand woven fabrics and products annually
- ★ Orange and Orange Products: India – 5,000 mt. fresh fruits and juice annually
- ★ Incense Sticks: India and Third Countries – Unlimited quantity
- ★ Lapsi Products: Third Countries – Annual Production 500 mt of different products
- ★ Nepali Paper from Lokta: Third Countries – Nepali paper based handicrafts - no estimation yet

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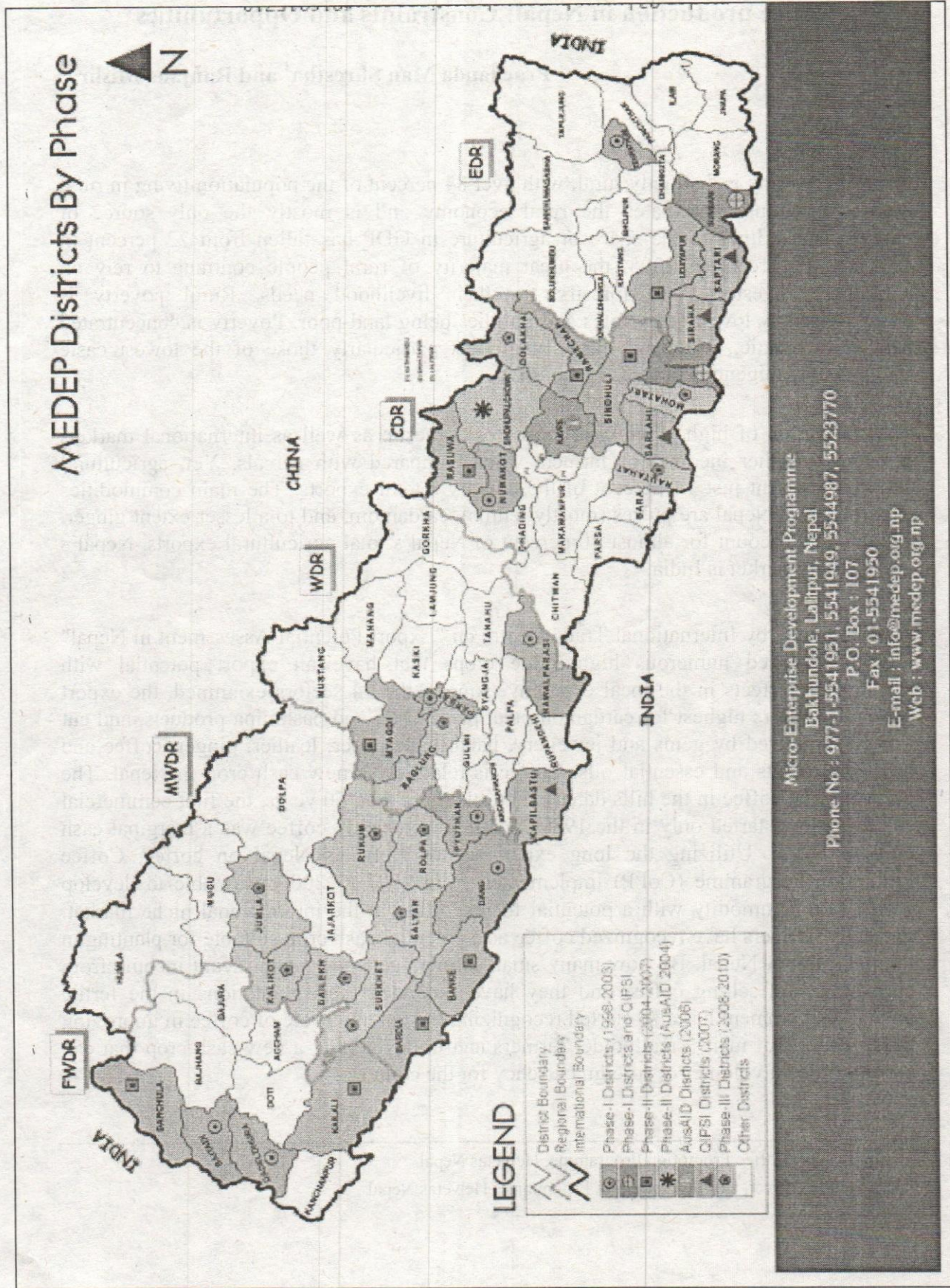
MEDEP Brochure 2009

MEDEP Management Information System (MIS) database, October 2009

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UNDP Projects Progress Reports 2008.

Annex 1: Showing geographical coverage in map of Nepal



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