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Micro-Enterprise Development Programme (MEDEP) Phase II

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Pulchowk, Lalitpur**

**Scoping Study for
MEDEP Phase III**

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List of Acronyms

ADB/N	Agricultural Development Bank of Nepal
APPSP	Agriculture Perspective Plan Support Project
APSO	Area Programme Support Office
BDS	Business Development Services
BDSP	Business Development Service Provider
BDSPO	Business Development Service Providing Organisation
BOG	Basic Operating Guidelines
CDF	Community Development Fund
CFUG	Community Forest Users Group
CRT	Centre for Rural Technology
CSIDB	Cottage and Small Industries Development Board
CSP	Community Support Project
DCSI	Department of Cottage and Small Industries
DDC	District Development Committee
DEDC	District Enterprise Development Committee
DFID	Department for International Development (UK)
DLGSP	Decentralised Local Governance Support Project
D-MEGA	District Micro-Entrepreneurs Group Association
DNH	Do-No-Harm
DPIO	District Programme Implementation Office
DRR	Deputy Resident Representative
EDF	Enterprise Development Facilitator
EDO	Enterprise Development Officer
EDU	Enterprise Development Unit
FECOFUN	Federation of Community Forest Users Groups in Nepal
FI-NGO	Financial Intermediary NGO
FNCCI	Federation of Nepalese Chambers of Commerce and Industry
FNCSI	Federation of Nepal Cottage and Small Industries
GEI	Gender Empowerment Index
HDI	Human Development Index
HEI	Human Empowerment Index
IEDI	Industrial Enterprise Development Institute
ILO	International Labour Organization
KiND	Khimti Neighbourhood Development Project
LDF	Local Development Fund
LFP	Livelihoods and Forestry Project
MDG	Millennium Development Goals
MECD	Micro-Enterprise Creation and Development
MEDEP	Micro-Enterprise Development Programme
MEG	Micro-Entrepreneurs' Group
MEGA	Micro-Entrepreneurs' Group Association
MSEs	Micro and Small Enterprises

MFI	Micro-Finance Institution
MoICS	Ministry of Industry Commerce and Supplies
MOU	Memorandum of Understanding
MTR	Mid Term Review
NACRMLP	Nepal-Australia Community Resource Management and Livelihoods Project
NAST	Nepal Academy of Science and Technology
NEDC	National Entrepreneurship Development Centre
NGO	Non-Governmental Organization
N-MEGA	National Micro-Entrepreneurs' Group Association
NPD	National Programme Director
NPM	National Programme Manager
NPSO	National Programme Support Office
NRB	Nepal Rastra Bank
NS	Negotiation Skills
NZAID	New Zealand Agency for International Development
OB	Outcome Board
OVOP	One Village One Product
PA	Programme Assistant/Associate
PB	Project Board
RAM	
RBA	Rights Based Approach
REAP	Rural Enterprise Assistance Programme
RECAST	Research Centre for Applied Science and Technology
REDP	Rural Energy Development Project
RMDC	Rural Micro-Finance Development Centre
RSRF	Rural Self Reliance Fund
SEDC	Safe and Effective Development in Conflict
SFDB	Small Farmers Development Bank
SIYB	Start and Improve Your Business
SKBB (SFDP)	Sana Kisan Bikash Bank (Small Farmers Development Programme)
SPRN	Sustainable Poverty Reduction in Nepal
SWAp	Sector Wide Approach
TRPAP	Tourism for Rural Poverty Alleviation Project
UNDP	United Nations Development Programme
VDC	Village Development Committee
QIPSI	Quick Impact and Peace Support Initiative

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EXECUTIVE SUMMARY

MEDEP: Programme Concept and Design

Poverty in Nepal is pervasive and is reflected in dimensions of social and human progress. The nature of poverty in Nepal is not only reflected through per capita income but also through other socio-economic indicators such as life expectancy, infant and maternal mortality rate, adult literacy, per capita calorie and malnutrition. There have been various poverty alleviation interventions by the state in line with national development plans amongst which is also the development of the micro-enterprise sector.

The micro-enterprise sector could be seen as an important development agenda which is being promoted to help support pro-poor local economic and social development in developing countries. The development scope of the micro-enterprise sector goes beyond national governments as consorted efforts have been made through multi-donor initiatives around the world to promote the enterprise sector amongst the poor. Developed countries see the challenges of economic growth in developing countries being linked to security interests and correlate by addressing poverty with their national strategy to rebuilding, developing, transforming and sustaining partnerships with emerging democracies and countries affected by conflict

The Micro-Enterprise Development Programme was initiated by the Government of Nepal with technical and financial assistance of the UNDP in July 1998 to create off-farm employment and income opportunities for the rural masses in ten districts. The programme's initiatives were based on the government's 9th Five Year Plan which advocated promoting self employment opportunities in the informal sector to reduce the level of poverty amongst those living below the poverty line by engaging them in the micro-enterprise sector. Following the dramatic political change in May 2006, the Nepal Government in its 10th plan emphasized on rural reconstruction, effective public service delivery, and quick development impacts through decentralization, empowerment of local communities, and wider replication of “good practices” of income- and job generating projects; in community-based approaches to development. The government has taken a two-track approach to development; that is to restore peace and democracy while reviving the economy. In this context, micro-enterprise could be seen as a catalytic tool to not only promote income and employment opportunities but also strengthen the rural economies and help in the peace building process through economic engagement of people and communities affected by conflict.

The contextual importance of the Micro-Enterprise Development Programme is more significant today than when it was initiated in 1998 because it visibly addresses the economic and social grounds of the insurgency such as lack of economic and employment opportunities and social exclusion of ethnic minorities and indigenous groups. Being targeted towards those living below the country's poverty line, the programme's target beneficiaries are primarily women, unemployed youths, and people from Dalit communities, ethnic minorities and indigenous groups.

The Micro-enterprise Development Programme employs international best practice principles in the delivery of business development services to poor and disadvantaged micro-entrepreneurs. Under the programme, demand-led training is provided by state and private service providers to micro-enterprises. It also provides demand-led business counselling and

technical support by service providers and experienced trainers to micro-enterprises. The programme functions through co-financing training and counselling of potential and existing micro-entrepreneurs to avoid the traditional inefficient supply-led delivery of these services. The provision of technical support to the micro-entrepreneurs is regarded as integral to the development of the micro-enterprise sector. While access to credit was a major constraint, MEDEP recognized that at the micro-enterprise level, technical, financial and non financial entrepreneurial support is critical if poor people are to borrow, manage businesses and repay loans successfully considering the business risks they are subject to.

The Micro-Enterprise Development Programme has exhibited in more than one ways that the poor people are bankable and can be engaged in local enterprise and be linked to national business actors. However, unless the range of impacts of MEDEP is explicitly taken into account by the state and the development sector, the micro-enterprise sector could remain stunted and its outreach confined to being just a model.

Achievements

MEDEP's interventions responded to the emerging needs of the un-reached segment of rural societies especially amongst women at a time when there was lack of home based employment and absence of public services. The average cost of establishing a single micro-entrepreneur was US\$ 317 (Rs.20,000) and the cost of generating one employment was approximately US\$ 285 (Rs. 18,000) per as compared to US\$ 2,694 (Rs. 170,000) for small enterprises and US\$ 3,328 (Rs. 210,000) in medium and large enterprises.

MEDEP during its nine years of operation has promoted 27,532 entrepreneurs and generated employment opportunities to some 31,288 persons and has surpassed the targets it set out in both the first and second phase of its programmes between 1998 to 2007. The results have been encouraging with an average per capita income growth of 287% of the entrepreneurs. . The income change at the family level has been a healthy 48% rise contributed by enterprise development alone. In terms of the overall economic impact, almost 9,000 families (53,000 persons) have been upgraded above the poverty line. Similarly, more than 3,000 families (18,000 persons) have been alleviated from hardcore poverty. Additionally some 3,700 households have benefited from employment opportunities generated by these micro-enterprises and subsequently improving their livelihood.

One important indicator of enterprise sustainability is the drop-out rate. As of Sept. 2007, only about 5 percent of the more than 27,000 micro-entrepreneurs have been reported to cease operations. However, these entrepreneurs are still in a vulnerable stage and should MEDEP stop all its support, only about 80 percent enterprises may survive as per the estimation based on discussion with entrepreneurs. But this survival rate is extremely satisfactory even in the global perspective.

MEDEP demonstrated its gender friendly approach, with the target of including 70 percent women and 40 percent for the hardcore poor and excluded communities. It attained 67 percent women participation, the rate going up 71 percent taking into account the status of the second phase only. Similarly, 19 percent of the entrepreneurs have been Dalits and 41 percent Indigenous Nationalities.

Pursuant to its goals and objectives, MEDEP has also made efforts to improve the policy environment for the efficient and the effective operation of the micro-enterprises. These

initiatives included preparing micro-enterprise policy and the micro-finance policy. The micro-enterprise policy has yet to be approved by the government and the micro-finance policy has not come into operation. However, the government has approved the district micro-enterprise development guidelines, district enterprise fund management guidelines, and the Pine Plantation management thinning guidelines have been approved by the government. A sub sector policy on honey has also been drafted. Initiatives also included developing sub-contracting policy to promote business to business linkages.

Challenges

The issues pertain to economic empowerment of women, VDC/DDC ownership for enterprise support; consistency and quality maintenance for marketing and limited access to markets are some of the pressing challenges. Likewise, retaining BDSPOs' services and promoting gender and social inclusion in BDSPOs, strengthening MEGAs and DMEGAs, lack of conducive business environment, difficulty accessing raw materials particularly forest based, ensuring credit capital for rural enterprises, and the challenges of certification in view of increasing international requirements are also challenges being currently faced by the programme. Inability to promote conducive business environment through appropriate policy measures remains a serious hindrance although considerable work has been done by the programme.

Similarly, a number of BDSPOs may find it difficult to sustain their activities without support even though a number of BDSPOs have survived and actually grown. Institutions like DMEGAs and NMEGA have also yet to mature and show signs of sustainability. Hence, efforts and strategies are required to overcome these lacunas and provide assurance that MEDEP model proves viable for sustainable enterprise development strategy.

If MEDEP should withdraw, it can be estimated that about 20 to 25 percent of the micro-enterprises could collapse. Albeit the success rate is quite encouraging, the issue will remain on how to ensure survival and growth of micro-enterprises in a sustainable way without the support of external agencies.

Programme extension and proposed strategy

There is virtually a common opinion that the name 'Micro-enterprise Development Programme' (MEDEP) is becoming easily identifiable and has gained a status of *'brand'* image of a project that delivers to the real poor people in an inclusive manner. Hence, it would only make sense to give continuity to the brand image of the programme so that people are able to identify with the name if there is an extension to the programme.

The coverage of the project should encompass both the intensive as well as extensive approaches. The need for intensive approach emerge from the fact that most of the development approaches influence only a small segment of the population while claiming to cover a number of districts.

As a result, the real change at district and at the regional level is hardly visible. To overcome the challenge, there is of course a need to cover extensively within a district. So, an estimation of disadvantaged population has been used as an indicator to select the districts. Another important criteria used is road access as enterprise development will not be feasible nay almost impossible without some kind of road access. Hence, some of the districts with

the lower HDI like Mugu and Bajura have not been able to be included in the proposed districts. Jumla, Kalikot, Dailekh, and Surkhet are selected as the Karnali road corridor districts. Rukum, Rolpa, and Salyan are selected as the area where conflicts originated and affected. Mahottari, and Rautahat have been selected as the backward Terai districts. Baglung has been selected in view of the concentration of excluded communities.

The present approaches and strategies of entrepreneurship and enterprise development, which have proved quite effective, should be continued. In addition to the present level of engagement, product and feature standardization, based on experience and lessons learnt at nation wide level, should be considered based on specific product market category. Standardization efforts should be initiated in the product market categories with growth and expansion possibilities.

The proposed programme scale in consideration to the nature of districts selected, problems and challenges and development possibilities, the target during the proposed three year period has been defined to develop 30,000 new entrepreneurs. To upgrade its programme beyond the present interventions, the programme could be focusing on tourism industry related services to capitalize on the growing industry.

In order to ensure improved finance, one of the fundamental requisites of sustainable enterprise development, MEDEP should establish cooperatives of micro-entrepreneurs wherever feasible with at least 25 members to enable them to access RSRF and for the cooperatization of MEGs, MEDEP may collaborate with appropriate agencies like National Federation of Cooperatives. Likewise, the programme should promote coordination with various development initiatives and funds at community/village/district levels and also set up links with various institutions and mechanisms like RMDC, SFDB, Gramin Banks, FINGOs, etc to ensure better access to micro credit.

An addition feature to promote the sustainability and expansion of MSEs and to reduce risks arising from unforeseeable circumstances, should include the development of the concept of micro-insurance to ensure a cushion against such unexpected risks. The piloting of micro-insurance should be initiated during the proposed MEDEP III phase as part of the business development concept as practiced by large businesses.

Currently the project is being initiated with MoICS as the lead implementing agency and MoFSC as the co-implementing agency. In view of the activities being implemented through DDCs, Ministry of Local Development should also be co-opted as the co-implementing agency.

In order to realistically move ahead with the internalization programme, trial approach should be initiated on a pilot basis entrusting the total task to DDCs in all the existing districts. A fund should be created in which MEDEP, the government (CSIDB, DCSI budget) and the local agencies should put money to implement the MEDEP modality by sub-contracting to BDSPOs. This will lead to total internalization of the modality.

The internalisation of MEDEP by DDCs is the proposed strategy for the exit as well. Initially, the internalisation will lead to DDCs executing MEDEP model with the support of MEDEP both financially and technically as the case may be. Gradually with their ability to implement the modality fully, MEDEP will completely withdraw and exit ensuring that the government (local government included) will undertake the task efficiently.

In Nepal, a large number of projects are being initiated by varying agencies with the common purpose of poverty alleviation and employment generation. However despite most of these having income generating components thus enhancing the scope of working together to generate synergy, the existing level of cooperation does not seem to be adequate. There is need to design super imposing guidelines that are applicable to all project within a system for example by UNDP or DFID. Such guidelines will help to rely on each others expertise and experiences and can also learn from their lessons to devise more effective strategies. Activities like proposed sub-contracting of enterprise development activities to MEDEP by Khimti Neighbourhood Development Project (KiND) in Khimti area and social mobilisation and fishery based enterprise development activities of Sustainable Poverty Reduction in Nepal (SPRN), in Norwegian government funded hydropower project in Dolakha and Ramechhap are illustrations of common cooperation. Further possibilities to join hands with projects and approaches like ELAM and ELAM Plus of HELVETAS, providing pre and post training services to SEP etc. Efforts should be initiated to promote dialogues and sign MOU's so that common efforts can be initiated to zero it on the common targets. Likewise, a three pronged strategies need to be applied to generate coordination. The primary effort should be in system building, adequate representation in policy formulation, implementation and benefit sharing mechanisms and a system of formal information sharing.

One important dimension where MEDEP needs to focus its orientation is to ensure business growth through value chain analysis. This is expected to ensure intervention at each stage and make the product /service more valuable, contributing and beneficial. Value chain map should be prepared for each major product and area of needed intervention identified so that the entire value chain can be made more beneficial. This will also help to link higher level activities with the grassroots level activities. MEDEP has mainly concentrated in the latter though in some aspects it has done value chain analysis though not in its strict professional sense in products like *Incense Sticks, Allo, Lokta, Fruit Juices, and Honey*.

Additional growth strategies will be needed particularly in areas where activities have matured. These strategies should be to uplink with regional and national markets and providing necessary interventions to ensure it. International market opportunities do exist for products like *Honey, Handmade Products, and Handicrafts* and efforts are needed for its promotion. Linkages with the international market should be improved by standardisation of products, improving benchmarking and quality control efforts, positioning in the proper market and improving the linkages with the exporting agencies and exploring/establishing linkage with importing agencies.

Policy interventions

Policy requirement emanates from the need to enable them to register easily so that they can be brought into the formal sectors, and provide some incentives or enable to develop link with larger enterprises in a congenial manner. The government must come out with the micro-enterprise policy to provide an environment of certainty and give clarity and to create an environment for the proper development of the micro-enterprise sector. Similarly, sectoral policies should also be defined, as per the need. There is also a need to develop subcontracting policies to encourage B2B linkages.

Women's target has been defined at 60 percent for the proposed third phase considering the needs of Terai. The 40 percent hardcore poor should be included consisting of *Indigenous*

Nationalities (40%), Dalits (25%) and Other Poor and Disadvantaged (35%). Similarly, at least 60 percent of the third phase should be *Youths* in the age bracket of 16-29.

The knowledge MEDEP has built should be managed properly as a means to augur development and poverty alleviation activities. In view of its potential, it should be developed as a resource centre providing and extending services to other requisite agencies and areas. The proposal to assist in KiND and SPRN is a move in the right direction. It should in case of demand, extend services in other districts and programmes and activities as per the feasibility of its capacity. Gradually such services can be extended to international level.

Programme Goals, Output and Risks

The goal of the MEDEP Programme should continue to be to contribute to the effort of the Government's efforts on poverty reduction in rural areas through the development of micro-entrepreneurs from low-income and socially excluded families to achieve sustainable livelihoods, based on the potential market and local demand. Besides developing new entrepreneurs, it should focus on growth strategies by cooperating and collaborating with viable institutions, programmes, and projects.

With regards to output, the programme should focus on policy interventions and initiatives to expand employment opportunities for poor youths, women, poor and individuals from socially excluded groups in selected districts. Likewise, there should be strong emphasis in facilitating the formulation and implementation of a micro-finance policy, adopt value chain approach adopted in collaboration with viable institutions to capitalize on market potential.

Scoping Study for MEDEP Phase III

1 Context

Poverty in Nepal is pervasive, largely chronic, and reflected in dimensions of social and human progress. Nepal is one of the poorest countries in terms of not only per capita income but also in all socio-economic aspects such as life expectancy, infant and maternal mortality rate, adult literacy, per capita calorie and malnutrition. Nepal's population of 27 million continues to experience high levels of poverty, especially rural poverty, and high levels of unemployment and underemployment. It is estimated that approximately half of the available work time of Nepali adults is underutilized. Eighty percent of the population depend on agriculture for their livelihood which is most often seasonable. The National Planning Commission estimates that 31 percent of Nepal's people live below the poverty line, currently set as Rs. 7696 (US \$ 120) per year per person. Understandably, the Government of Nepal in its last five years development plans and the proposed three year interim development plan has placed the highest priority on poverty reduction and employment generation. The problem of long standing, and decades of government programmes and donor activities have attempted to stem the tide. As a result, the institutional horizon has been seen to be expanding with the grown of interventions to address the development of the micro and small enterprise sector. However, whatever particular successes interventions of programmes and institutions have achieved are being offset in general by high rates of population growth.

Since the advent of 10th five-year development plan and its Poverty Reduction Strategy (PRSP), themes of poverty and social development have moved to the forefront of the development discourse within Nepal. Promoting social inclusion is one of the four pillars of the 10th National Development Plan. These goals are also in line with the United Nations Millennium Development Goals (MDG) which are set to be achieved by 2015. The sectoral ministries are committed to institutionalization of gender and social equity concerns in their respective areas in support of these national goals. The government has agreed to internationally set MDGs of poverty reduction by 50% during the period of 1990 and 2015. One of the third pillars of the PRSP stresses mainstreaming of excluded groups, with special emphasis on women, caste/ethnic groups and remote districts. The biggest challenge faced in the country's development efforts is reaching the poor and vulnerable communities of rural Nepal with development input.

The development efforts of Nepal face a big challenge posed by the discriminatory socio-cultural systems. Socio-economic deprivation of women and disadvantaged castes group is very high in Nepal. Women in Nepal constitute a little over 50 percent of the population. Nepal's population is multi-ethnic and multilingual. Each community has its own rules and regulations as far as women's mobility, marriage options, access to resources and modern avenues of education, skill development and knowledge are concerned. Being dominated by discriminatory socio-cultural norms and values of Hindu religion which is the predominant religion, *Dalits*¹ have not been able to get access to important public decisions, which

¹ As per definition of National Dalits Commission (2001) there are 22 different Dalits castes grouped into Hill Dalits (Gandarbha (Gaine), Pariyar (Damai, Darjee, Suchikar, Nagarchi, Dholi, Hudke), Badi, Bishwakarma (Kami, Lohar, Sunar,

discourage them from participating actively in development initiatives. The high caste groups and landlords do not usually include *Dalits* and indigenous caste groups in development activities, under the fear of losing power. In most cases, they prefer to keep the poor and *Dalits* under heavy pressure of "private loans" lending at high interest rate. There are various forms of domination executed by the higher caste upon the so called lower caste and the poor, which is equally reflected at formal service providing organizations. The political movement of the Communist Party of Nepal (Maoists) was founded as a protest against such violation of fundamental human rights. Even the political leaderships of all seven political parties are from higher caste groups which only go on to underscore that the caste system goes beyond just the social and cultural settings in the country. This is the result of age long domination by the powerful groups over the poor and the marginalized. The *Dalits* and indigenous caste groups have not been able to come up to the level of powerful actors for transformation of discriminatory culture against them.

In the changed political context, the voice of marginalised communities such as the Dalits is however coming out in the open through various political groups, movements and civil society representations. Social exclusion of *Women, Dalits, Indigenous Nationalities*² and *Madhesis* is seen as the major cause of conflict in Nepal. Social inclusion is therefore included as one of the four pillars of poverty reduction approach in the Tenth Development Plan of Nepal. In general most women (across various castes and communities), *Dalits* and *Indigenous Nationalities* experience social, political and economic inequality and marginalization in institutions of governance, access to the labour market, and public services like education and health care.

In recent times since the political developments of 2006, excluded communities in the *Terai* have revolted in aggressive ways against exclusion and are demanding inclusion in the mechanisms of the state at all levels. In a way, this is a call for attention towards the neglected groups of the *Terai* districts, simply mentioned as "Madheshi Community" which has created opportunities for engaging the younger generation in appropriate employment generation programmes. The socially excluded to some extent also include HIV/AIDS affected who not also needs to mainstream in the socio-economic milieu through extending appropriate income generating opportunities. Inability to bring them within the right spheres may have similar undesired consequences.

There is an imperative need to bring the poor and excluded (P & E) group friendly development approach for two reasons: i) different social groups of people have different livelihoods needs, opportunities, priorities that need to be included in development planning and ii) inclusion of P & E groups' ideas, needs and priorities in development will lead to changes in the overall approach to development so that the focus will be on sustainability

Wod, Chunara, Parki, Tamta), Sarki (Mijar, Charmakar, Bhul) and Terai Dalits (Kalar, Kakaihiya, Kori, Khatik, Khatwe (Mandal, Khang), Chamar (Ram, Mochi, Harijan, Rabidas), Chidimar, Dom (Marik), Tatma (Tanti, Das), Dusadh (Paswan, Hajara), Dhobi (Rajak) Hindu, Pattharkatta, Pasi, Bantar, Musahar, Mestar (Halkhor) and Sarbhang (Sarbariya)

² As per definition of Foundation for Development of Indigenous Nationalities there are 59 different Indigenous Nationalities and they have been classified into five groups such as (1) Endangered Group: there are 10 such ethnicities such as Kusunda, Bankariya, Raute, Surel, Hayu, Raji, Kisan, Lepcha, Meche and Kushbadiya, (2) Highly marginalised Group: there are 12 such ethnicities such as Majhi, Siyar, Lhomi, Thudam, Dhanuk, Chepang, Satar (Santhal), Jhagad, Thami, Bote, Danuwar and Baramu, (3) Marginalised Group: there are 20 such ethnicities such as Sunuwar, Tharu, Tamang, Bhujel, Kumal, Rajbansi, Gangai, Dhimal, Bhote, Darai, Tajpuriya, Pahari, Tokpegola, Dolpo, Phree, Mugal, Larke, Dura and Walung, (4) Underprivileged Group: there are 15 different such ethnicities such as Magar, Rai, Limbu, Chhaintrotan, Tambe, Tin Gaunle Thakali, Bahra Gaunle, Marphali Thakali, Sherpa, Yakkha, Chhantyal, Jirel, Byansi and Hyolmo and (5) Developed Group: there three ethnicities such as Newar, Gurung and Thakali. Reference: Nepal Indigenous Nationalities Statute 1990 with amendments in 2003.

considering *inter alias* economic growth coupled with "growth with equity". Therefore, *poor* growth, good governance and social inclusion for humane development are at the centre of millennium development agendas.

The signing of a Comprehensive Peace Agreement (CPA) in November 2006 by the government of Nepal and Communist Party of Nepal, Maoists (CPN-M), marked a historic step in ending the ten-year conflict. The restoration of peace has opened avenues for engaging economic development activities to alleviate poverty and fulfil the political and economic aspirations of the people. And in this context, MEDEP or initiatives similar to it have a long way to go towards addressing political freedom by adding value through people's empowerment by way of economic development.

MEDEP Programme and its Evaluation

2 Introduction

The intervention by MEDEP has been to improve livelihoods condition of the poor by assisting and facilitating the development of the micro-enterprise sector in rural communities with special focus on women and youth from poor communities, *Dalits*, *Madheshis*, *Indigenous Nationalities*, *Differently Able* and *Unemployed Youths*. The engagements of these beneficiaries are through direct and indirect engagement in skills training, exposure to markets, linkages, marketing and networking between businesses. The project plays a facilitating role through Business Development Service Providers (BDSP) who are in essence the grouping of Enterprise Development Facilitators (EDF - human resources generated during the life span of MEDEP between 1998 to 2006) which have the skills, expertises and the experiences in rural micro-enterprise development.

With the graduation, strengthening and empowering of micro-entrepreneurs, MEDEP has also facilitated the formation of District Micro-entrepreneurs Groups Association (DMEGA). This is a grouping of highly potential entrepreneurs selected from among the grassroots groups of micro-entrepreneurs largely to promote the interest and welfare of micro businesses through a formalised and system manner. These grouping of DMEGAs have played an important role in engaging women entrepreneurs in leadership roles at the grassroots level in all the districts where MEDEP has a presence.

The project has also facilitated formation of a national level mechanism for providing umbrella support to all these district level structures for continuing MEDEP approach, specially the values of gender equity and social justice in business promotional policy agendas. Currently the project has been undertaking exercises for initiating innovative and attractive enterprises for creating local employment for the youth groups of the *Terai* falling between *16 to 29 years*³. In light of the volatile political situation in the *Terai*, political parties based in the region had recommended to a high level policy monitoring team to immediately address the issue of unemployment amongst the youth by creating opportunities for their engagement in productive enterprises. One of the major causes of the *Madhesi* mass movement is supposed to be originated from unemployment amongst youth groups in addition to the political dimensions of the unrest.

³Three Year Interim Plan (2008-2010), National Planning Commission (2007)

2.1 Approach:

The Micro-Enterprise Development Programme (MEDEP) aim has been to diversify the livelihoods and increase the incomes of low-income families. MEDEP takes an integrated and market driven approach to micro-enterprise development, providing and coordinating entrepreneurship training, technical skills training, and micro-finance access for potential micro-entrepreneurs; a pioneering approach through which it has successfully demonstrated that the development of the micro-enterprise sector cannot be seen independently of the various component and services that are needed by businesses. MEDEP's local market and resource studies help to identify and inform potential entrepreneurs of products and enterprise selection and market linkages. MEDEP stresses the areas surrounding local market centres as the critical locales for identifying, training, and assisting selected poor men and women to initiate and develop their micro-enterprises.

MEDEP presents the hypothesis that one factor retarding the success of the many efforts to stimulate employment and self employment is that most programmes are uni-dimensional, providing only one of the services that are needed to create sustainable micro-enterprises. Each of these approaches has its strengths and limitations.

2.2 Credit-driven:

Most enterprise development programmes rely exclusively on the provision of micro-credit with little attendant technical assistance or training offered to the borrowers. Such programmes have been famously successful in Asia (with the model of the Grameen Bank) and in Latin America (based on the model of Accion International). These approaches specifically omit providing additional services because the costs would be prohibited for the sustainability of the lending programme. Micro-credit has been more successful and more financially viable in urban centres than in rural areas, more successful in densely populated areas than in sparsely populated remote communities. In totality, however they were assessed less effective compared to credit plus programmes globally. In MEDEP, micro-credit only forms a component of its enterprise model and is not seen independently of other business development services needed.

2.3 Training-driven:

Many long established programmes in Nepal have been providing technical and vocational skills training to relatively large numbers of people but again in isolation of other enterprise development services. No doubt learning a simple skill such as tailoring or carpentry is often sufficient to allow the trainee to start earning money. But in many cases, skill training alone does not prepare trainees to creatively start a micro-enterprise, or prepare him or her to persist with the activity when the inevitable non-technical problems (competitions, cash flow, access to raw materials, needs for credits) etc arises. Also, the poorest have difficulty availing themselves to such training opportunities. There is plethora of activities designed pursuant to this strategy but the result has hardly been encouraging and MEDEP through its enterprise development model has incorporated skills training as a supporting activity to encourage people's engagement in rural economic development based on demands for services.

2.4 Social mobilization:

Social mobilization methods have been refined and well tailored to the Nepalese context in recent years. Thousands of communities have benefited from these efforts that provide poor rural people with self-confidence, a sense of responsibility and empowerment, incentives to

engage in group savings plans, and the encouragements to embark on income generating activities. However, as the numbers of socially mobilized communities grow, development practitioners are aware of the limitations of the approach if income generation activities are not connected more dynamically to the rural market system. In this connection, MEDEP does its own social mobilization but also builds on the social mobilization of various UNDP supported programmes to extend its enterprise development services. The idea being that social mobilization is again a component that leads to promoting enterprise development.

2.5 Technology driven:

There have also been some interventions to create economic opportunities through technology driven approaches by promoting the use of rural and appropriate technology. However, these interventions have been taken independently of other services needed for poor people's engagement in economic activities.

2.6 Market Oriented:

Market based interventions by the private sector working in the economic and commercial promotion sector have also taken some initiatives to help reduce poverty amongst the poor by linking products to markets. However, these marketing interventions are again seen independently of other services such as training and credit access or entrepreneurship which are crucial pillars for people's engagement in commercial activities.

2.7 Infrastructure Development:

Another approach generally pursued to create jobs and to alleviate poverty is by engaging in infrastructure development activities. Studies have also shown that such activities tend to create most job opportunities. Consequently, even programmes of the dimensions of Poverty Alleviation Fund (PAF) have accorded high priority to this strategy allocating 80 percent of the fund to small infrastructure development. The importance of infrastructure development from the overall perspective cannot be minimised but there is certainly a doubt that this strategy will create sustainable jobs. Without combining with other development and income generating strategies, therefore, infrastructure development alone may not be adequate to respond to the formidable task of poverty alleviation.

All of these approaches have the characteristic problem of leading beneficiaries to produce items, for which there is an inadequate market, or for which the market is inadequately identified. MEDEP proposes a comprehensive and sequenced approach to enterprise creation, one that begins by ascertaining the local market potential for micro activities, then carefully screens and selects participants (looking especially for signs of "entrepreneurial character"), then provides micro-enterprise creation training to develop general entrepreneurial skills, knowledge and attitudes. After these steps, MEDEP works with each potential entrepreneur to select a type of business and develop a plan. As part of this plan, technical skill training is arranged, as appropriate. Then, those entrepreneurs that require financing are led to micro-finance institutions and assisted through the credit process. They are also linked to various marketing mechanisms based on need and feasibility. In case of necessary technical and technological support, they are linked with technology suppliers and if necessary in feasible areas even technological developments have been initiated and provided to entrepreneurs. This approach requires a lot of up-front assistance to the new entrepreneurs, but it is

necessary in the perspective of targeting to hardcore poor and socially and traditionally excluded groups and is assumed that this investment is cost effective because of the resultant high success ratio. Additionally, MEDEP follows labour intensive technologies, which are particularly rewarding in creating jobs. The tendency in Nepal, despite being a resource poor country, is to opt for relatively more capital intensive technologies to keep the labour size and the labour problems small. MEDEP however is totally concentrating in areas that will generate more employment opportunities to address the fundamental problems of the country, poverty, unemployment and underemployment.

2.8 Partnerships:

MEDEP's approach to implementation stresses on a set of strategic partnerships with both government and private sector organizations⁴ at the national and district level. MEDEP is a "nationally-executed" project of the United Nations Development Programme (UNDP) in partnership with the Ministry of Industry, Commerce and Supplies (MoICS). The United Kingdom's Department for International Development (DFID), AusAID and New Zealand AID (NZ Aid) have joined UNDP in funding Phase II of MEDEP.

3 Phases:

The pilot phase of the programme began in 1998. Based on the considerable success of Phase I, UNDP, the Government of Nepal and its donor partners initiated a three-year Phase II to give continuity to the programme in 2004, expanding geographical coverage from ten⁵ to twenty districts⁶. Phase II was scheduled to end in December 2006 but one additional district, Kavrepalanchowk was included under the support of AusAID. The AusAID support was largely to experiment with enterprise development within poor communities who had been part of the Australian government's forestry support programme. Like wise, with the further implementation of the "Quick Impact and Peace Support Initiative" (QIPSI), the district coverage of MEDEP was expanded to four additional districts to take the total number of districts to twenty five districts⁷. Phase II of the programme was thus extended up to December end 2007.

4 Reaching the Disadvantaged/un-reached segments:

The Phase II of the programme significantly refined its definition of MEDEP beneficiaries, stressing that the programme should go beyond merely serving the poor, targeting a significant percentage of its beneficiaries as "hardcore poor"⁸, and socially excluded and those affected by conflict. MEDEP has also expanded its outreach into the interiors of rural

⁴ Cottage and Small Industries Development Board, Department of Cottage and Small Industries (Ministry of Industry, Commerce and Supplies), Federation of Nepalese Chambers of Commerce and Industry, Federation of Nepal Cottage and Small Industries, and the Industrial Enterprise Development Institute and all of MEDEP's implementing agencies at the central and district level.

⁵ Phase I districts: Daldeldhura, Baitadi, Dang, Pyuthan, Parbat, Parasi, Nuwakot, Dhanusha, Sunsari, and Terathum.

⁶ Phase II districts: Kailali, Darchula, Bardiya, Banke, Myagdi, Rasuwa, Ramechhap, Sindhupalchok, Udayapur, and Sindhuli.

⁷ Siraha, Saptari, Sarlahi, Sunsari, Dhanusha and Kapilvastu are included in the QIPSI. Sunsari and Dhanusha being MEDEP programme areas, the total number of MEDEP implementing district has reached 25 districts.

⁸ Hardcore Poor of any caste/ethnicity as per definition of National Planning Commission (NPC) having per capita income of less than Rs. 4,000 at 2003/04 market prices

areas which have largely remained outside of the scope of development initiatives of the government and other development agencies.

5 Programme Concept and Design

MEDEP Phase I and II demonstrated that the market-driven, integrated approach (potential entrepreneur selection and training, skills training, micro-finance, market linkage and promotion and appropriate technology), in partnership with existing government and private sector institutions, provides an effective and cost-effective approach to developing relatively large numbers of sustainable micro-enterprises among the poor. It is assumed that the integrated approach is effective and even more essential when one targets persons whose social and/or economic situations put them in even more restricted, poor, and vulnerable conditions. As the project is designed to reach the hardcore poor and excluded, its relevance has significantly increased in what is currently termed a 'New Nepal' in the political discourse aiming at inclusive development with equity empowering the excluded and most disadvantaged from the perspective of spatial, caste and ethnic dimensions and other perspectives. Not surprisingly, UNDP gave it the responsibility to implement enterprise development in six Terai districts under the 'Quick Impact and Peace Support Initiative' (QIPSI) in mid 2007, which is being executed despite facing enormous difficulties mainly due to exogenous factors contributing to the terai unrest.

5.1 Programme Implementation

A. Challenges to Implementation Strategy

MEDEP Phase II has faced several challenges to the core elements of its implementation strategy, challenges that have often delayed the programme's effective start-up, hampered the delivery of programme services, and raised additional barriers facing new micro-entrepreneurs. These challenges among others are:

- Delays and uncertainty in starting up Phase II of the programme;
- Heightened conflict related disruptions and dangers;
- Political and administrative changes and uncertainties at the district level;
- Sudden withdrawal of MEDEP's partner in micro-finance (the Agricultural Development Bank)
- Reaching the hardcore poor and excluded group; and
- Turnover of human resources due to the short period of programme periods and uncertainty (Phase I and II).

“Delayed” Follow-on from Phase I: Phase II was intended to be a smooth and seamless extension of Phase I, which actually did not materialise allowing an overall shorter programme period during the second phase. For various reasons, the start of Phase II was delayed (covered by an uncertain bridging extension of Phase I), creating a climate of uncertainty that resulted in an immediate loss of continuity of senior staff, and slowed the start-up of the programme. The results of the first two years of the second phase thus were hardly encouraging. Of course, there is no denying that there has been exemplary recovery thereafter including in one additional year, added as no cost extension based on the recommendation of the MTR.

Heightened Conflict and Related Disruptions and Dangers: The heightened conflict seriously jeopardised all economic activities in the country and micro-enterprises were not an exception to it. The insurgency repeatedly interrupted the critical linkages like transportation, input supply and supply of outputs to market and furthermore undermined the entrepreneurial optimism that is key to enterprise expansion. Women were especially constrained in terms of travel and free movement. MEDEP professionals, partners and stakeholders were unable to visit many locations thus depriving the entrepreneurs of business development services (BDS) and other vital supports. The insurgency limited travel and transportation movement and in many cases negatively affected MEDEP assisted micro-enterprises, especially in terms of access to raw materials, market and BDS support. However, a number of MEDEP entrepreneurs did turn these problems to their advantage by exploiting local opportunities in terms of utilizing available local resources; indicating that entrepreneurship qualities instilled by MEDEP is laudable and demonstrated results.

It is notable that MEDEP took important steps to strengthen the capacity of its field staffs to cope with the conflict situation and maximize their personal safety. MEDEP field personnel, as a result of the new United Nations Basic Operational Guidelines, related orientation, and special training covering risk minimization skills, Safe and Effective Development in Conflict⁹ (SEDC), negotiation skills and “Do No Harm”, were more confident and effective in their interactions with the local insurgents. MEDEP operated with increased transparency at field level, meeting one aspect of insurgents’ demands. MEDEP continues to operate, although with constraints, in most of its targeted VDCs and market centres. The historic comprehensive peace agreement between the seven party alliance and the Maoists resulted in the restoration of peace and the historic 19 days *Janandolan II* (Peoples’ Movement II) restored democracy and an interim constitution was declared. The peace people hoped resulting from these developments were short lived in the sense that new types of problems emerged in the Terai; fighting against exclusion and discrimination. All these have taken its toll but compared to the earlier conflict situation, things have definitely improved. Activities under the quick impact programme in six Terai districts as well as in other Tarai districts however are being affected by the Terai unrest.

District Level Changes and Delays. MEDEP, like other UNDP projects intervenes through the local bodies, namely the District Development Committees. MEDEP local staffs were to be recruited by the Local Development Fund Secretariat under the DDCs. With the political events of recent years, the status, and some might say, the legitimacy, of the DDCs became uncertain as responsibilities were alternated from elected DDC chairperson, to the Local Development Officers of the Ministry of Local Development, to a nominated DDC body, and back to the Local Development Officers in an uncertain and revolving situation. Likewise, because of the absence of locally elected bodies, the process of internalization of the MEDEP model into the local bodies could not be materialised. Similarly, the frequent absence and transfer of Local Development Officers in the district seriously affected all development activities.

Loss of MEDEP MFI Partner. MEDEP had an established a partnership with the Agricultural Development Bank of Nepal in the first phase, which, with financial support from UNDP, opened a special window to service MEDEP micro-entrepreneurs. It was assumed this successful arrangement would continue during Phase II. Unexpectedly, the

⁹ SEDC package was jointly developed by DHD and GTZ (Nepal) in 2005 and is widely being implemented by different development agencies.

Agricultural Development Bank (Nepal), made an overall policy decision to pull out of the micro-finance sector. MEDEP responded by identifying, district-by-district, a variety of alternate sources of micro finance institutions that had grown up in recent years within the new legal framework for micro-finance. As a result, MEDEP entrepreneurs now have access to diversified sources of micro-finance though the access is severely restricted in outlying areas due to Nepal Rastra Bank (NRB) regulations. However, identification of new local MFIs, and the variety of loan packages, interest rates, and application procedures, has slowed the process of facilitating micro-finance services to entrepreneurs. Especially, MFIs servicing many hill areas are scarce and the cost of finance from these MFIs is also comparatively much higher. The conflict situation also seriously affected access to micro-finance services including regular repayment services as a result of duress not to pay. Access to finance thus during the second phase of MEDEP was constrained.

Challenge of Reaching the Hard-Core Poor and Disadvantaged. The new designation of beneficiary targets for Phase II provided a serious challenge to MEDEP’s goal of developing micro-enterprises; though at the outset it must be recalled that MEDEP is probably among the very few to encompass inclusive development agenda, one of the primary demands for which the Maoists have their raised arms, from the very beginning. Although MEDEP had succeeded during Phase I in demonstrating that those under the poverty line could be successful entrepreneurs, it was far from certain that those whose lives were severely restricted by caste, ethnic exclusion, and extreme poverty could succeed as entrepreneurs in this society, or succeed within the relatively short time-frame of MEDEP Phase II. No doubt, there have been many successes but the efforts needed have been daunting and it has really proven a challenging task.

Turnover of Human Resources: Another problem emanated was due to the high level of turnover of human resources at NPSO as well as at the district level. Most professionals who were linked with the programme since the start of the project considered leaving, seeking for greener pastures or more secured opportunities largely because of the short duration of the project. This called for new staff to be recruited that needed to be oriented and trained with MEDEP modality and its implementation; resulting in loss of experiences and skilled human resources and time. Similarly, there was turnover of human resources at the district level including BDSPPs. These have definitely posed serious challenge in the implementation process.

5.1.1 Implementation Partners

From the outset, MEDEP has stressed a relatively complex but understandably useful implementation modality involving a diverse set of partners. The concept is that there are a number of government, private sector, and NGO organizations with responsibilities pertaining to enterprise development. To the extent possible, MEDEP, as a donor-funded project of finite duration, works with and through partners in order to maximize the short-term accomplishments and the future sustainability.

Table 1: MEDEP Partner Organizations at National level

Partner Organisations	Roles and responsibilities
1. Department of Cottage and Small Industries (DCSI) and Cottage and Small Industry Development Board (CSIDB)	Technical skills development training and Information centre

2. Industrial Enterprise Development Institute (IEDI)	ToT in Entrepreneurship development to MEDEP staff and business counselling
3. Federation of Nepalese Chamber of Commerce and Industries (FNCCI) at the centre and at the districts level with their branches	Market promotion and linkage development Alliance development, Policy advocacy and Programme implementation
4. Federation of Nepal Cottage and Small Industries (FNCSI) at the centre and at the districts level with their branches	Market promotion and linkage development Alliance development, Policy advocacy and Programme implementation
MEDEP Partner Organisations at District Level	
5. Agriculture Development Bank of Nepal (ADBN) and several other Micro-Finance Institutions (MFIs)	Micro Credit
6. District Development Committees (DDCs)	Social mobilisation, Enterprise development planning, Monitoring and evaluation, Programme implementation Lead role in District Enterprise Development Committee (DEDC)
7. District Micro-Entrepreneurs Group Association (D-MEGA)	Policy advocacy, Programme implementation, Resource generation Networking and B2B linkage development
8. Business Development Service Providing Organisations (BDSPOs)	Enterprise development programme implementation, Resource generation Policy advocacy and Networking and BDS delivery
9. Local Chamber	Market promotion and linkage development Alliance development and Programme implementation

In a number of instances, these partners are themselves in need of significant capacity building, and therefore their ability to contribute significantly has been limited. Additionally, during the conflict situation, the constant presence of some of these partner institutions in the districts was limited. The congeniality in the partnership was also dictated by the support MEDEP could provide to these partners. It was noted that although the partnership promoted by MEDEP during the first phase was largely effective and participatory. However, due to the conflict situation in the second phase, most partners could not actively participate in implementation, planning and monitoring of the programme. The lacklustre approach to the partnership to deliver services to the poor thus affected the optimum level of services to the entrepreneurs during the second phase. Nonetheless, the reciprocal relations between MEDEP and its partners are mutually beneficial to the institutions, and, most important, beneficial to the participating entrepreneurs.

MEDEP continues to develop strategic relationships with relevant organizations. It works closely with a number of private organizations in Kathmandu that are leaders in the exports of products such as honey, crafts (Dhaka, handmade paper, bamboo products, etc), natural fibres, soap, Non Timber Forest Products (NTFPs), incense sticks, ginger products, and food products such as spices. MEDEP has also developed more formal relations with organizations that represent the interests of caste and ethnicity based excluded segments of society to ensure that their leadership and organisations are aware of MEDEP beneficiaries and how it

is helping to support the peace building process through economic engagement of deprived and marginalised communities.

5.1.2 Implementation training and technical assistance for Micro-Entrepreneurs

The MEDEP integrated approach is an intensely interactive process at the “community” (Settlement/Ward) level, where a series of events and trainings are conducted by the Enterprise Development Facilitator/BDSPs. These events include:

The following is a brief Participatory Rural Appraisal process adopted by MEDEP

1. Social mapping of settlements
2. Well being ranking
3. Local level resource analysis
4. Identification of indigenous skills and technology
5. Market assessments

Implementation Summary. Overall, MEDEP is a programme with strong implementation modalities. It has faced these severe challenges and worked systematically and innovatively to overcome them, work around them, and/or reduce their negative effects to the extent possible. It is due to this persistent and creative management that the programme has been able to come close to meeting and exceeding its original targets (both for phase I and II) thought ambitious and difficult by many quarters.

5.2 Assessment of Achievements

5.2.1 Relevance

MEDEP's interventions responded to the emerging needs of the un-reached segment of rural communities when there was an absence of public services. MEDEP's has focused on women to make them its prime target beneficiaries in light of the political and social developments calling for greater participation of women. At the macro level, MEDEP is a fitting tool to respond to the national poverty reduction strategy, gender mainstreaming strategy of the 10th National Development Plan, and to MDGs, particularly the first, third and seventh goals. MEDEP has demonstrated an alternate model of cost effective, inclusive and gender responsive intervention through maximum use of local resources and indigenous skills in enterprise development for sustainable livelihoods.

The standard evaluation question of relevance looms especially large during times of national political fragility. Almost a decade long conflict, the abridgement of democratically elected government at the central and local levels leading to *Janandolan II* that restored democracy, and the disruptions and suffering due to Terai movement have led Nepal's donor organizations to each reconsider what programmes and support is most appropriate and useful during such a period. MEDEP is particularly relevant in this context as its not only addressed income and employment challenges but also social development needs of women and rural and marginalised communities.

5.2.2 Efficiency

The MEDEP integrated approach, combining entrepreneurship training, technical skills training, appropriate technologies, micro-finance access, market linkages, and considerable on-going advice and encouragement to new entrepreneurs has significant up front costs. However, MEDEP's reliance on Enterprise Development Facilitators who are largely local

residents, its consolidation of some management functions from the 25 MEDEP districts to six Area Programme Support Offices (APSOs), and other cost efficient strategies help minimize the expenses, even for a complex project. Most important is that the costs are offset by the low drop-out rate among MEDEP entrepreneurs that results in a relatively low “unit” cost. The average cost of US\$ 317 (Rs.20,000) per MEDEP entrepreneur¹⁰ and US\$ 285 (Rs. 18,000) per employment generated is quickly surpassed by the value of the annual increase in the entrepreneur’s income and the sustainable employment generated by it. In terms of employment generation, MEDEP has been quite impressive enabling micro-enterprises to generate one job with an approximate investment of Rs 7,000 compared to Rs. 170,000 in small enterprises and Rs. 210,000 in medium and large enterprises¹⁴ (Bajracharya et. al. Assessment of MSEs. ILO, 2003).

5.2.3 Contributions of the government and the local agencies

The government as well as local agencies have shown appreciable commitment in extending feasible support to MEDEP and its target beneficiaries. The government has availed space in Kathmandu to open an outlet for entrepreneurs through the NMEGA. Similarly, many DDCs have availed facilities to enable to open such outlets. These contributions must be valued highly and exhibits the commitment of the government and local agencies. These gestures have definitely contributed in improving the market linkage of the enterprises. DDCs have appointed Programme Officers especially to promote enterprise development at the district level. Likewise, a few VDCs and DDCs have allocated resources for enterprise development activities in their annual programmes during the current fiscal year.

5.2.4 Outputs

Output 1

Low income families acquire the skills necessary to develop and sustain micro-enterprises

Micro-enterprise Creation. With three months left in Phase II, the number of MEDEP entrepreneurs (as of December, 2007) is over 27,532, and the achievement has already surpassed the original target of 19,340 set to be achieved before end December 2007. The achievement exceeding the target despite slow start and poor performance during 2003 and 2004 and the heightened conflict and other constraints speaks the efficiency of the project and reveals the capacity of the project to deliver even in unfavourable situation. It clearly proves that MEDEP has a capability to be made a sustained poverty alleviation programme with strong interventions by the government in partnership with development actors.

Hardcore Poor and Socially Disadvantaged. The MEDEP Phase II Programme Document specifies that at least 40 percent of its entrepreneurs should be drawn from the ultra-poor (incomes less than NRs. 4,000/year) or from extremely disadvantaged castes (*Dalits*) or *Indigenous Nationalities (Janjatis)*. This was seen as a tough challenge, especially for an enterprise development project (rather than, say, a welfare-oriented project). Specifically, 19 percent of the entrepreneurs are *Dalits*, and 41 percent are *Janjatis*. 44 percent of MEDEP entrepreneurs (from all social categories) are from among the *hardcore poor*. In other words, MEDEP has targeted well over 60 percent of the total entrepreneurs from *hardcore poor* and disadvantaged communities.

¹⁰ This figure is arrived at simply by dividing the total MEDEP programme expenditures by the number of entrepreneurs created.

Table 2. Micro-Entrepreneurs (up to Sept. 2007), by ethnic/caste categories

	Female	Male	Total	Percentage
Dalits	2892	1593	4485	19%
Indigenous Nationalities	6727	2935	9662	41%
Others	5730	3481	9211	40%
Total	15349	8009	23358	100%
Percentage	66%	34%	100%	

Preparing these poorest and most disadvantaged persons for entrepreneurship is a challenge, due to their vulnerability and limited perspectives. The process is arduous and takes longer; the starting enterprises generally tend to be simpler, and more limited than those for non-hardcore poor or non-disadvantaged communities. MEDEP recognizes that these “clients” have special limitations that must be addressed if they are to be able to participate in the series of trainings and activities required by the MEDEP integrated and sequenced approach. MEDEP is learning how to provide the support they need without undermining the sense of self-responsibility that is at the heart of entrepreneurship. It is not an easy task but MEDEP has developed and succeeded in modalities to overcome such challenges. The result is the surpassing of 40 percent target in the most disadvantaged communities.

MEDEP has addressed this in two ways. Regarding participation in training, MEDEP has agreed that it must provide, at the end of the training day, a certain amount of cooking products (mainly rice) so that the trainee and his or her family will not suffer from the loss of one day’s paid labour. The poorest people live from day to day earning. Another important element is that, the poorest often have no access to micro-finance, and need assistance to start their businesses. MEDEP stresses in providing small but critical support to establishing “Common Facility Centre” (CFC) as Business Incubators to groups of hard core poor participants. Many such examples were observed by the Scoping Team for example support for the CFC for poor group workers, and support of simple equipments to rope binders, etc. It is not an easy balance between providing the needed assistance and preserving (developing) the independent spirit, which has been labelled as creating dependency in some quarters. But these compromises appear to work in many instances particularly in the perspective of working with hardcore poor and excluded communities while discharging the onerous responsibility of alleviating poverty. These compromises appear to be miniscule compared to many other similar projects.

Gender: MEDEP’s has targeted for women’s participation at 70 percent of its entrepreneurs. This has been a difficult target to meet during the first phase. At the end of Phase I, only 53 percent of MEDEP entrepreneurs were women. MEDEP then took several steps to address this issue:

- Recruiting more female Enterprise Development Facilitators;
- Providing Gender Sensitization Training to a broad range of staff and participants; and
- Carrying out studies to better understand the constraints and opportunities for poor women’s entrepreneurship.

During Phase II, more than 71 percent of new entrepreneurs are women, bringing the overall MEDEP average up to 66 percent. It means that if we consider only the second phase, MEDEP has been successful in attaining this difficult target.

The Scoping Team notes, by contrast, that no women are members of MEDEP's Programme Steering Committee. Although special efforts were made with some success to recruit women as Enterprise Development Facilitators in the districts, notably only one female staff presents at the Area Programme Service Offices that coordinate the work of several districts.

Marketing: MEDEP entrepreneurs in Phase II are facing, with mixed success, increased marketing challenges both for locally marketed products and for "export-oriented" products. One evidence of this is the fact that even for the established Phase I entrepreneurs, the average annual income has recently decreased by about 15% in the face of conflict-related and other marketing constraints.

Local Products Under Phase II, especially with the increased number of women, hardcore poor, and other disadvantaged entrepreneurs, a greater number of MEDEP entrepreneurs are starting simpler and smaller enterprises for the local market. They have taken their long first step—making a product and selling it. But they may not yet have the adequate entrepreneurial skills regarding product pricing, product selection, positioning and marketing. They are in some instances self-employed producers, but not yet entrepreneurs.

National Products: Many products and activities promoted by MEDEP albeit at micro level have grown to spread at the regional and the national market establishing a distinct product image meaning that a number of activities have moved to the growth path. Natural evolutions of growth strategies thus are visible with proper market prospects. In a sense, Business Incubation services too have emerged and being promoted commensurate to market potential, resource potential, and the entrepreneurship ability. However, the number of such entrepreneurs is limited. However, this is not surprising because MEDEP's focus is on hardcore poor, *Dalits* and excluded communities and women. There is a further need to extend such activities to make the effort sustainable.

Export Products: At the same time, other MEDEP entrepreneurs, especially from Phase I, are moving into situations that require more sophisticated business skills and better linkages to viable market chains. For this segment of the market, product quality, timely delivery, increased production capacity, competitive pricing and sharper packaging are all required. The growth strategies pursued have resulted in a number of success stories leading to linkage with the international market. Some of the products for which export possibilities have emerged and developed include Honey, Handmade Paper, Natural Fibre (Allo products), Ginger and Processed Ginger, *Dhaka* Textile and Products, Incense Sticks, Craft Products like Bamboo Products, among others. Honey is being exported to the European market and the potential is enormous though the issue of certification to ensure quality and free from pesticide use is creating serious hindrances. Much higher level consideration will be required to respond to such challenges and cooperative efforts of the government, producers and MEDEP type initiatives. Interesting market has emerged for the Incense Sticks in India and Tibet. Nepal since long has been importing Incense Sticks from India but MEDEP efforts have not only led to substitute imports but have also enabled to export to the same country from where Nepal has been importing. Producers, particularly from Dhanusha are manufacturing incense sticks totally based on local resources and exporting. More activities directed towards value chain, should enable to attain these goals. Demand from Tibet is another positive thing that has happened. In view of the size of the demand, there is a need to expand and standardise products through feasible means like developing cooperatives. In order to fully exploit export potential, more activities are needed that include product improvement, standardisation, market linkage and promotion, e-marketing, etc. To date,

many opportunities for expanded markets are being missed, especially because: (a) not all MEDEP entrepreneurs understand the critical requirements of these markets; (b) the communication linkages is poor that delays micro-entrepreneurs to respond rapidly to opportunities; and (c) the capacity of micro-entrepreneurs to produce in sufficient quantities as per market demand is inadequate..

With increasing maturity, entrepreneurs will require more support for scaling up, up-linkage and exposure to higher end marketing issues like pricing, positioning, quality, branding, labelling, packaging, promotion and distribution management. MEDEP Phase II has made enhanced efforts to link with intermediaries like Mahaguthi, The Organic Village, WEAN Cooperative and API-NET, etc. There is a clear need to allocate more resources and extend greater attention to make entrepreneurship development successful and sustainable.

Technology Transfer: Small technological innovations are often the key to providing efficiency and quality control that make small-scale production possible and profitable. MEDEP has helped to develop and adapt technologies which, in most cases have made enterprises more viable. MEDEP operates a programme of Participatory Action Research (PAR) to test potential appropriate technologies. In this regard, MEDEP worked with partners to test several “new” technologies *in situ*:

- Solar Dryer for Ginger, Vegetables, and Fruits was developed and tested by Research Centre for Applied Science and Technology (RECAST), Tribhuvan University and then used by the participants in their enterprises.
- “Beehive” Bio-briquette Production was tested with the Langhali Community Forest User Group in Sunsari district. Laboratory tests have proved the suitability of the product for commercial use. MEDEP entrepreneurs are now utilizing the process and marketing these briquettes to both urban and rural customers.
- Improved Water Mills (*ghatta*): MEDEP, in cooperation with the Centre for Rural Technology, created awareness, demonstrations, and operations of the improved water mills.
- These are only a few examples among many other small technological interventions that MEDEP has done in participation of entrepreneurs and the entrepreneurs themselves make decision either to accept or reject the tested technologies.

Sustainability: MEDEP has facilitated the platform for its target communities to get organized into Micro-Entrepreneurs Group (MEG) which again builds up into Micro-Entrepreneurs Group Association (MEGA) at the Rural Market Centres (RMCs) and then into District Micro-Entrepreneurs Group Association (DMEGA) at district level and finally into National Micro-Entrepreneurs Group Association (NMEGA) at national level. The project encouraged these organizations in linkage building with the market systems and Micro credit and financial organisations besides making linkages with government and non-government service providers. This way, the project facilitates a process of organizing project participants into federated networks for creating solidarity among rural enterprisers. By facilitating the formation of the federated rural enterprisers, the project has established a foundation for the marginalized and dominated to unite their voices for **equitable opportunities for market promotion** of their products. MEDEP developed and submitted *pro poor*, socially inclusive and gender friendly Micro-Enterprise and Micro Finance Policy to the MOICS and NRB respectively. MEDEP has also developed guidelines to internalize and implement MEDEP model and mobilize district enterprise development fund which has been endorsed and approved by MLD and MOICS. MEDEP also has developed Business to Business (B2B)

linkage strategy at different levels for ensuring market for rural entrepreneurs. To promote pine timber based enterprises government of Nepal has approved Thinning guidelines and is being implemented on pilot basis in Sindhupalchok and Kabhrepalanchok districts.

Cases

Case 1: An indigenous and low literate Tharu woman of Banke shared her vision as, "I was trained in a group of 14 women. Many of them returned to their home villages and started their business at home. I did not go back home but continued to work by the road side in a rented room so that others can see my tailoring shop and come to buy my services. Now I have been used as a trainer by various development organizations that pay me monthly remuneration as well as the basic materials to train their participants. These are all women and I enjoy training them. I have a vision to establish a small garment enterprise in the near future wherein I will employ at least 100 other women trained by me."

Case 2: Similarly another woman Lapsi candy maker of Sindhupalchowk (Melamchi) expressed her determination to collect and store the Lapsi fruits in her vicinity and not to give to the traditional buyers of Sanga. She along with her group members has even planned to raise NRs 2,00,000 from local cooperatives and other sources in order to make the investment.

Case 3: Another young man in Dhungharka, Kavre has expressed deep desire to start a small factory in the village to produce juice of Rhododendron and upscale production as well as marketing by creating employment for the youths.

Case 4: In Kailali, Mr. Bista, the famous honey producer regards MEDEP as his God because the training and support because he got motivated and moral strength to fight his poverty by producing honey. Today he owns 35 bee hives in his small plot of land and makes significant income for supporting children's education and household needs. He encouraged his neighbours to produce honey and thus, he has 15 to 21 other followers in his neighbourhood. He wants to make bigger investment for upscaling honey production in his village as "One Village One Product(OVOP)" only.

Case 5: Another group of rural illiterate Tharu women in Dhangadhi has demonstrated that they can manage fish pond for raising income. They are quite smart to sign agreement with the Municipality for allowing the public pond for raising fish for ten years.

These are some examples only out of thousands in MEDEP areas where one can find commitments towards making productive business for livelihoods.

Output 2:

Low income families able to secure financing to develop and sustain micro-enterprises

Sustainable Access to Credit. During the first phase, MEDEP had developed partnerships with Agriculture Development Bank of Nepal (ADB/N) creating a joint micro-credit fund. Entrepreneurs had easy access to loan due to three reasons: (1) EDFs of MEDEP use to facilitate to entrepreneurs to process all the necessary documents, (2) ADB/N had wide spread network of its Branches and Sub-Branches within the district and (3) special provision of credit procedure was prepared, agreed by both parties and followed uniformly in all districts. However, due to the change in policy of ADB/N in 2005, the provision for micro-credit service for MEDEP entrepreneurs could not continue.

With the withdrawal of the ADB/N from the micro-finance sector, new MEDEP entrepreneurs are having restrained access to finance their micro-enterprises, despite the fact that MEDEP has signed MOUs with a number of MFIs like Rural Development Banks, Savings and Cooperatives and Financial Intermediary NGOs (FINGOs). Access to finance is especially difficult in hill districts and also for highly disadvantaged entrepreneurs who lack citizenship certificates. Distribution of citizenship certificates on a campaign basis after *Janandolan II* has mitigated the problem substantially but the problem still persisted though with much lower magnitude. As this change from a single established MFI partner to multiple MFIs is recent, the situation is likely to improve due to competitiveness and diverse windows. One consequence of having multiple MFIs is that it is at present difficult to monitor how many MEDEP entrepreneurs have taken loans, what is their status and so forth. Another problem has been higher interest. Besides the access is limited for the entrepreneurs located far from the district headquarter as MFIs operate around the district headquarter only pursuant to NRB directives.

ADB/N granted credit amounting to Rs 38.8 million while other financial institutions have granted a total credit of Rs 17.9 million. It means that the credit available during the first phase was significantly higher than in the second phase. It is ironic that when the number of entrepreneurs has almost trebled, this assessment found that the volume of credit was reduced by more than half; proving the paucity of credit facilities during the second phase.

Likewise, it was also found that women had lesser access to finance than other categories due to lack of citizenship certificates, collateral, lack of mobility and low levels of literacy. In totality, however, credit access in Phase II remains a serious constraint, despite the efforts made by MEDEP to make arrangements with a number of MFIs. Potential alternative sources and means of financing micro-enterprises may include Rural Self-Reliance Fund, CDF of VDCs, LDF of DDCs and Community Forest Users Groups. MEDEP's targets related to micro-finance have not been achieved and there is continued demand for such access at proper interest rates across all segments of the micro-entrepreneurs.

Table 4. Utilization of Micro-Finance

	Male	Female	Total Portfolio (Rs. Million)
Phase I	19.3	19.5	38.8
Phase II	5.2	12.6	17.9
Total	24.5	32.2	56.8
Percentage %	43.1%	56.7%	100.0

The basic issue for micro-finance component of MEDEP remains one of limited access. Linkage to multiple local institutions operating on a commercial basis, however, is expected to provide better access in the medium term, but, for the most part at higher interest rates than were charged by the Agricultural Development Bank. The new MFI's tend to charge interest (APR) of between 12 percent and 24 percent.

Output 3:

Micro -Entrepreneurs have continued access to business development services

Sustainability of Local Business Development Services. From the start, MEDEP was committed to a multi-pronged approach to the sustainability and expansion of MEDEP-like

entrepreneurship creation and support. MEDEP's close partnership with appropriate government, private business, and banking organizations, at both the district implementation level and at the national policy level aimed to internalize MEDEP approaches and experiences with relevant institutions to sustain the tested and proven modalities.

The plan to internalise EDFs within DDCs or other relevant organisations did not succeed as envisaged due to the lack of elected local bodies and consequently MEDEP addressed these problems by establishing district NGOs (Business Development Services Providing Organizations—BDSPO) comprising former MEDEP Enterprise Development Facilitators (EDFs). BDSPOs have been working through subcontracts with MEDEP and from other organisations as well under the coordinated initiatives of the umbrella organisations of these NGO known as the National Entrepreneurship Development Centre (NEDC). The BDSPOs of Terai are doing relatively well but many in the hills do not appear to be sustainable and a high turnover of staff has been seen. While district level BDSPOs are being sub-contracted at the district level to implement MEDEP activities, at the central level, MEDEP has been working with the NEDC to carry out national level activities.

An additional element of sustainability is the creation of District Micro-Entrepreneur Group Associations (DMEGA), which serves their members in advocacy and market facilitation roles.

Enterprise Sustainability and Growth. One important indicator of enterprise sustainability is the drop-out rate. As of Sept. 2007, only about 5 percent of the more than 27,000 micro-enterprises are reported to have ceased operations. It is true that if MEDEP stopped all its support, only about 80 percent enterprises may survive. But this survival rate is extremely satisfactory even in global perspective. Despite apparent slowdowns in the rural economy due to conflict-related disruptions, the enterprises from Phase I are almost universally still in business after several years of operation, and with relatively little continued assistance from MEDEP. As indicated above, most of MEDEP enterprises are making important contribution to the level of family income. It is in the entrepreneurs' interests to do every thing they can to keep these activities going.

A number of MEDEP enterprises have achieved very impressive growth, now employing between ten and twenty full time employees, and are still in the process of expansion. One Incense Stick enterprise in Bhuchakrapur VDC in Dhanusha has created jobs for more than 400 people at various levels of value chain within a period of five years; indicating that the MEDEP approach follows a labour intensive approach as well as contributes to enterprise growth.

Output 4:

The participation of the poor and excluded in micro and small enterprises development programmes enabled by developing conducive policies and regulatory systems.

Draft micro-enterprise policy has been prepared and submitted to the government and is in the process of being endorsed by the government. Similarly, the Nepal Rastra Bank has adopted some of the recommendations provided by MEDEP which has been included in the Rural Self Reliance Fund Guidelines. Likewise, District Enterprise Development Operational Guidelines, District Enterprise Development Fund Directives and the Pine Plantation Management thinning guidelines have been approved by the government. A sub sector policy on honey has been drafted and submitted to the Ministry of Agriculture and Cooperatives

(MOAC). MEDEP is also providing technical support in forest based enterprise development section of the Community Forestry Operational Guidelines which is under revision.

Output 5:

Capacity of CFUGs and FECOFUNs (Sindhupalchok and Kavre districts) enhanced to improve their members’ livelihoods by promoting individual and community-owned forest-based (both timber and non-timber) enterprises development through pine plantation management and NTFPs management (Forest-based Enterprises Development)

In late 2006, AusAID fund was channelled through UNDP for the promotion of forest based enterprise development and capacity enhancement of CFUGs, FECOFUNs, DFOs and the DEDCs in Kavrepalanchowk and Sindhupalchowk districts. The initiative was directly undertaken after the phasing out of the Nepal-Australia Community Resource Management and Livelihoods Project (NACRMLP). Despite the programme being run for less than a year, MEDEP’s interventions in the two districts have produced promising and visible results even within this short period of time. Of the target of developing one thousand entrepreneurs, as of October 2007, the programme achieved 97 percent of its target with women comprising 82 percent. Similarly, the Dalits, Indigenous Nationalities and others comprised of 18 percent, 51 percent and 31 percent respectively. Amongst the total target achieved, 69 percent of the entrepreneurs were from hardcore groups. However, all entrepreneurs in these two districts are nascent and the entrepreneurs were able to contribute to an increase in family income by just 26 percent. Out of the target of preparing second generation operational plans of 52 CFUGs, 13 have been completed and 29 are under preparation involving 7,283 households.

5.2.5 Impact

Increasing Per capita Incomes. An important purpose of micro-enterprise is to significantly increase the per capita income of the poor. As an important indicator of success regarding incomes, MEDEP compares the entrepreneur’s per capita income before MEDEP’s intervention with the net income (revenues minus all non-labour costs) of the resultant micro-enterprise. The average MEDEP micro-enterprise now provides 287 percent more per capita income than the entrepreneur was earning before MEDEP.

Gender. Women have significantly lagged behind their male counterparts with their rate of income growth (Table 5). This is attributed to a large number of part-time enterprises managed by women due to lack of gender role transformation in society. Mainly it has also emanated from the selection of activities as “women friendly”, which proved to be less rewarding than the activities selected for males. There may have been gender bias in this respect.

Table 5. Change in Family Annual Income after MEDEP, by Entrepreneurs’ Gender

Gender	Before Rs.	After Rs.	Change%
Female	24,861.29	34,937.09	41
Male	25,100.13	42,867.13	71
Total	25,226.93	37,856.36	50

Caste/Ethnicity wise change in average per capita income: In terms of ethnicity, there is hardly any difference among different communities in their ability to enhance average incomes of female entrepreneurs with the average increase ranging from 219 percent to 228 Percent (Table 6). In case of male, however, the least change was noted among the males of Indigenous Nationality with 301 percent change to the highest among *Dalits* males with an average increase in income by 500 percent. Thus males were able to generate much higher income. There is a need to give proper attention to females particularly in terms of activities.

Table 6. Change in Per Capita Income of entrepreneur after MEDEP, by Gender and Entrepreneurs' Ethnicity

Ethnicity	Female			Male			Average		
	Base	New	%change	Base	New	%change	Base	New	%change
Dalits	3,808.48	12,481.32	219	3,996.97	24,577.51	500	3,902.73	18,529.42	375
Indigenous Nationalities	4,390.73	14,794.55	220	4,245.82	18,959.20	301	4,418.28	16,876.88	282
Others	4,660.08	15,810.81	228	4,519.99	22,527.07	389	4,590.00	19,168.94	318

Change in average per capita income among hardcore poor: Working with the hardcore poor has been rewarding with the change in per capita income attained at a much higher level than in the average case or compared to non hardcore poor. The female entrepreneurs have been able to increase per capita income by 223 percent compared to 198 percent for non hardcore poor (Table 7). The males as is the general case have been able to increase their incomes by 397 percent, which is much higher than their counter parts in non hardcore poor. It clearly shows that the lives of hardcore poor can be significantly improved with enterprise activities as against the general opinion that such activities are not suitable for hardcore poor. MEDEP with its dedicated efforts have been able to prove otherwise attaining success while working with the most disadvantaged communities like *Dalits*, women, excluded and hardcore poor.

Table 7. Change in Per Capita Income of Hardcore Poor after MEDEP, by Entrepreneurs' Gender

Gender	Before Rs.	After Rs.	Change%
Female	4,286.43	14,362.23	223
Male	4,254.26	22,021.26	397
Total	4,275.75	16,905.18	295

Change in average family income among hardcore poor: As in the case with the disadvantaged communities, despite enormous difficulty, the working with the hardcore poor has been highly encouraging as the average change in income is 73% or much higher than in other categories. True, it may be due to lower base of the hardcore poor but the ability to increase income is highly encouraging and proves that enterprise activity is not unsuitable for the hardcore poor.

Table 8: Change in average family annual income among hardcore poor

Ethnicity	Female			Male			Average		
	Base	New	% change	Base	New	% change	Base	New	% change
Dalits	16,389.20	23,078.25	41	17,076.71	35,046.97	105	16,732.96	29,062.61	73.0
Indigenous Nationalities	18,249.65	27,280.42	49	16,378.93	31,060.78	90	17,313.89	29,170.66	69.0
Others	17,362.52	27,605.32	59	17,682.13	33,649.91	90	17,522.33	30,627.62	74.5

Impact on Poverty: The basic goal of MEDEP is to alleviate poverty by developing enterprises. The achievements in this respect too have been encouraging though much more will still have to be done in this respect. During the period, it has been able to contribute to upgrade 8,805 households from below the poverty line. In other words, more than 53,000 persons have become none poor. Additionally, 3188 households have been upgraded to non-hardcore poor or the livelihood of another 18,000 persons has improved. The evidences are proof enough about the overall impact of MEDEP and it has broadly been successful in attaining its goals.

Increasing Family Incomes: One important purpose of micro-enterprise is to significantly increase the incomes of the poor. As one indicator of success regarding incomes, MEDEP compares the participating entrepreneur's family per capita income before MEDEP's intervention with the net income (revenues minus all non-family-labour costs) of the resultant micro-enterprise (not including any other income that the family may still be earning). The average MEDEP micro-enterprise now provides 48 percent more per capita family income¹¹ than the family was receiving before MEDEP.¹² The percentage increase in family incomes is similar for *Dalits*, *janjatis*, and *hardcore poor*. However, their enterprises are smaller than those of other MEDEP entrepreneurs.

Although the average increase in family per capita income is 48 percent, it is important to note the differences. The following situations appear to affect performance.

Age of Enterprise. The percentages of entrepreneurs experiencing higher increases in income are greater among the Phase I entrepreneurs than with the Phase II entrepreneurs who have only recently begun their enterprises.

Geography. As we move from west to east the trend is clear for both the Phase I and Phase II groups that entrepreneurs' performance generally improves as one moves east. It indicates difficulties in western Nepal, of which the far and mid-west remains the most backward and therefore difficult to operate areas. Obviously the need is also highest in these areas.

Gender. Women lag behind their male counterparts with their lower rate of family income growth. This is attributed to a large number of part-time enterprises managed by women due to lack of gender role transformation in society. The fact that a greater percentage of women have recently begun new enterprises, and because women face more problems than men in travelling during conflict situations.

In terms of districts, the average change in family income is almost negligible in Kavrepalanchowk both for males and females. It may probably be due to relatively recent initiation of activities in the district. Other districts recording very low growth include

¹¹ Total enterprise revenues, minus all expenses (excluding the entrepreneur's labour), divided by the number of family members.

¹² The average growth of individual MEDEP enterprises (not divided by the number of family members) is 230%.

Kailali, Baitadi, Darchula and Sindhupalchowk. It is notable that compared to 82 percent average growth in income during the first phase; it is estimated to be only 36 percent in the second phase enterprises contributing in the decline of the average to 48 percent. The major reason for this appears to be the significant increase in the proportion of female entrepreneurs, whose average rise in family income is only 41 percent as against 63 percent for the males. Lower income growth is also contributed by relatively poor performance of some districts included in the second phase like Kavrepalanchowk, and Kailali districts, where there is very low average change in average income.

Caste/Ethnicity wise change in average family income: In terms of ethnicity, there is hardly any difference among different communities in their ability to enhance average family incomes in the households of female entrepreneurs (Table 9). But *Dalits* males have been successful to increase their income (87%) significantly compared to any other group, meaning that working with disadvantaged communities generally viewed as arduous can be highly effective and rewarding.

Table 9. Change in Family Annual Income after MEDEP, by Entrepreneurs' Ethnicity

Ethnicity	Female			Male			Average		
	Base	New	%change	Base	New	%change	Base	New	%change
Dalits	21,708.34	30,381.18	40	23,582.12	44,162.66	87	22,645.23	37,271.91	65
Indigenous Nationalities	26,344.38	36,748.20	39	25,050.34	39,763.72	59	25,697.36	38,255.70	49
Others	26,562.46	37,713.19	42	27,119.94	45,127.02	66	26,841.20	41,420.11	53

Impact on Women's Positions: Women entrepreneurs report that they have been able to raise their status and identity inside and outside their household, and strengthen their role in household decision making. The majority of the women entrepreneurs interviewed stated that their income generally goes for better food, clothing, education for their children and other household expenses including their children's marriage.

A small in number but highly successful women entrepreneurs are the single women, either widow or abandoned by their husbands. These groups of women have employed 2- 23 people. They have scaled up their enterprises, constructed houses, providing education to their children. Women who have had low self-esteem become economically empowered, at decision making, have a higher standing in the community, and sense of solidarity. A large number of the women are operating house based enterprises in a slow but continuous mode due to their family responsibilities. Most of them are working almost on a part time basis and this to a larger extent explains the difference in the additional income they have been able to generate. Albeit women who traditionally relied upon males for financial resources have been empowered to possess and use money. Many claimed that once they have money on hand they felt empowered. The roles have changed and in many cases women have become the principal bread winner. For others, they have been able to contribute to the family coffers. These changes have contributed to social, behavioural, attitudinal, and status change in the lives of many women.

Attainment of MDG Goals: MEDEP has directly contributed in attaining MDG goal one which relates to reducing poverty and hunger, goal three which relates to achieving gender equality and goal seven which relates to ensuring environmental sustainability. MEDEP has concerted efforts to improve the livelihoods of the people by reducing hunger and poverty through gainful employment opportunities. Similarly it has put substantial effort to

promote gender balance and equity. It is also working in the areas of environment sustainability by working with CFUGs for the sustainable harvesting of forest products by promoting enterprises which use regenerating and renewable resources. Indirectly, it contributes to attain the second MDG goal, promoting universal primary education, and the fourth and the fifth MDG goals related to the health sector as many cases were noted wherein people tried to avail better education and health facilities with improved income. In a query to what they did with their additional income, more and more persons are responding that they are sending their children to schools and some of them even to colleges. Betterment and penchant for education is demonstrated from the fact that they are sending to schools and colleges and from ordinary schools to English medium schools. In the health sector too, they are being enabled to access better services. These changes definitely bring conducive changes in the lives of the people simultaneously aiding to attain the MDG goals.

Employment: Apart from poverty, the critical problems Nepal is facing lack of generation of adequate gainful employment opportunities. Unemployment and underemployment both are pronounced problems in the country. The services sector has witnessed growth but the major production sectors like agriculture and manufacturing are actually declining in terms of employment. Not surprisingly more and more persons are going abroad in search of jobs. In the milieu, MEDEP has created over 31,000 sustainable jobs that too in a cost effective manner. The employment ratio per entrepreneur may be low at 1.13 jobs per entrepreneur, but the creation of a sizeable number of entrepreneurs has helped to augment employment creation.

Socio-economic empowerment: MEDEP initiatives have not only brought a change in the economic status of women, *Dalits*, and the excluded communities but more importantly empowered them in the families, societies and communities. They have in many cases been empowered to take decisions, and influence their lives. There have been seen changes in the lives of many. Employees and dependents have not only become independent but also have become employers creating valued and rewarding jobs for others. Excluded, downtrodden, and marginalised communities like *Haliyas, Kamaiyas and Landless*, have not only gained self-respect and self-esteem, but also evolved as entrepreneurs involving in economic activities and providing jobs for others. They are emerging as models in the society and people are looking at them with awe and inspiration as role models. It is heartening to note that though still at the micro level, some entrepreneurs have started providing scholarships to the poor and excluded. Their enhancing social status and role can be imagined from the fact that they are participating in community and development activities increasingly and with gusto. These changes are nothing less than metamorphosis.

Asset Creation: Many persons after being involved in entrepreneurship have not only been able to increase their incomes to better their livelihoods but have been able to save and invest. 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. One lady in Nawalparasi, engaged in *Tika* production has been able to construct a house and buy land. Such illustrations are numerous meaning that entrepreneurship has contributed in generating incomes and savings; enabling them to create assets. In other words these micro-entrepreneurs have been able to make macro impact not only through job creation and income generation but also through savings and investments.

Leadership development: One of the most striking impacts of MEDEP has been contribution in the development of leadership among women, poor, excluded and marginalized communities. Women occupied 50.4 percent positions in the institutional bodies of entrepreneurs and BDSPOs. Among the entrepreneurs' organizations, the participation rate of female is more encouraging at 59.1 percent (Table 10). For this, MEDEP has been able to bring people from *Dalits* and Indigenous Nationalities to play an important role in these institutions. *Dalits* occupied 13.2 percent positions and the Indigenous Nationalities occupied 33.3 percent positions. The participation rate is more encouraging in the bodies of the entrepreneurs, NMEGA and DMEGA. There are a large number of bodies of entrepreneurs like FNCCI, FNCSI, CNI, product associations, and other bodies but in no institutions such inclusiveness is noted. It means that MEDEP has been successful in promoting inclusive strategies leading to empowerment of women, *Dalits*, and excluded communities. They have got an opportunity to take decisions, play lead roles, share vision and perspectives and express themselves. Keshu Pariyar, a *Dalits* lady, is the chairperson of NMEGA, the national level body of entrepreneurs. She is probably the only female leader of such a national level body and additionally from an excluded section of society, which in itself speaks a lot about the inclusiveness in MEDEP activities.

Table 10: Proportion of participation of women, poor and excluded in their organisations

<u>Comparison of MEG//BDSP, Associations in percentage</u>					
	Male	Female	<i>Dalits</i>	Janajati	Others
NEDC/BDSPO	58.7	41.3	7.9	28.6	63.5
NMEGA/MEGA	40.9	59.1	18.2	37.9	43.9
Total	49.6	50.4	13.2	33.3	53.5

Promotion of entrepreneurship culture: MEDEP emphasizes more on entrepreneurship than enterprise development. Enterprises may succeed or fail according to the vagaries of the market and external factors. There have been cases of enterprises failing or not developed as expected in some quarters. This in itself is not an issue as proper development of entrepreneurship results in simply switching to more viable and commercially beneficial enterprises and activities. So, the development of entrepreneurship, which MEDEP has aimed at and is working upon, is going to bring substantive economic changes in this impoverished country. The entrepreneurship culture is more important than the enterprise. This is the motto with which MEDEP has been operating.

Inclusion of HIV/AIDS in the entrepreneurship activities: It is also interesting to note that MEDEP though in a small number has been able to provide awareness on HIV/AIDS to entrepreneurs. It is true MEDEP does not specifically target HIV/AIDS affected people but it also does not shun its responsibilities and wherever feasible has tried to include them in the training.

5.3 Challenges and Issues for Consideration

Despite having made substantial progress in promoting rural micro-enterprises, MEDEP faces the following challenges.

Economic empowerment of women: MEDEP has so far promoted 66 percent women entrepreneurs. However, the project faces a serious challenge in maintaining an equal distribution of benefit between male and female entrepreneurs. Although the female entrepreneurs contribute excessive physical labour in all kinds of enterprises, their increase in

the PCI is reported at 227 percent, whereas that of male was accounted at 358 percent.. This is a serious gender gap at impact level for which MEDEP needs to continue focusing on women more towards promoting their economic empowerment by putting additional efforts in mobilizing women entrepreneurs in a more systematic gender intervention technique. Promoting gender responsive strategy in rural enterprise is therefore, imperative for MEDEP in the beginning of its next phase, in order to enhance and ensure gender equity in benefit sharing by women and men on impact level.

MEDEP would therefore need to play facilitating role in the gender role transformation in the process of enterprise development so as to ensure a greater participation of women in higher income generating enterprises.

VDC/DDC ownership for enterprise support: The enterprises are based on locally available resources, such as, weaving *allo* clothes, making bamboo baskets, incense sticks, herbal soap, producing agro-forestry based food products, e.g., honey, juice from Rhododendron and berries, lapsi and ginger candy, rope making from wild plant, tailoring, cloth weaving from wild plants, Dhaka weaving and so on. There is a need to have reliable policy for harvesting natural resources and also getting access to the waste forest materials and public land by the *poor* groups. The poor entrepreneurs need to be closely connected with the VDCs and District Forest Office. They should be made aware about their rights to claim for public common properties for productive purpose. At the same time, the VDCs should be made aware of their accountability towards the *poor* communities and specifically to the resource poor women and unemployed youth for enabling them to use their users' rights to waste land and minor forest resources. There are several encouraging examples of VDCs taking ownership (e.g., case of Kavrepalanchowk's Dhungharka VDC in Juice making group). However, this has been achieved on an ad-hoc level of VDC Secretary's interest which needs to be transformed into institutional agendas for gender, social inclusion and youth employment generation plans of the VDCs and DDCs. Once the VDC level enterprise development plan gets integrated into the regular VDC development plan, the MEGA members can influence VDCs for budget and for other resources, including leased land for landless, for agro-based products, CFUG on NTFP based products through leased forest and fishery in village ponds by marginalized groups. The youth groups can be involved for enterprises such as, carpentry, masonry work, pottery-ceramics, tailoring, mechanical and electrical work, plumbing, Nepali paper making, *Thanka* painting and so on. This kind of step even helps to retain motivation of grassroots entrepreneurs through collaboration and cooperation among VDCs, private sector and other service providers.

Consistency and quality maintenance for marketing: A big challenge has been to maintain consistency of products and quality of products, e.g., amount and regular supply of products, quality packaging, labelling, branding, storage so as to meet the market standard.

Normally, the participants of the programme were found to be highly motivated to implement what they learnt through training and exposure. However, due to limited practice and absence of innovative marketing concept, some of the entrepreneurs have yet to internalize the concept and tactics of preparing their products for market attraction and competition. The Saugat Market Outlets established in districts and in Kathmandu are meaningful means for their market linkages. The BDSPOs need to prepare the MEGAs for taking up much more interests in consistent production, as well as organizing better quality, labelling, packaging, display and storage for longer preservation of food products. Private sector tactics should be learnt by the marketing people in order to promote handicrafts made out of local materials.

Likewise, the programme would need to give more emphasis and explore opportunities for Business to Business (B2B) linkages to promote micro-entrepreneurs products to a wider customer base. The products are organic, hand made and produced mostly by the *poor* women; these are the core values for market promotion of their products. A combination of value chain analysis and fair trade policies has to be made popular through highlighting with promotion of every product.

Retaining BDSPOs' services and promoting gender and social inclusion in BDSPOs: BDSPOs are supposed to continue as resource persons and service providers at local level. With the increasing trend of replicating MEDEP approach of enterprise development, other I(NGO)s frequently buy their services. This is encouraging; however the idea of accessing their doorstep services by the DMEGA cannot be achieved due to their absence from district. MEDEP should support BDSPOs and DMEGAs, for sometime to come and the institutional development of these organisations should be given priority in the next phase. BDSPOs despite providing training in SIYB package developed by the ILO, they have only been given the status of trainers only and have not got the opportunity to upgrade into Master Trainers. Despite their rich experience and proven ability to be Master Trainers in the field, the SIYB Secretariat in Kathmandu has not certified them as Master Trainers. As a result of this discrepancy, the motivation of BDSPO members has been affected. Should MEDEP be extended into a third phase, there would definitely be a need for a large number of Master Trainers and in this context, the SIYB Secretariat in the Kathmandu should upgrade and certify the highly experienced BDSPO members into Master Trainers. However, the BDSPO members upgraded into Master Trainers should not be seen as parallel group of competitors but should be regarded by IEDI and CEBUD as complementary for local level services. There is a need to incorporate more representation of women and excluded groups in BDSPOs.

Strengthening MEGAs and DMEGAs: There is a strong need to assist the MEGAs to be more vibrant in participation in identifying and providing inputs to enterprise development policies and resource attraction at VDC and DDC level. The long term sustainability depends on sustaining rural level entrepreneurs. MEDEP should focus more attention in capacity building of the MEGA members to identify, analyze and plan their potentialities into enterprise development planning, implementation and monitoring along with VDC and DDC stakeholders. This can lead to improve DMEGA's and NMEGA's participation, governance and policy advocacy role. MEDEP needs to strengthen capacity of the individual members of DMEGAs and NMEGA by providing forums for interaction among the DMEGAs.

Socially appropriate business environment: Another big challenge faced by MEDEP is how to strengthen and retain a favourable socially enhanced business environment for the rural women by managing appropriate technologies, sufficient follow up support to women in production process and marketing. The rural women targeted by MEDEP come from socially deprived households besides being victims of economic poverty. The women need extra support for motivation, so do the *Dalits* and other excluded castes and conflict affected communities. MEDEP needs to strategically plan for meeting this extra effort in social mobilization services, not only through linkage building but also by providing special technical support to retain motivation of socially marginalized section.

Ensuring credit capital for rural enterprises: In many cases, the MEDEP promoted entrepreneurs have been successful in obtaining loans from MFIs and Cooperatives. They reported about Cooperatives as the best source for soft loans. Some among them think that

they must not take loan and risk, because they might fail to pay back. The training contents of MEDEP should include more about "capital provision through soft loans" on a more serious way so that the entrepreneurs get motivated to take and use loans for up scaling their businesses. At the same time, VDCs/DDCs should be given roles of making the MFIs accountable to respond to the *poors'* needs for loans with a development motive, different than the profit making corporate banks, because rural credit organizations are mandated to respond to development needs of the *poor* having social corporate values besides being self sustainable. The MFIs must be made accountable to provide door step services for the disabled and women. In a nutshell, the *poor* have the right to banking services and it is the duty of the State mechanisms to organize an innovative trend of credit facilities for rural entrepreneurs differently than usual banking services.

Labour and time saving technologies: The rural women have benefited from the appropriate technologies introduced by MEDEP for time and labour saving, such as, juice grinder, rope making, improved water mills, spinning and weaving. There is also a need to develop and promote appropriate technologies amongst micro-entrepreneurs to increase efficiency and competitiveness.

Collaboration and cooperation: There is lot of scope for MEDEP expanding its collaboration with other like minded programmes, such as, PAF (WB), APPSP (DFID), LFP (DFID), CSP (DFID), EMPLED (ILO), SEP (ADB), REDP (UNDP), DLGSP (UNDP), PSP (GTZ) and Elam/Elam Plus of HELVETAS, etc for up-scaling its learning (Table 11). All the organizations work on poverty alleviation through gender responsive social inclusive approach. This can be of common interest for all these organizations. An intensive workshop is needed to find out multi or organizations collaboration for introducing MEDEP's expertise on enterprise development with the poor and disadvantaged communities.

Table 11 : Possible areas of collaboration

Projects and Programmes	Areas of cooperation and collaboration
PAF	MEDEP approach; partially funding support
APPSP	Significant amount of grants available for rural enterprises
REDP	Partnership through sub-contracting out enterprise development services, e.g. KiND
LFP	Contracting out enterprise development services to MEDEP
ILO	Functional collaboration of DMEGAs in employment related projects. Implementation of enterprise development through DEDCs/DDCs.
DLGSP	Social mobilization services (well being raking and organizational development of the groups) of DLGSP for MEDEP groups
SNV and GTZ	PSP/GTZ and REAP/SNV are two programmes from where MEDEP can borrow expertise for value chain analysis for improved product marketing

Livelihoods promotion in Buffer zone areas need more policy coordination: Two cases were observed in buffer zone areas of Bardiya National Park and Langtang National Park (Sindhupalchowk/Rasuwa). One involved a women group making soap from "*Chyuri*" oil and another was an incense stick making (youth and women group) using waste materials of forest (dhupi) as the major raw material. Both items were successful, have consistent quality production and popular in markets, both local and city market. However, the later reported about their difficulties in collecting forest based raw materials due to not having open access under the National Park policy. In fact, incense making in Helembu, Sindhupalchowk has

been employing 51 persons in a chain of production, such as, collection of forest waste provides seasonal employment for 13 village youths for 3 months in a year, fine bamboo sticks provides employment to one *Dalits* community of 18 households and processing and packaging provides regular employment to 15 women whereas regular marketing provide employment to 5 village youths. This is just an example of how locally available forest waste materials can be used for alternate livelihoods promotion through an interdependent channel of production at the grassroots level. The actors in this case belong to Sherpa, *Dalits*, Tamangs and Chhetris, etc which reflects a harmonious relationship within different social groups engaged together for making sustainable livelihoods. A well coordinated effort can make things happen better at a micro level which again, gets obstructed in the absence of a favourable policy environment. MEDEP will have to play a catalytic role for taking up coordination with the Ministry of Forest and Soil Conservation (MoFSC) so as to ensure access to forest waste materials or NTFPs for productive use by the buffer zone communities.

Sub sector analysis and promotional steps: MEDEP has been able to attract participation on a high scale even in some innovative skills at the grassroots level. The strategy has been a provision of sequential services. In many cases, the strategy has contributed to creating strong motivation for not only doing enterprises but for up scaling their businesses and creating employment for other fellow villagers as well..

- MEDEP needs to support the BDSPOs and DMEGAs to make an intensive analytical assessment of entrepreneurs for categorizing for extending supports in its third phase through systematic phasing out strategy.
- In this process, MEDEP should be considerate to the special gender needs and follow the "gender responsive micro-enterprise strategy" as mentioned earlier specifically for identifying specific actions for promoting gender friendly enterprises, but not bypassing the market needs.

This is imperative as the project has created a momentum among the *poor* women and men which needs to be consolidated to support up scaling. However, they would need a degree of technical and financial support.

Challenge of certification: Nepal will face increasing challenge of certification in exports of primary products. Absence of such a provision may hinder exports of agro and forest based products. Refusal of Norway to import Nepalese Honey is an illustration. Hence, the government must give priority to develop feasible certification facilities or processes to enable to certify such products. Necessary cooperation may be taken from donors, international agencies, and projects and programs. Such a certification is also essential to ensure sanitary and phytosanitary measures as Nepal has already acceded to WTO.

The most pertinent issues remain how to sustain micro-enterprises and institutions that have emerged in the process. If MEDEP withdraws, about 20% to 25% micro-enterprises may collapse. Albeit the success rate is quite encouraging, the issue will remain how to ensure survival and growth of micro-enterprises in a sustainable way without the support of external agencies. Similarly, a number of BDSPOs may find it difficult to sustain their activities without support though a number of BDSPOs have expected to survive and actually grow. Institutions like DMEGAs and NMEGA have also yet to mature and show signs of sustainability. Hence, efforts and strategies are required to overcome these lacunas to graduate MEDEP model as a viable and sustainable enterprise development strategy.

6 Rationale and Justification for Project Extension

MEDEP in its nine years of operations has proved to be a useful and effective mechanism to alleviate poverty by generating gainful employment opportunities through enterprise and entrepreneurship development as exhibited in the previous section. The justification for extending the project despite two phases of project cycle still may not be an adequate time period to address poverty and unemployment. Addressing the challenge of poverty would take a considerable period in view of the persistence of large scale poverty.

1. It is estimated that 30.8 percent of Nepal's households are poor (NLSS, 2003) meaning that almost 1.478 million households should be poor or 8 million people are still below the poverty line⁹. It is true that all of these households cannot be addressed by enterprise activities. However, there is a clear need that well over half of that should be taken into secondary activities. MEDEP has so far in its nine years of operation addressed poverty of some 25,000 households while it has directly contributed to uplifting some 9000 households from the country's poverty line. Including many other programmes like PAF, ELAM and ELAM Plus and IG components in a large number of development activities, they have not been able to address about 2 to 3 hundred thousand households and the households upgraded above the poverty line are estimated to be much smaller. Hence, significantly more initiatives will be required on a continuous manner to address the issue of poverty and therefore there is a need to promote and replicate MEDEP modality, which has been able to generate visible impact, to a longer period reaching all segments of the population and areas.

2. Another formidable task needed is to create gainful employment opportunities. It is estimated that each year some 400,000 job seekers enter the job market. The existing activities have hardly been encouraging enough to provide jobs to these people. Hence, either they have to seek employment opportunities outside the country or work in the limited agricultural lands over burdening the cultivable lands. Enterprise development is an important avenue to absorb some of these people and therefore needs to be continued on a sustainable basis. It is estimated that about half of the people entering the job market go for foreign employment and the other half seeks job within the country. The formal manufacturing sector is actually declining though the overall industrial and services sectors appear to be growing. Particularly tourism sector grew significantly in 2007. In the milieu, the job created within the country is simply inadequate. Apart from that large scale underemployed population do not seem to have enough alternative jobs to utilize their time and potential. Limited economic activities have resulted in a large segment of population particularly females to remain inactive. Taking all these into consideration, there is a need to put on concerted effort to create employment opportunities and in this respect there is no equal to entrepreneurship as it not only promotes self-employment opportunities but also creates jobs for others. MEDEP is involved in this noble initiative and hence actually needs to be made a permanent feature internalized within the 'own' system.

3. Nepal has abundant resources gifted to it by nature such as water, forest and mineral resources. But in the absence of requisite entrepreneurship and resources, much of these are unused and wasted while a sizeable population in the absence of adequate economic opportunities are suffering from poverty. Water resources are used to the extent of only about 0.75 percent of total theoretical potential and about 1.4 percent of economic potential. Forest provides large varieties of resources in the form of timber and non-timber products. Nepal has simply not been able to use timber as an economic resource due to the apprehension of severe forest depletion. In view of the actual experience of undue level of deforestation, allowing extraction of timber remains a huge risk. But inability to manage forest resources

properly in a manner that over grown trees are cut and unduly dense forest are thinned to allow for sustainable and sound growth is costing the nation dearly. It has been estimated that simply sustainable thinning of pine forests in two districts, Sindhupalchowk and Kabhrepalanchok, will yield resources worth Rs 1 billion annually meaning that the total national potential would be enormous simply from sustainable harvesting without really affecting the forest coverage. In the same way, NTFPs are available widely and their sustainable harvesting, processing and use will provide notable economics resources as well as job opportunities. Similarly, processing opportunities of agricultural and other primary activities do provide job as well as value addition possibilities. MEDEP has made a lot of laudable efforts in this direction to reap benefits by indulging in processing and value addition activities. Thus resources if not used will simply be wasted in many cases. Hence, the mechanism to use the resources and add value should continue to have multifarious benefits.

4. In the same way, there are adequate opportunities to sustain and improve upon local skills and technology to benefit many. Their identification, development and use may help to bring significant benefits and MEDEP is involved in such activities creating opportunities for higher value addition while being compatible with the grass roots level communities.

5. One of the strongest rationales for continuing MEDEP is that it has proved to be highly cost effective despite being operated as a project. It is generally argued in Nepal that projects being engaged in innovative areas and piloting or testing activities generally tend to be expensive. MEDEP has generated more than 30,000 jobs with a total investment of US\$ 8.2 million meaning that creation of one sustainable job has approximately cost about Rs 18,000¹⁰. This should be comparable with any private, public, domestic or foreign efforts. Nepal in view of its economic status particularly the paucity of resources, such efficient and effective activities have to be continued on a programme basis.

7. MEDEP has not only been a cost effective programme but has also yielded tangible impacts in terms of poverty alleviation. Among MEDEP entrepreneurs more than 9000 families or over 53,000 persons have been upgraded above the poverty line. Similarly, almost 18,000 persons have been upgraded from hardcore poor level to non-hardcore poor. These tangible impacts are proof enough of the broad economic impact MEDEP has been able to generate.

8. MEDEP has aided to add value in any activities being carried out for example initiations of processing activities have led to useful value addition within the country. In certain products, it has been able to replace imports of inputs due to its innovative efforts and research. These activities have definitely added value making enterprise activities more beneficial and commercially viable.

9. In Nepal, infrastructure development activities have taken place particularly since early nineties on a significantly wider scale. Expansion of road access and micro-hydro projects has helped to build new foundation but there is no denying that simply infrastructure construction is not adequate to uplift the socio-economic status of the people. It will be naïve to imagine that economic growth will take place by developing infrastructure alone though infrastructure development is a very necessary step in the direction. A large number of impact assessments have revealed that infrastructure construction alone does not result in improving the economy. Hence, it is suggested that infrastructure development should accompany economic packages as well. MEDEP type activities will prove to be very efficient and cost

effective mechanism to fill in as the economic package and hence along with infrastructure development, such efforts should be combined to deliver enhanced economic benefits.

10. More importantly, MEDEP helps to promote entrepreneurship than enterprise development. Enterprises may succeed or fail according to the vagaries of the market. There has been complaints too that some of the enterprises and activities have either failed or not done as expected. This is itself is not a problem as proper development of entrepreneurship results in simply switching to more viable enterprises and activities. So, the development of entrepreneurship, which MEDEP has aimed at and is working upon, is going to bring substantive economic changes in the country.

11. The rationale for continuing MEDEP has emerged from the strong government commitment shown to the micro, cottage and small scale industries as a means to creating jobs and alleviating poverty in the current interim plan. The plan has proposed to create 100,000 employment in micro, cottage and small scale industries in the country covering all districts and allocated a sum of Rs. 189 million. This will require MEDEP model to be expanded to cover all the districts and act as a source of knowledge support and part execution to attain the plan goals.

In view of these, there is no need to reemphasize the need for continuing MEDEP initiatives on a long term basis. Recognizing this very fact, the government of Nepal has also requested that the initiative be continued and taken to more needy areas like Karnali Region. MEDEP, is a very viable, cost effective initiative with notable economic impact and therefore needs to be made the vehicle for poverty alleviation and generating gainful employment opportunities in the country

- MEDEP has demonstrated its capacity to continue to reach and work with poor beneficiaries in troubled rural areas, at a time when the government's ability and other donors' willingness to provide services in most rural areas is greatly weakened.
- MEDEP is reaching segments of the population that the development efforts of the last decade have bypassed, despite the general commitment of government and donors to poverty alleviation. In this sense, MEDEP positively, specifically, and practically addresses key issues of the insurgency movement.
- MEDEP reaches the deprived segments of the population with a development programme rather than just short-term relief or welfare, and provides people with a capacity that is self-sustaining and empowering.
- Continuing MEDEP during the present volatile political and security situation is expected to maintain a programme outreach capacity that will be a useful component during the post-conflict rehabilitation. MEDEP initiative is expected to mitigate conflict arising from economic and social disparity. Hence, in the present situation of post conflict peace building, the programme could act as a vehicle for change and economic transformation for the rural poor in the process of peace and reconstruction.

MEDEP appears to be successful in reaching out to the *hardcore poor* and disadvantaged social categories and assisting them in establishing viable micro-enterprises. Under MEDEP, large numbers of *Dalits*, *Janjatis*, and *Hardcore Poor* have successfully begun their self-employment operations. However, for clients starting from highly disadvantaged positions, the process takes longer, and the enterprises are more modest than those of the MEDEP

clients who started as merely poor. Starting these enterprises has an important positive social and psychological impact on participants and their families. MEDEP, although it does offset some of the risk and costs for the *Hardcore Poor* participants, maintains its strong emphasis on creating self-sustaining business enterprises, even if they are very small. MEDEP must continue to be vigilant that its service to *Hardcore Poor* does not slide from an enterprise to a welfare mode.

MEDEP provides an effective and cost-effective model for creating sustainable enterprises among the poor, the *Hardcore Poor*, and the severely socially excluded. There is considerable potential for scaling up of the process. However, it is important to keep sight of the fact that the integrated, sequenced, and market-led approach utilized by MEDEP is complex. It can be tailored for different situations, but it must retain its essential set of activities in order to have success.

7 Project Design for Phase III

Based on the assessment of activities and understanding, and needs and requirements of stakeholders the basic ingredients of the project for the third phase has been envisaged and scoped as followings.

7.1 Nomenclature

Regarding issue of whether the nomenclature of the project needs to be altered in view of the changing situation, there is a common opinion that 'Micro-Enterprise Development Programme' (MEDEP) has become easily identifiable and has gained a status of 'brand' image of a project that delivers to the real poor people in an inclusive manner and is one of the most effective programmes in the national mission of poverty alleviation. Hence, the same name should be continued during the proposed phase as well as in the coming years. This argument of the scoping study is based on the fact that the government in favour of giving continuity to the programme name MEDEP as it is now well recognised name in the development sector. Taking into account all these perspectives, it is, therefore, desirable to continue with the same name.

7.2 Coverage Strategy

The coverage of the project should encompass both intensive (in existing districts) as well as extensive (in new districts) approaches. The need for intensive approach emerge from the fact that most of the development approaches influence only a small segment of the population while claiming to cover a number of districts. As a result, the real change at the district and regional levels is hardly visible. To overcome the challenge, there is a need for extensive coverage of development interventions within a district. In the 21 districts that MEDEP is operating in, only 49% of the VDCs and much less number of household is covered. However, coverage of households will be much more if households below the poverty line, which are the real target group, are considered. However, such a strategy will significantly limit MEDEP's scope in terms of districts and the programme's image may be reduced to a project with very limited coverage and impact. The persistent need to alleviate poverty by generating gainful employment opportunities exists in many other districts as well; the need may be more due to higher levels poverty and lower human development index, lack of

development initiatives and as a result of disproportionate and imbalanced development strategies pursued in the past. The coverage strategy, therefore, should be made intensive in the districts covered by phase I and phase II while extending to new districts in phase III. This is expected to generate the desired impact while gradually trying to address poverty alleviation needs in totality.

7.3 Proposed Districts

New districts have been selected adopting the following criteria:

- level of human development index
- women empowerment index
- proportion of disadvantaged and backward communities
- road access
- possible synergy with other projects, and
- government priorities

Level of human development index has been given importance as it is expected to enable the selection of districts requiring highest priority. However, in order to ensure proper inclusion of disadvantaged population, which MEDEP has given due attention right from the very beginning of the project in 1998, it may not be sufficient to base the selection on HDI index alone. Hence, an estimation of disadvantaged population has also been used as an indicator for the selection. Another important criterion used in combination with the abovementioned criteria is road access, as enterprise development will not be feasible and can be almost impossible without some kind of road access. As a result, given the low HDI in Mugu and Bajura, due to limitations of road access, these districts have not been included in the proposed districts. Consideration has also been given to develop synergy with other UNDP/DFID districts. Last but not the least, the government emphasis and priorities have also been considered and as a result emphasis particularly to take development programmes to Karnali region has been given due consideration.

Based on the above-mentioned criteria, the following districts have been proposed:

Table 12: Proposed new districts

	HDI Ranking	Poverty Ranking	Gender Empowerment Index	Human Empowerment Index	Proportion of Dalit Population (%)
1. Jumla	70	23	41	65	17.2
2. Kalikot	73	73	7	69	29.9
3. Dailekh	66	66	72	59	25.1
4. Surkhet	22	56	31	32	26.2
5. Rukum	647	61	54	74	6.9
6. Rolpa	65	74	68	75	16.8
7. Salyan	61	52	53	58	14.8
8. Mahottari	59	17	74	44	17.9
9. Rautahat	56	19	55	50	20.2
10. Baglung	19	37	15	48	23.2
11. Dolakha	42	21	51	37	7.8

Districts proposed for alternative case of UNDP funds only:

	HDI Ranking	Poverty Ranking	Gender Empowerment Index	Human Empowerment Index	Proportion of Dalit Population (%)
1. Jumla	70	23	41	65	17.2
2. Kalikot	73	73	7	69	29.9
3. Dailekh	66	66	72	59	25.1
4. Surkhet	22	56	31	32	26.2
5. Rukum	64	61	54	74	6.9
6. Rolpa	65	74	68	75	16.8
7. Dolakha	42	21	51	37	7.8

Districts have been selected taking into account human development, poverty, human empowerment and gender empowerment indexes along with the criteria mentioned above. Jumla, Kalikot, Dailekh, and Surkhet have been selected as they are Karnali road corridor districts. Rukum, Rolpa, and Salyan have been selected as these are areas where conflicts originated and affected the most. Mahottari, and Rautahat have been selected because these are backward Terai districts. Baglung has been selected in view of the concentration of excluded communities (Dalits and Indigenous Nationalities). Dolakha has been selected due to the potential synergy with the Sustainable Poverty Reduction in Nepal (SPRN) project funded by Norway and Khimti Neighbourhood Development Project (KiND).

In case of delay in commitments from donors, project activities will be initiated in seven new districts only comprising Jumla, Kalikot, Dailekh, Surkhet, Rukum, Rolpa, and Dolakha with continuation of consolidated programme activities in the existing 25 districts. Given the involvement of EmPLED project of the ILO in a large scale in Ramechhap and Dhanusha, MEDEP may gradually limit its activities in the districts.

7.4 Proposed Programme Target

In consideration of the nature of districts selected, respective problems and challenges and development possibilities, the following programme target has been set.

A feasible target during the proposed three year period would be to develop a total of 30,000 new entrepreneurs in all 36 districts (including 25 existing and 11 new proposed districts). A yearly breakdown of the target for the three year period should be as mentioned in Table 13.

Table 13: Number of New Entrepreneurs to be established/created in three years (2008 – 2010) with UNDP and other donor supports

Year	Number of New entrepreneurs	Remarks
2008	5,000	These targets are without considering the KiND and SPRN projects
2009	15,000	
2010	10,000	
Total	30,000	

During the first year with limited BDSPOs, the number of target entrepreneurs has been set at five thousand. During the second year, it is envisaged that the project would be able to develop fifteen thousand entrepreneurs. The target during the third year has been reduced to ten thousand mainly because entrepreneur development activities would be confined to the first half of the year only, with the remaining period allocated to strengthening of entrepreneurs developed.

An interim plan has been proposed in an event that MEDEP phase III is initiated with UNDP resources only. In such an event, the interim plan will be to develop only nine thousand entrepreneurs during the proposed phase in 32 districts including 7 new districts (Table 12), with two thousand during the first year, five thousand during the second and two thousand during the third year based on the rationale provided above (Table 14).

Table 14: Number of New Entrepreneurs to be established/created in three years (2008 – 2010) with only UNDP fund

Year	Number of New entrepreneurs	Remarks
2008	2,000	<u>These targets are without considering the KiND and SPRN projects</u>
2009	5,000	
2010	2,000	
Total	9,000	

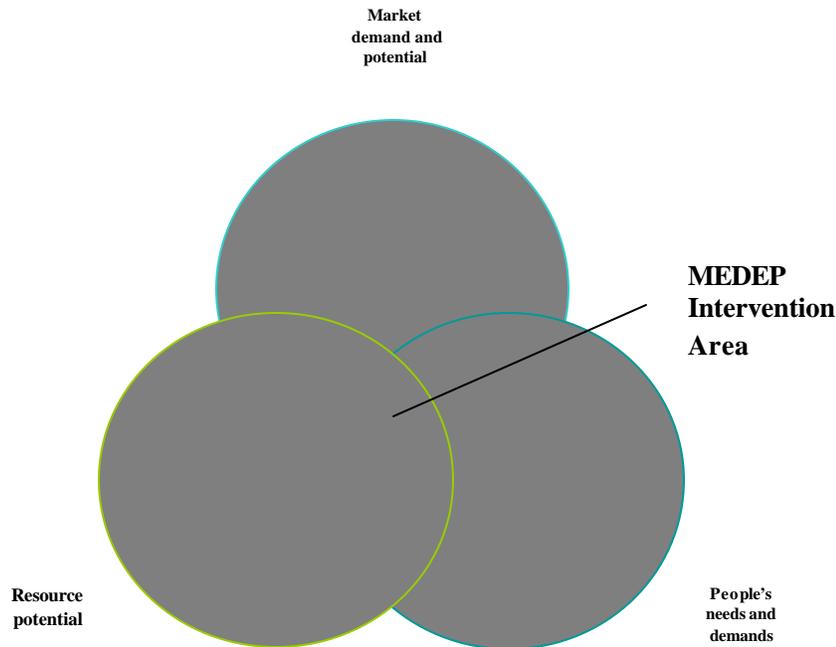
7.5 Project Activities and Strategies

Entrepreneur selection and micro-enterprise development: The present approaches and strategies of entrepreneurship and enterprise development have proven quite effective and hence should be continued.

Market and marketing: MEDEP has been giving high priority to market and marketing aspects, which have been responsible for the project to be effective with visible impacts at grass roots level. A notable factor is that MEDEP continues to improve in making its activities more market oriented and sustainable. Particularly noteworthy is the way it has implemented efforts to improve marketing activities based on the recommendation of the MTR (2006). However, more sustained efforts are needed in the areas to make enterprises survive, compete and grow. Hence in the third phase, additional concerted efforts will be required in view of enlarged coverage.

First of all, in order to make the market and marketing component more prominent, the MEDEP philosophy and vision should be emphasized in the following manner:

This model suggests that any activity and strategy initiated must be in line with the market demand and supply potential.



Proper studies of market demand, structure, people's requirements and supply lines must be conducted at local, regional and national markets. Since most of the micro- enterprises are expected to operate at local market levels, primary need is to study at the local market centre levels, while studies should be conducted at regional and national levels according to growth strategies, volume of production and production potential. Products and services with high potential should be promoted through growth strategies and value chain approaches to enable enterprises expand and grow into new markets. In the process, attention must be provided particularly in following aspects:

1. product and feature standardization
2. quality upgrading and benchmarking, and
3. market promotion

Based on experience and lessons learnt from the past, for a particular product standards should be developed according to the product market. Standardization efforts should be started for products with high growth and expansion possibilities as well as those that are in highly competitive markets or those that may potentially face high competition

For products with high market potential, quality upgrading and benchmarking is crucial. These concepts include the development of quality benchmarks development of code of conducts, dissemination of code of conducts, setting quality benchmarks and standards, and integration of the benchmarks. These should be achieved through skill training, up gradation

or reorientation. Quality concerns and factors inhibiting expansion should be identified based on product market potential and these should be addressed taking into consideration their impacts including costs and technology.

Market promotion activities, some of which MEDEP has already been conducting such as exhibitions in partnership with relevant stakeholders (D-MEGA, N-MEGA, local chambers, FNCCI, FNCSI, product association and other marketing/ retail, outlet agencies or networks etc.), need to be expanded at local, regional and national level according to the product potential. This should be decided and conducted in consultation and linkage with business bodies (chambers, etc.) or with trading and networking agencies. Quality of products with export potential should be improved and market linkages should be expanded to export oriented businesses and bodies.

Market outlets (currently promoted with the help of partner agencies) need to include products not only a single district but from the entire MEDEP districts. Needs and supplies of these outlets should be well coordinated allowing products to flow easily from across districts, provided market opportunities exist. However, such outlets should not promote products of competitors though dealing in product lines not produced by MEDEP entrepreneurs may be considered for sustaining market outlets. Similarly, networking and cooperation may also be feasible with outlets such as Mahaguthi, Dhukuti, WEAN, Organic Village or departmental stores, etc.

In light of up-scaling micro-enterprises and expanding the scope and markets of their business, MEDEP would need to facilitate in exploring Business to Business linkages to ensure forward and backward linkages. The government, through appropriate policy mechanisms, should encourage sub-contracting between various levels of economic activities.

7.5.1 Resources and inputs:

MEDEP strategy of using available local resource to the best possible extent is highly laudable. MEDEP has taught entrepreneurs to use create value for resources that would otherwise go for a waste and add value to them. From the past experience, coordination has to be significantly improved with DFOs and CFUGs in the use of forest based resources for enterprises to avail the resources on a realistic and sustainable manner. Practical difficulties and hindrances should be sorted out to mutual benefit of concerned parties and without affecting forest resources. Collection of regenerating materials and NTFPs should be based on availability, regeneration, location and people's needs. Identification of such resources and available natural resource base therefore should provide estimation of sustainable supply and enterprise development activities must be based on such estimations.

7.5.2 Technology:

There has to be a continuous effort in identifying appropriate technology based on cost, available market, skills and need perspectives. Linkages established so far with agencies like Global Packaging, CRT, NAST, RECAST, Jay Bagalamukhi Engineering or other relevant agencies should be further strengthened and possibilities for new linkages should be explored.

7.5.3 Product and Services:

MEDEP has been instrumental in developing about 200 product varieties that include some new and innovative products like juices from Rhododendron, Seabuckthorn, Bael, Ginger, Chyuri, Kafhal, etc. Similarly, identification of all ingredients of Incense Sticks and production of most of these within the country is another noteworthy accomplishment of the programme. In a way, the programme has been instrumental in promoting about 200 product categories. In the new proposed districts, only a limited product range with high market potential and resource availability that match with people's aspirations, skills and possibilities of diversification of skills should be considered. Similarly, MEDEP should also provide attention to promoting market based services such as plumbing, mechanical, auto repairs, construction, electricity, IT, etc. mainly in Terai and sub-urban /urban areas with a potential for sustained demand. MEDEP should also consider promoting construction related services in order to enable them to meet the skilled demands of various infrastructure development projects.

There is a significant scope for improving involvement of support activities to promote tourism in the country that may include both products as well as services in view of the vast potential as well as the growing trend in the industry. The need as well as the potential is enormous and therefore MEDEP must give high priority in contributing to promotion of various tourism related activities including enterprise development and support. In Myagdi, Parbat (Annapurna Conservation area), and Rasuwa, one of the TRPAP districts, MEDEP is already working in promoting tourism products such as off-season vegetables, poultry and goat farming, and handicrafts. It could be further promoted to link with other tourism services such as trekking, tour operating, and rafting, hotel and restaurant services, trading in commodities dealing with tourism etc. in consideration of market potential and demand. There may also be a need to link with small infrastructure development to realise tourism potentiality in prospective districts. Such activities should be promoted in all potential and feasible new proposed areas.

Further there is a need to link trade with poverty reduction. Products and services offered through MEDEP need to be made export oriented to tap into the international trade linkages. MEDEP should seek better linkages with international trade also to generate employment opportunities on a sustainable manner as a means to alleviating poverty.

The details of tourism, forestry and international trade have been included in the Annex 2.

7.5.4 Finance:

Financing is one of the critical aspects for the success of enterprise development irrespective of size, nature, and location. The need of finance is particularly high among micro-enterprises as MEDEP is focusing on real poor and excluded communities and population. Easy and comfortable access to requisite finance therefore is the primary condition for the success of MSEs.

Recognizing the need, MEDEP established a good working relationship with ADB/N to avail easy credit access to micro-enterprises. Various assessments have consequently revealed that the process has been highly effective enabling access to credits within a very short time. This not only helped micro-entrepreneurs but also reduced transaction costs significantly. The modality, however, could not be continued in the second phase as ADB/N altered its strategy of extending finance to the small and micro enterprise (MSEs) sectors. It did create a

window, Small Farmers Development Bank (SFDB) for the purpose, but due to their limited outreach the window has not been accessible to MSEs. As a result, access to micro credits has become more arduous and limited to micro-enterprises. MEDEP tried to overcome the difficulty by collaborating with a number of cooperatives and micro finance institutions (MFIs). It has helped to improve access to a small degree; however given that cooperatives operated within a limited space around the district headquarters as guided by the NRB guidelines, absence of MFIs in all MEDEP areas and higher interest rate persistently affected enterprise development activities. In order to overcome the problems, concerted efforts will be required in the third phase to ensure better access to finance and credits.

Dependence on a single type of finance institution or instrument can be risky. Judicious mix of varied approaches is needed in order to achieve sustained development of MSEs as a vehicle for poverty alleviation. The argument that commercially viable enterprise should have commercial access to finance may be true, but access to finance is a precondition for a start-up of a potential commercial micro-enterprise. In the longer run therefore there has to be a development of a separate micro-finance institution to cater to MSEs based on appropriate wholesale lending with at least windows or mechanisms to serve at grass roots levels for poverty alleviation. Some of the limitations of the existing micro-finance institutions like Rural Development Banks, Cooperative, Financial Intermediary NGOs (FINGO) and other schemes may be summarized as follows:

- lack of resources,
- very limited geographical coverage (around the urban periphery, district headquarters and accessible areas only),
- high interest rates,
- procedural difficulties and high transaction costs, and
- non-use of available resources for the purpose

Some of the favourable developments in the micro finance industry have been adoption of micro-finance policy and establishment of Rural Self Reliance Fund (RSRF) by NRB accessible to cooperatives at concession rates. As a result of continuous and concerted efforts of MEDEP, these new developments indicating the government's commitment to develop MSE's were included in the budget speech of 2007-2008. The role of the government, however, should be increased to ensure adequate access of micro-finance at appropriate interest rates. The government may do so by adopting proper wholesale lending policies or sharing funds or investments in case an integrated package is initiated in MEDEP type model.

To overcome the problems mentioned above and to take advantage of new opportunities MEDEP should adopt the following strategies to improve access to finance:

- establish cooperatives of micro-entrepreneurs wherever feasible with at least 25 members to enable them to access RSRF and to form cooperatives of MEGs, MEDEP may collaborate with appropriate agencies like National Federation of Cooperatives
- promote coordination with various development initiatives and funds at community/village/ district levels
- link with various institutions and mechanisms like RMDC, SFDB, Gramin Banks and FINGOs, etc. to ensure better access to micro-credit
- enable access to CFUG funds by developing appropriate guidelines in case of enterprises developed from among CFUG members or from surrounding areas involved in entrepreneurial activities particularly in forest based enterprises

- enabling access to the micro-finance mechanism being initiated by UNDP with the World Bank in specified areas
- These strategies should help to improve access to finance by micro-enterprises significantly assisting not only for start-up but also in the sustenance and growth of these enterprises.

Micro-insurance: To promote the sustainability and expansion of MSEs and to reduce risks arising from unforeseeable circumstances, there is a need to develop and promote the concept of micro-insurance to ensure a cushion against such unexpected risks. The piloting of micro-insurance should be initiated during the proposed MEDEP phase III as part of the business development concept as practiced by large businesses.

7.6 Project Implementation Mechanism and Strategies

The existing project implementation mechanisms are quite elaborate and appropriate. However, with some improvements, MEDEP should be more capable to carry out enterprise development activities at a national level.

Ministry of Industry, Commerce and Supplies (MOICS) is the GoN partner in this joint initiative. It is logical that enterprise development activities are being initiated under the umbrella of MOICS which has long been involved in skills and enterprise development activities. With the expansion of activities in Sindhupalchok and Kavrepalanchok districts with funding from AusAID Ministry of Forest and Soil Conservation (MoFSC) has been opted as the co-implementing agency. In addition to the MoFSC, in view of the importance of role of DDCs in the changing scenario where there has been and will continue to have a gradual transfer of all district level activities to DDCs the relationship with these local government agencies have become more pertinent and vital⁹. MEDEP has realized this and executed activities in partnership with DDCs from the start. Against this backdrop, Ministry of Local Development should also be co-opted as the co-implementing agency.

The government implementing agencies, therefore, should consist of,

- MoICS - Lead implementing agency
- MLD - Co-implementing agency, and
- MoFSC - Co-implementing agency

The existing mechanisms of the Outcome Board (OB), Project Executive Board (PEB) and district level District Enterprise Development Committee (DEDC) should be continued in the same form as they have been effective and represent all relevant stakeholders. Amongst the many members in the OB, Ministry of Tourism and Civil Aviation (MoTCA) and the Nepal Rastra Bank (NRB) should also be included in the board.

The implementation wings of MEDEP need to be altered to an extent in order to reduce overhead costs. The Area Programme Support Offices (APSOs) should continue with one additional in the Karnali road area. There should be a provision of Programme Assistant (PA) position in each of the new districts and the PA should also be designated as Enterprise Development Officer (EDO) to keep costs down.

Most of the implementation should be delegated to BDSPOs or other capable entities/ NGOs if they exist. In the existing MEDEP districts where additional VDCs and market centres will be covered, the task should be mainly left to DDCs, BDSPOs and D-MEGA. In new districts, in order to enable to start enterprise development activities at the earliest possible, a number

of BDSPOs members from the existing districts should be pulled and deputed to new districts by establishing their Branch Offices initially and later converting into local NGO or Private Consulting Firms whatever is appropriate. The BDSPOs should be used to train new EDFs, transfer knowledge as well as start enterprise development activities. In the existing districts, the activities should be continued by subcontracting BDSPOs/D - MEGAs. This will not only help promote enterprises in a cost effective manner, but will also help institutionalize and sustain BDSPOs and D-MEGAs.

Internalization of MEDEP modality and exit strategy: Mainstreaming enterprise development activities within the government agency level requires a programme approach as project approach cannot be expected to serve for an indefinite period. MEDEP modality is therefore needed to be internalized within the government system. In the past, MEDEP had initiated various efforts, but due to the lack of firm commitment from the government, results have not been promising. However, the agreement and the signing of MoU between MoICS and MLD to internalize MEDEP activities have brought prospects of hope.

The DDCs should execute the district micro-enterprise development programme operational guidelines approved by the GoN. In the event of implementation of full devolution policy of the government, the district line agencies of the CSIDB and DCSI would come under the jurisdiction of the DDCs. This will result in the mergers of the current set up of the EDU with CSIDB/DCSI as the technical wing of the DDC, taking the responsibility of enterprise development.

For MEDEP, internalisation of enterprise development by local agencies will serve as a suitable exit strategy. In order to realistically move ahead with the internalization programme, a trial approach should be initiated on a pilot basis entrusting the total task to DDCs in all the existing districts. District Enterprise Development Fund (DEDF) Directives have already been approved jointly by MOICS and MLD and a fund should be created following the Directives in which MEDEP, the government (CSIDB, DCSI budget) and the local agencies should put money to implement the MEDEP modality by sub-contracting BDSPOs. This will lead to total internalization of the modality. In the changing context, the roles of the CSIDB and DCSI (district level) will be two folds; the first, to develop and promote enterprises, subcontracting BDSPO, setting output targets by number of entrepreneurs (as opposed to targeting trainings for participants), planning, monitoring and evaluation of enterprise development programmes. The second role will be to modernize and upgrade the existing industry administration. To ensure that these activities are carried out with effectiveness, MEDEP's roles should be to provide technical support to enhance the capacities of these institutions.

Initially, the internalisation will lead to DDCs executing MEDEP model with the support of MEDEP both financially and technically. Gradually with their growing ability to implement the modality fully, MEDEP will completely withdraw and exit ensuring that the government (local government included) will undertake the task efficiently.

Clustering of activities: MEDEP has already initiated strategies to promote more viable products/services by clustering them in an area in order to develop greater synergy, provide standardisation and efficient BDS, and reap benefits of larger scale production. Some of these activities have self emerged leading to clustering. A few illustrations are Incense Sticks in Bhuchakrapur VDC in Dhanusha, Allo fiber in Salija VDC in Parbat district and sweet orange juice in Ramechhap and Sindhuli and Orange juice in Parbat districts. In other words,

MEDEP has already been involved in “One Village One Product” (OVOP) activities. Such clustering strategy is especially needed in the new districts which are relatively sparsely populated as well as those areas where conditions are harsher. MEDEP should coordinate with AEC/FNCCI which is one of the implementing partners of the OVOP.

BDSPOs/BDSPs: BDSPOs/BDSPs are highly trained professionals capable of developing entrepreneurs and providing BDS services whose quality and ability has been proven from the fact that many other agencies consider them as capable BDS providers. However, despite their ability, the question has remained unanswered whether they will be able to sustain themselves or not. Experience from various districts has shown that in districts where activities are profound, BDSPOs have sustained and actually grown, but in districts with limited economic activities, their sustainability has been questionable. So, the BDSPOs/BDSPs should be extended some support by utilizing their services for some more time to come. MEDEP phase III, thus, will be an important vehicle for promoting and using trained expertise in the proposed areas. DDCs for their part should develop policies to involve BDSPOs in all its enterprise development activities.

MEGA, DMEGA, NMEGA: These are the associations of entrepreneurs to promote their common interest. There is a need for D-MEGAs and N-MEGAs to develop their institutions and engage in entrepreneurship development activities joining hands with MEDEP or MEDEP like initiatives. Only then the entire economy can be geared towards formalized economic activities.

Monitoring of activities: Presently the monitoring activities have been undertaken fully by MEDEP albeit line agencies and DDCs/ DEEDC were found to take credit for progress and achievements. BDSPOs/BDSPs and D-MEGAs are given the monitoring responsibilities while the APSO, the central project office assesses progress. In order to provide better linkages, monitoring activities should also be entrusted to local chambers on a task basis. This will not only help to promote relationships with the Chambers but many problems could be resolved, for example, in areas of input supply, marketing and enhancing linkage of micro-enterprises with the formal economy.

It was found that remuneration provided to imparting training is significantly different and disproportionate as compared to monitoring. This has affected the extent and quality of monitoring. There should be a review of the remuneration packages for monitoring to make it more proportionate to training activities, in order to encourage monitoring with the same level of dedication as in training.

Cooperation and coordination among common or similar projects: In Nepal, a large number of projects are being initiated by various agencies with the common purpose of poverty alleviation and employment generation. Poverty alleviation has been the common mission and the sole theme of most of the projects particularly initiated during the ninth plan period and thereafter. The multilateral agencies like the World Bank and ADB have also accorded highest priority to poverty alleviation. Some of the major ongoing projects include Poverty Alleviation Fund (PAF) and Skills for Employment Project (SEP). Similarly, many other projects under UNDP and DFID have poverty alleviation and income generating components such as the DLGSP, REDP, LFP, APPSP, CSP, etc. For many of these projects, income generating activities are generally the entry points facilitating initiation of other activities. However, income generating activities are the first foundation that will require additional support to promote them into enterprises level. Successful enterprise development modalities

and strategies adopted by MEDEP can be initiated to have synergy effect in achieving specific goals of each individual projects, while in addition, aiding to generate additional employment opportunities and contributing to alleviating poverty. Of course it is laudable that there has been cooperation and coordination at the real field levels already among many of these projects. As an example, working with groups socially mobilized by DLGSP can be targeted for entrepreneurship development. This will save time and effort required in community sensitization programmes before enterprise development. There is, thus, much that can be attained through coordinated efforts.

However, simply suggesting coordination will not actually yield coordination as each project's priorities and activities are outlined by the project documents. Therefore, there is need to design super imposing guidelines that are applicable to all project within a single system, for example by UNDP or DFID. Such guidelines will help to rely on each others expertise and experiences and can also learn from their lessons to devise more effective strategies. Activities like proposed sub-contracting of enterprise development activities to MEDEP by Khimti Neighbourhood Development Project (KiND) in Khimti area and social mobilisation and fishery based enterprise development activities of Sustainable Poverty Reduction in Nepal (SPRN), in Norwegian government funded hydropower project in Dolakha and Ramechhap are illustrations of common cooperation. There are further possibilities to collaborate with projects and approaches like ELAM and ELAM Plus of HELVETAS, providing pre and post training services to SEP etc. Efforts should be initiated to promote dialogues and formalize cooperation through signing of MOU's so that common efforts can be initiated to zero it on the common targets.

Promoting coordination among government agencies: Various mechanisms have already been initiated including representation at central and district level institutional mechanisms to promote coordination. But developing and promoting coordinated efforts particularly within and among various government institutions remains to be an arduous task. Mostly such coordination depends on individuals rather than system. Simply recommending systems may not be adequate. Hence four pronged strategies need to be applied to generate coordination. Basically, the primary effort should be in system building, adequate representation in policy formulation, implementation and benefit sharing mechanisms and a system of formal information sharing. It should be supported by continuous dialogues, approaches, and meetings. Lastly, if they do not work, the terms and conditions may be spelt out, which, although may not be desirable, will have to be pursued in the absence of alternatives. For example, a condition may be put that without the declaration of micro-enterprise policy, the third phase may be withheld. The communication and dialogue process should therefore be enhanced besides undertaking due representation and consultations with appropriate agencies.

7.7 Micro-Enterprise Policy

The need for micro-enterprise policy has long been felt as the existing industrial policy does not recognize 'micro-enterprises'. As such, the MoICS has been fully convinced about it. Policy requirement emanates from the need to enable them to register easily so that they can be brought into the formal sectors, and provide some incentives or enable to develop linkages with larger enterprises in a congenial manner. A draft policy has also been made ready. Projects promoting micro-enterprises like HELVETAS and MEDEP have long felt its need and have also raised the issue to concerned agencies but without success. The political environment may have been partly responsible for this. However, if micro-enterprises are to be made vehicles of employment generation and poverty alleviation, the government must

come up with the micro-enterprise policy to provide an environment of certainty, give clarity and to create an environment for proper development of the micro-enterprise sector. Similarly, sectoral policies should also be defined, as per the need. There is also a need to develop subcontracting policies to encourage B2B linkages.

7.8 Gender and Social Inclusion Strategy

MEDEP from its very beginning has accorded very high importance to gender and social inclusion. It has set the target of 70 percent women inclusion. Similarly, it has targeted to cover at least 40 percent Hardcore Poor, *Indigenous Nationalities*, *Dalits* and other disadvantaged communities. In terms of gender, MEDEP has been able to achieve more than 66 percent of the set target during second phase. For the third phase, there is a demand to concentrate on youths particularly in the Terai as the absence of gainful employment opportunities is causing disenchantment among them. Significant rise in the out migration of youth particularly makes another cause to consider the need to attract youths in viable economic activities. Due to this need, women's target has been reduced to 60 percent for the proposed third phase and this approach is likely to emphasise the gender friendly nature of the programme in the conflict sensitive Terai. The 40 percent target to Hardcore Poor, *Indigenous Nationalities* (40%), *Dalits* (25%) and other poor and disadvantaged (35%) communities should be targeted. Similarly, at least 60 percent of the third phase should be youth in the age bracket of 16-29.

The inclusive strategies should include,

- Implement and monitor policies for compulsory representation from women and youth from the excluded communities, such as, *Dalits*, *Indigenous Nationalities*, not as a favour but on the basis of their indigenous knowledge and skills about NTFP and agro-based products as well as traditional occupational skills.
- Promote right based strategies for formation of NMEGA, DMEGAs and MEGAs. The start will have to be done at the MEGA's level so that it goes further as a spontaneous process upward from grassroots.
- Provide pre-orientation through sharing information directly with the targeted communities about benefits from enterprise development, potentialities and importance of women and youth. Emphasis should be on the issues of their marginalization caused by the modern market development and raise their awareness on the opportunities promoted by open market systems, despite having areas of heavy competition.
- Conduct progress reviews as an important part of overall project reviews in order to assess efficiency of policy implementation of targeting women and youth entrepreneurs from excluded communities and identify ways for improvement which must be incorporated in the staff work plans.
- Implement training on gender analysis in enterprise development for women and men (e.g., husband and wife) of the entrepreneurs families for developing mutual cooperation. This training should be inclusive of right based empowerment approach whereby women are enabled to claim equitable opportunities for economic development, access to productive resources (credit, land, transport, marketplace, etc) and freedom from domestic violence, safe environment and equal wage for women and men at workplace, etc.

- Assess the impact of appropriate technologies used by women for saving time and labour while doing enterprises and identify their needs and interests, including choices for technologies that are friendly for them.
- Provide exposure to successful women entrepreneurs, and promote interaction among such entrepreneurs
- Organise women social mobilisers at the grassroots level for motivating the entrepreneurs to continue hard work even amidst adverse family response, which can later be positive
- Build up linkages with APPSP (DFID) for funding support for proposals of DMEGAs, PAF (World Bank) for complementing livelihoods improvement programmes, DLGSP (UNDP), DACAW (UNICEF) for incorporating enterprise development motivation aspect in their existing social mobilization services.
- Target for 50% women trainees during all Training of Trainers for BDS.
- Establish flexible criteria for selection of BDSP trainees such that women trainees can be attracted.
- Announce special schemes for capacity development of indigenous and Dalits women BDSPs including flexible personal policies for lactating mothers.
- Organize special interaction during BDSP refreshers trainings among women only BDSPs in order to provide personal coaching and mentoring to motivate, strengthen their confidence and skill transfer (special efforts needed for building skills of district level women BDSPs).
- Hold dialogue with DDCs to sensitize the need for women BDSPs in order to promote rural women as successful entrepreneurs.

7.9 Conflict Sensitivity

Though peace has been restored, the conflict situation has not completely disappeared. There has been resurgence of some type of conflict in the Terai. During the conflict situation, conflict sensitive training packages have significantly helped to deal and operate in conflict situation relatively successfully. So, conflict sensitive packages like *Do-No-Harm (DNH)*, *Safe and Effective Development in Conflict (SEDC)*, *Basic Operating Guidelines (BOGs)*, *Negotiation Skills and Rights Based Approaches to Development (RBA)* should be imparted to development activists that will not only enable them to work in conflict situation but also work in a sensitive manner so that conflicts can be avoided or causes responsible can be mitigated.

7.10 Management Information System

The existing management information system should be upgraded to enable to extract more pertinent outputs like impact on poverty alleviation, impact on some basic social development indicators like education and health to be able to see the overall impact of the activities. Similarly, the programme should be able to monitor the contribution of the programme in achieving other MDGs besides goals 1,3 and 7. Further, it is essential to ensure that MEGs/MEGAs, BDSPOs/ EDFs help in maintaining the entrepreneur diaries and records properly and review them to ensure greater accuracy of the information. The vast information being generated needs to be properly analysed and disseminated in order to ensure proper use of the information as well as proper assessment of the programme activities. As part of the process to manage knowledge generated from the experiences of MEDEP's over the past nine years, the programme should establish linkages with academic and research institutions. The

linkages should be used as a medium to promote innovations in enterprise development into knowledge management. Besides, the present linkage with academic institutions should also be given continuity. Additionally, the MIS system should be linked with micro-enterprise unit in the MoICS, DDCs, Entrepreneur's associations and relevant agencies.

7.11 Value Chain Analysis Business Growth and international Trade

One important dimension where MEDEP needs to focus its orientation is to ensure business growth through value chain analysis. Value chain analysis is a process of identifying the total processes and actors involved in each stage of activity from production to ultimate consumption, identification of strengths and weaknesses at each stage and identifying existing and possible value addition. This is expected to make the proper intervention at each stage and make the product /service more valuable, contributing and beneficial. This will enhance the viability and feasibility of products and services both in financial/economic and marketing terms. Value chain map should be prepared for each major product and area of needed intervention identified so that the entire value chain can be made more beneficial. This in itself will provide sufficient motivation to all actors to be involved in the process. This will also help to link higher level activities with the grassroots level activities. MEDEP has mainly concentrated in the latter though in some aspects it has done value chain analysis though not in its strict professional sense in products like *Incense Sticks, Allo, Lokta, Fruit Juices, and Honey*. The process adopted by GTZ/PSP-RUFIN to promote the value chain approach is,

- Market demand/growth potential
- Unmet market demand
- Potential to increase income at rural level
- Opportunities for market linkages
- Potential for employment generation
- Number of small enterprises(out reach)
- Potential for value addition
- Trade potential / competitiveness
- External environment (e.g. government policies, taxes etc.).

GTZ/PSP-RUFIN has conducted value chain analysis in 8 products out of which 5 products are compatible with MEDEP activities for example, *Bamboo, Handmade Paper, Honey, Mandarin Orange, Medicinal and Aromatic Plants, and Ginger*. MEDEP should coordinate with GTZ/PSP-RUFIN if possible signing MOU's to link activities and generate greater benefit through the value chain approach. Working in possible areas of intervention, the mutual benefits can be significantly improved. In this case, MEDEP will not have to do all activities already done. Products/services requiring the approach to ensure growth should be identified and works can be initiated as per the roles defined. This is expected to push the viable products in the growth path.

Additional growth strategies will be needed particularly in areas where activities have matured. These strategies should be to uplink with regional and national markets and providing necessary interventions to ensure it. There are many products for which these are possible for example *Bamboo Products, Allo Fibre, Honey, Fruit Juices, Soap, and Incense Sticks* to name a few. International market opportunities do exist for products like *Honey*,

Handmade Paper Products, and Handicrafts and efforts are needed for its promotion. Linkages with the international market should be improved by standardisation of products, improving benchmarking and quality control efforts, positioning in the proper market and improving the linkages with the exporting agencies and exploring/establishing linkage with importing agencies.

MEDEP during the proposed phase should explore growth strategies and value chain approach in products such as *Allo, Nepali Handmade Paper, Incense Sticks, Fruit Juice, Honey, Dhaka Fabrics, Bamboo Products, Herbal Soap, Ginger Products and Lapsi Products*, etc.

7.12 MEDEP as a Resource Centre

MEDEP with its nine years' experience has proved its ability to work with the poor, excluded and disadvantaged communities with promising results. It has developed a number of strategies, conducted participatory research and initiated efforts to upscale activities. The knowledge it has built should be managed properly as a means to augur development and poverty alleviation activities. In view of its potential, it should be developed as a resource centre providing and extending services to other requisite agencies and areas. The proposal to assist in KiND and SPRN is a move in the right direction. It should in case of demand extend services in other and programmes and activities as per the feasibility of its capacity. Gradually such services can be extended to international level.

7.13 Donor Participation and Logos

In order to enhance ownership of the programme, all participating donors should be clearly shown including their respective logos.

7.14 Project Human Resources

To bring about efficiency in the implementation of the programme during the third phase at the central and district level, it is recommended that a review be undertaken to assess and adjust the professional protocol and designation of positions of programme staff at the central and district level. Likewise, an additional APSO should be set up in the recently opened Surkhet – Jumla Highway area and there should be a provision of Enterprise Development Officers (Equivalent to the current Programme Assistant SU 6 or 7) in each of the new districts in the Terai, Hills and Mountains.

8 Programme goals, outputs and Risk

8.1 Programme goals

The goal of the MEDEP Programme should continue to be to contribute to the effort of the Government's efforts on poverty reduction in rural areas through the development of micro-entrepreneurs and employment generation of Poor, Excluded, Low-Income, Conflict Affected Families, discharged Ex-Combatants, etc. to achieve sustainable livelihoods, based on the potential market and local demand. Besides developing new entrepreneurs, it should focus on growth strategies by cooperating and collaborating with viable institutions, programmes, and projects.

8.1.1 Project outcome

Programmes and institutions improved for poverty reduction, better economic opportunities and protection of workers. Project output and indicators Policies designed and initiatives developed to expand employment opportunities for poor youths, women and in particular poor individuals from socially excluded groups in selected districts.

1. Output Indicators:
 - a) Micro-enterprises and sub-sector policies formulated and approved.
 - b) Sixty percent of women of total targets engaged in micro-enterprises.
 - c) Twenty five percent of Poor Dalits of total target engaged in micro-enterprises.
 - d) Forty five percent of Poor Indigenous Nationalities of total target engaged in micro-enterprises
 - e) Sixty percent of youths of total target engaged in micro-enterprises.
 - f) Proportion of former combatants engaged in micro-enterprises.
 - g) HIV/AIDS afflicted also initiate micro-enterprise activities as a means of sustainable livelihood.
 - h) # of jobs created through UNDP initiatives.
 - i) % of PLWHA and vulnerable groups having receiving skill based training who are employed.
 - j) Mechanisms developed for MFIs to provide access to financial services to the poor in remote areas.
2. Micro-finance policy formulated and approved Sixty percent of poor women 25 percent of poor Dalits, 45 percent of poor Indigenous Nationalities, sixty percent of youths of total targets accessing financial services in remote areas.
3. Value chain approach adopted in collaboration with viable institutions and growth strategies adopted in the existing areas commensurate to market
 - Value chain map developed for ten products
4. Internalisation trial initiated in the existing districts to pilot MEDEP modality in DDCs
 - All 21 districts internalised MEDEP modality.
5. A SWAp developed to continue MEDEP modality as a vehicle for poverty alleviation and generate gainful employment opportunities.
 - SWAp developed

8.2 Risk and Mitigation strategies

1. Un-sustainability: Nepal has many deep-rooted problems of un-sustainability because of rising human population and over utilization of resources, about 31 percent of the population living below the poverty line and complicated by resource depletion, inequalities and debts and increasingly volatile situation. The risk of un-sustainability can be reduced by assisting participants achieve sustainable development by:

- a) Promote and practicing participatory decision making in taking decisions appropriate to the needs and situation of the participating families.
- b) Support micro-entrepreneurs to establish and manage agro or agro-forestry based or natural resource based enterprises
- c) Promote participatory involvement of concerned local organizations and shared responsibility.

- d) Integrate the support services of MEDEP with existing service delivery organizations

2. Working in Conflict Situation and disturbances: One of the major challenges for Nepal at the moment is volatile situation in Terai. There is a significant risk of continuing programme activities at disturbed areas. Some of the specific risk mitigation strategies may be as follows;

- a) Mobilize programme inputs/activities through locally recruited field staffs, i.e. Enterprise Development Facilitators (EDFs) representing local communities
- b) Capacity building of EDFs in different technical aspects of enterprise development, exposure, conflict sensitivity, safe and secured working, and transparency
- c) Ensure that programme services reach to targeted poor families by maintaining transparency and accountability of the programme inputs and activities
- d) Coordinate with local level social and political organizations
- e) Involve local communities through out all stages of programme implementations and thereby increasing the ownership in the programme activities

3. Risk associated with Service Delivery Mechanism: As MEDEP aims at strengthening service delivery mechanism of different partner organizations for providing different components of enterprise development through them, there is a risk of developing partners only for benefits. For this, programme should have following specific strategies,

- a) MEDEP facilitate the partner organizations to have MoU and establish DEDC with representation from all partner organizations and preparing responsibility and accountability matrix (RAM) which will define the roles and responsibilities of each organization in programme implementation
- b) Involve partners e.g. chambers in monitoring, marketing and other activities
- c) The district offices of DCSI/CSIDB taking lead role as implementing agency in the district and to establish it self as central organization for strengthened service delivery mechanism

Annexes

Annex 1: Methodology Adopted

The scoping team pursued a highly participatory consultative process to design the MEDEP Phase III. The process has been outlined below:

- 1. Review of Reports:** An extensive review of MEDEP project documents, evaluation reports and other pertinent materials were thoroughly reviewed. In addition, project completion reports, evaluation reports and other relevant reports and documents related to similar projects for example, DLGSP, LFP, APPSP, TRPAP, etc. were reviewed. Likewise, the government plans, regional development strategies, and other documents were reviewed.
- 2. Consultation with HMG/N:** The programme document for second phase of MEDEP is prepared in close consultation with the Ministry of Industry, Commerce and Supplies (MoICS). The scoping team had a number of discussions with MoICS officials and officials from DCSI/CSIDB, IEDI, to discuss on the roles of DCSI/CSIDB in the proposed phase and commitment of MoICS to internalize the project, preparing micro-enterprise policy and other relevant issues were discussed. Similar discussions were also held with MLD, MoF(Ministry of Finance), and MoFSC.
- 3. Discussions with Donors, Projects and Programmes:** Extensive discussions were also held, in some cases repeatedly, with UNDP, DFID, AusAID, World Bank, ADB, SDC, DANIDA, GTZ, FINNIDA, LFP, APPSP, CSP, DLGSP, REDP, HELVETAS, PAF, SEP, Organic Village, FNCCI, FNCSI, and N-MEGA to discuss various pertinent issues including project strategies and approaches, possibility of collaboration and linkages.
- 4. Field Visit:** The scoping team visited eight districts, Kailali, Bardia, Banke, Sindhupalchok, Kavrepalanchok, Parbat, Baglung and Myagdi. In all districts, discussions were held with micro-entrepreneurs, D-MEGA, MEGAs, BDSPOs, and various government agencies. The team also attended the DEDC meetings in these districts. In Baglung, the team visited LFP. Elaborate discussions were also held with the APSO and other MEDEP staff as well.

On the basis of the elaborate discussions with the aforementioned agencies and the stakeholders along with discussions with the MEDEP staff and reviews, the phase three scoping has been done.

Annex 2: Tourism Based Enterprise Development, Prospect, Potential and Approach

Background of tourism in Nepal

Nepal is located along the central Himalayan range, bordered by India to the east, south and west and China to the north. Short geographic distance of only about two hundred kilometres from north to south border Nepal does have almost all the climatic zones, from the lush sub-tropical flat plains at 60m above the mean sea level to the arctic region of the Himalayans with more than 8 snow peaks having eight thousand meters high including Mt. Everest 8848 metres. From the magnificent snow-capped peaks in the northern region, the lesser mountains and midlands in the central region and the sub-tropical forests and fertile plains on the south, Nepal with an area of only 147,181 square kilometres is a land of geographical diversification. Her mountains and valleys are home not only to one of the richest bio-diversity but also display a unique socio-cultural diversity, all of which depend upon the water precipitated by global weather circulation and cascading down the Himalayas. Nepal is home to almost 10% of the world's bird species - among them 500 species are found in the Kathmandu Valley alone.

Crowned with eight of the world's 13 highest mountains (including Mt. Everest at 8,848 m), Nepal's geography contains an extremely varied landscape within a small area. This wild variation fosters an incredible abundance of flora and fauna. It is the natural habitat of an equally amazing wealth of wildlife like tigers, rhinos, monkeys, bears, yaks, leopards and other animals co-exist with thousands of species of insects, birds and butterflies. Thanks to the country's extensive and effective park and reserve system, it has managed to preserve more endangered species of flora and fauna than any other area in Asia. Nepal has nine national parks and three wildlife reserves, which include areas in the alpine highlands as well as the tropical lowland of the plains of Tarai. Most of these parks are accessible by road and the visitors can enjoy the full array of Nepal's natural wonders.

Nepal's landscape consists of several physiographic zones – the four mountain ranges, the valleys located between them and the plains to the south of these ranges. The flatlands of Nepal consist of the Terai and the Bhabar-Chure. The Terai forms the northernmost part of the fertile Gangetic plains and extends to Nepal – a region that is called the 'granary' of the country with a green expanse of paddy fields, mango groves, bamboo thickets and palm fringed villages. Between the plains and the first foothills is a narrow stretch of stony, shallow, immature soils called the Bhabar mountain range. Due to its porosity, it is unfit for agriculture.

It is more than five decades now that the landlocked mountainous country, has been open to visitors. Despite the remoteness and inaccessibility of most of its interior parts; the Himalayan splendour, hospitable and friendly people with diverse language, culture, traditional values, and ethnic features, Nepal has attracted an ever-growing number of tourists from abroad. Despite this, tourism activities in Nepal are largely concentrated in Kathmandu Valley followed by Pokhara, Chitwan National Park and other trekking destinations such as: Everest base camp, Langtang area and Annapurna region.

Located between China and India, Nepal has a multi-cultural, multi-ethnic society. Despite being wedged between the two nuclear neighbours and their dissimilar civilisations, Nepal has inherited a history and culture of its own. People living in varied landscapes have equally varied cultural patterns. The population of Nepal was 23.15 million in 2001 census of which eighty-six percent of its follows Hinduism, while eight percent follows Buddhism and three percent follows Islam. The population comprises of various ethnic groups ranging from Aryans to Mongoloids.

The heterogeneity is further corroborated by the cultural diversity and demographic multiplicity who speak over 70 languages and dialects. The cultural heterogeneity is also linked to their geographical characteristics and the terrain they inhabit and can be seen in the way that different ethnic groups occupy various parts of the country. The Gurungs and Magars live mainly in the western region; the Rais, Limbus and Sunwars inhabit the slopes and valleys of the eastern mid-hills while the Sherpas, Manangpas and Lopas inhabit the high sub-alpine regions. The Newars constitute an important ethnic group of the capital valley-Kathmandu. The Terai has various caste groups like the Tharus, Yadavas, Satar, Rajvanshis and Dhimals. Brahmins, Chhetris and Thakuris are generally spread out over all parts of the kingdom.

Festivals in Nepal have their origin in religion. But they are generally taken as social event. There are more than 50 major festivals in a year celebrated by Nepalese at large. Although most of these festivals are religious some have historical significance too, while others are celebrated as marking seasonal cycles.

Adorned with exquisite works of art and architecture, Kathmandu Valley stands a testimony to its love of aesthetics. Several monuments in the Valley have been listed by UNESCO as World Heritage Sites. Lumbini, the birthplace of Lord Buddha, is the only World Heritage Site lying outside the Valley of Kathmandu. Like architecture, most artworks of Nepal are based on religion. Artworks range from the famous Buddhist Thangka and Newari Paubha paintings to the traditional crafts of woodwork and metal craft. Other works of art include literature, theatre, music and dance, rafting the different stages of Nepali society and its development.

Nepal is an ideal country for the study of Hinduims, Buddhism, Sanskrit or Tantrism. Study of the ancient Bon faith traces of which are still found in some parts of Nepal, is also gaining grounds. Many visitors come to Nepal for archaeological purposes. Nepal is also the Gateway to Kailash Mansarovar, the mythical abode of Lord Shiva. Devotees from various parts of Nepal and India visit this remote part of Tibet. Even though weak infrastructure renders some places hard to reach, efforts are being made on national level to develop and promote some popular sites.

Tourism in this context seems to be one of the key activities to develop community and means to alleviate poverty bringing the government and local community in one place. Nonetheless, evidenced from the experiences of Latin American, Caribbean and other countries, significant contribution of the tourism industry can only be realized at the optimal level if the consequent planning can reduce the disadvantages of international tourism by means of counter measures and efficient management of resources to meet the demands of tourism on a sustainable basis.

The beautiful Himalayan country Nepal endowed with the mesmerizing landscape, varied biodiversity and the rich cultural heritage has been the popular tourism destination in the global tourism market. Nepal has an immense amount to offer both to the general and special interest visitors. The 2005 tourist arrival data indicates that about 43% of all international leisure arrivals at Nepal came for holiday and pleasure followed by about 16% for trekking and mountaineering, about 6% for business, about 13 % for pilgrimage, about 4 % for official visit and rest of the 18% for other miscellaneous purposes.

Tourist purpose of visit (Figures in parenthesis represent % of the total)

year	Holiday Pleasure	Trekking & Mountaineering	Business	Pilgrimage	Official	Others	Total
2001	187022 (51.8)	100828 (27.90)	18528 (5.1)	13816 (3.8)	18727 (5.2)	22316 (6.2)	361,237
2002	110143 (40.00)	59279 (21.50)	16990 (6.2)	12366 (4.5)	17783 (6.5)	58907 (21.4)	275468
2003	97904 (29.0)	65721 (19.4)	19387 (5.7)	21395 (6.3)	21967 (6.5)	111 758 (35.1)	338132
2004	167262 (43.4)	69442 (18.0)	13948 (3.6)	45664 (11.9)	17088 (4.4)	71893 (18.7)	385297
2005	160259 (42.7)	61488 (16.4)	21992 (5.9)	47621 (12.7)	16859 (4.5)	67179 (17.9)	375398

Source: GoN/MoCTCA 2005, Nepal Tourist Statistics 2005

Tourism has been one of the major sources of foreign exchange earnings (FEE). The gross FEE from tourism was around US\$ 164.4 million in 2005 (2061/062). The figure was even higher (around US\$ 168.16) in the in the fiscal year 2060/061 and around US \$ 171 in the fiscal year 2055/056 (NTS 2005).

With restoration of piece in the country and the number of tourist visiting to Nepal has drastically increased and has already reached a total of 466506 in the past I I month of 2007 (NTB and Department of Immigration, December 2007) and is expected to have crossed 513,000 during 2007, the highest arrival so far. This shows that if peace is returned and Nepal pursues appropriate strategies, there are immense potentialities in the sector.

India (25.5%), UK (6.7%), Sri Lanka (5.0%), Japan (4.9%), USA (4.9%), Germany (3.8%), France (3.8%), Netherlands (2.4%), Spain (2.4%), Italy (2.3%), Australia (1.9%), (Canada (1.1%), Austria (.9%), Switzerland.(. 8%) and Denmark (.5) are the tourism generating country (market) for Nepal (NTS 1-005). Those tourists have diverse cultural and socio-economical background and thus have diverse interest for their visits.

The average length of stay in 2005 was recorded as 9.09 days. The length of stay in 1996 was about 13.5 days. This reflects the decreasing trend of length of stay. It may be due to the improved access through the road and air, concentration of visitors in the limited areas due to the security reasons and due to the lack of diversified products to increase the length of stay at the destination (NTS 2005). Mountaineering, trekking, jungle safari, pilgrimage visit, business visits, rafting are some major forms of tourism activities in Nepal. Rural tourism has been the centre focus of all forms of tourism activities in Nepal.

Significance of rural tourism in Nepal

With its awesome scenery, outstanding landscape and rich culture, rural parts of Nepal possesses a huge potentiality of tourism development. If planned and developed carefully, the rural tourism could be the viable tool for both livelihood enhancement as well as preservation of the cultural and environmental assets. With the restoration of peace in the country, the foreign tourist number is in an increasing state. The inter and intra regional movement of domestic visitors with steadily increasing consumption has also increased the significance of rural tourism in the country.

Rural tourism has the ability to help address the poverty and the employment problems, the critical problems of the country. The success of Ghandruk, Sirubari, Namche, Syabru, Langtang, Sauraha, have clearly demonstrated the positive changes in livelihoods of the community and the preservation of the surrounding environment. Being the multifaceted industry, tourism requires integrated and multiple efforts comprising development of physical infrastructure, accommodation facilities, other ancillary facilities, promotional and marketing efforts. These efforts not only benefit the tourism entrepreneurs but also support to the rural livelihood with the improved community infrastructure such as access trail, drinking water, communication, energy etc; awareness and education and creation of micro-enterprises.

Rural tourism has the potential to be the viable economic tool for employment generation in rural context. It is assumed that one foreign tourist generates 10 employments in direct and indirect ways. Thus if 10000 tourist enter into the new tourist destination, additional 100,000 people will get employment opportunities in the industry (ADB Nepal News Release 2007). Rural community can use their traditional skills and expertise in producing local resource based products and services. In this way, rural tourism may also be the viable means of contributing to Millennium Development Goal by contributing to poverty reduction goal.

Tourism development efforts

The development of tourism started in 1950s after the Mt. Everest was successfully ascended by Hilary and Tenzing Norge in 1953. 1970s became the milestone decade for both conservation and development of tourism in Nepal. The tourism Ministry was established in 1976 as a consequence of the first Tourism Master Plan, prepared in 1972. Kathmandu centered tourism activities were extended into more new areas following the declaration of Royal Chitwan NP, Sagarmatha NP, Langtang NP, Rara NP, Koshitappu WR and others protected areas (PAs) in the beginning of 1970s. Nature based and more diversified tourism products and activities were initiated during 1980s with the declaration of more protected areas like Bardia NP, Parsa NP, Shey Phoksundo NP, and the establishment of King Mahendra Trust for Nature Conservation (KMTNC/ present NTNC). 1990s also remained more important for community based ecotourism development. The success of Annapurna Conservation Area project, launching of Langtang Ecotourism Project (LEP) and Park and People (PPP) during 1990s resulted in the introduction of Buffer Zone Management concept in 1994 as a key strategy to conserve biodiversity while undertaking socio-economic activities like ecotourism in the surrounding of core areas.

Tourism has been envisioned as a viable means for poverty reduction in the Nepalese planning process not only a means for promoting economic activities. Realizing the importance of rural tourism, Tourism for Rural Poverty Alleviation Project (TRPAP) project was launched jointly by the Government of Nepal and UNDP with the additional technical and financial support from DFID and SNV Nepal. The successful completion of TRPAP programme has demonstrated the decentralized development of tourism and has vindicated that tourism can be a viable tool for poverty reduction. The current three years interim plan has also emphasized the continuation of rural tourism programme in some 15 districts with the meaningful support and initiation of local VDCs and DDCs

Potential of MEDEP involvement in the tourism sector

Despite the high potential of tourism to contribute for the promotion of sustainable livelihood enhancement of the rural community, only a small population in limited geographical areas are getting the benefits from tourism. The heavy concentration of visitors flow at Kathmandu, Pokhara, Everest region, Langtang region, Annapurna region, Lumbini and Chitwan has resulted in the regional imbalance and hundreds of potential rural tourism areas are in shadow. Even within the limited destination, the benefits of tourism is consumed by very a few entrepreneurs and a large proportion of benefits go back to the urban based business houses and even out of these benefits a large proportion of benefits go back to the foreign countries due to lack of mechanism of using local products, services and facilities in the tourism destinations resulting in high import content and heavy reliance of the industry in foreign countries. The huge potential of micro-enterprise creation in the tourism sector has not been adequately explored, integrated and recognized yet. In this very perspective, MEDEP can play a significant role in linking local products and services with the tourism industry. By incorporating the micro-enterprise products in the tourism sector, MEDEP can continue to contribute to the poverty reduction goal of the nation and generate additional gainful employment opportunities. The creation of micro-enterprises will also support to the regional balance and can support the livelihood of the poor people in the destination.

In tourism areas MEDEP can adopt the trekking and traveling zone as an economic corridor and local resource based micro-enterprise can be initiated and promoted. By capacitating the rural community in developing the micro-enterprises MEDEP's effort can contribute in reducing the transportation costs of similar products from outside in the remote destinations. With its expertise on skills and capacity development, community of tourism destination can be benefited in producing and refining the traditional products and services through proper packaging and branding of the tourism products and associated products and promoting and marketing the products through effective networking and communication,

Ministry of Tourism and Civil Aviation (MoTCA) as a line ministry has confined its role as a coordinator and facilitator and larger scale investment on heavy infrastructure. Nepal Tourism Board

(NTB) as a national tourism organization has concentrated its efforts on destination development and promotion. Tourism related private sectors are focusing their efforts on product promotion and marketing. DDCs and VDCs are supporting in destination level tourism infrastructure development. In this background, MEDEP can fulfill the gap of creating micro and small enterprises at the destination level. With the successful piloting of micro-enterprise development model and further replication of model in the greater spatial areas with greater products, MEDEP has gained a substantial expertise in micro-enterprise development. It has successfully intervened its efforts in agriculture based, livestock based, forest based micro-enterprises. Tourism being the multifaceted industry has now become a potential sub sector for micro-enterprise development for MEDEP.

Prospects and potentials

Concept of rural tourism in relation to the micro-enterprise development

Rural tourism emphasises tourism activities in the rural context. It is the common form of tourism with huge potential in the context of Nepal. Almost all tourism activities fall under the broad category of rural tourism. Differently named other forms of tourism such as ecotourism, responsible tourism, sustainable tourism and ecological tourism also share the common principle of socio-cultural, economic and environmental consideration while developing tourism.

Following activities are the possible activities in rural tourism:

- Village walk
- Home-stay experience
- Monastery /temple visit
- Pilgrimage visit
- Museum visit
- Cultural performance
- Soft trekking
- Handicraft buying
- Agro-tourism activities (honey hunting, farm work etc)
- Research and study
- Health and spa Rafting Sports
- Nature observation
- Peace and meditation

Rural tourism product comprises both attractions as well as services. Various forms of local resources based micro-enterprise can be developed within these activities. Rural tourism could be based on the natural attractions, cultural attractions, historical attractions and archaeological attractions/values. In some cases, the micro-enterprises presents both attractions/values as well as services such as honey hunting, organic gardening visitors may like to participate, enjoy and observe the products.

In rural tourism, communities play a crucial role in developing, managing and preserving the tourism products, services and facilities and in return they get benefits from tourism. As the rural tourism products are based on the rural livelihood, tradition, and rural production, the risk is relatively lower.

When we consider a product at four levels i.e. Core product (centre layer), Actual product (outer to core product), ancillary product (outer to actual product) and augmenting layer (outer to ancillary product), the focus on micro-enterprise development should be concentrated on the third and fourth layers i.e. ancillary products and augmenting products respectively.

1. Attractions: Limited and few manmade attributes can be added and created through concept development and small infrastructure support.
2. Access (air, water and land access/platforms and devices): Local communities will get employment opportunities and will also be able to use the facilities.

3. Accommodation facilities and services (tea house, hotel/lodge, home-stays, campsite) creates more employment at different levels
4. Ancillary services and facilities (souvenirs shops, cultural centre/performances, ticket/information counters, travel/trekking agents) offer opportunities for micro-enterprise development. Micro-enterprises may also supply products and services consumed by tourists thus replacing outside imports in feasible areas.

Possible micro-enterprises in tourism sector

Both service and facilities oriented micro, small and large scale enterprise are required for tourism sector. Micro-enterprise could be the supplementary enterprises for small scale and larger scale enterprise. For example, fresh vegetable production could be a single micro-enterprise activity. When the fresh vegetable is sold to a large scale hotel, it becomes a supplementary activity to larger enterprises.

Following four situations could be found while developing micro-enterprise in the tourism destination:

	Existing Enterprise	New Enterprise
Existing Destination	A	D
New Destination	B	C

Case A: Existing destination and existing enterprise:

- Local production and use of chicken and egg in Ghandruk village in Annapurna route
- Focus on standard and quality improvement
- Minimize import and maximize use of local resources

Case B: Existing destination and new enterprise:

- Trout fish farming and use of Rhododendron juice in Ghandruk of Annapurna route,
- Introduction of new and diversified products
- Focus on product diversification and augmentation

Case C: New destination and existing enterprise:

- Tea house and camping site in Dhorpatan, Baglung
- Replication of already developed products and business in new areas
- Focus on destination development

Case D: New destination and new enterprise

- Completely new attraction and new facilities and services
- Home-stay accommodation,
- Junar (sweet orange) and rhododendron juice in Rolwaling area
- Focus on destination development and new enterprise

Following possible enterprises (service; facilities and product) can be run in the tourism sector

Direct enterprises/services and facilities	Indirect enterprises/services and facilities
Tea house and restaurants	Handicraft and souvenir shops (woolen, wooden, metal etc)
Small hotel and lodge (including shower and sauna)	Fresh veritable/organic and off season vegetable
Home-stays (living in the local houses and and experiencing the traditional lifestyle) Camping sites	Milk and dairy products (Milk, cheese, Durkha/chhurpi, butter) Meat and fish products (poultry farming, goat raising, pig raising, fishery/trout fish, egg production)
Porters	Mushroom and other wild foods
Trekking guides	Bakery and cafe
Cultural performance on a commercial basis	Communication and Cyber (email, internet, telephone)
Visitor centres (information centres)	Health/medical services
Transportation (Jeep, car, micro bus, bus, pony riding, Mull transportation, Yak transportation, Jhoyko transportation) Locally treated water plant/boilers drinking water	Photography Museum
Religious package and goods (mala Dhup etc)	Fresh and dried foods,
	Wine and brew
	Hair dressing/parlours
	Medical and health services
	g, knitting and cutting

Rural tourism/destination development process

Based on the practical experiences, following 7stages development process can be adopted while developing a new tourism destination:

1. Feasibility study, area entry and awareness creation
2. Destination/hub level tourism plan preparation
3. Institutional development
4. Tourism infrastructure, skills and enterprise development
5. Tourism product packaging and branding
6. Publicity, promotion and marketing
7. Heritage conservation, management control and up-scaling

Feasibility study, area entry and awareness creation

Feasibility study of area in terms of tourism potential is very important. The area must possess outstanding tourism attractions as demanded by the tourism market. The access condition, awareness level and commitment of community and local stakeholders, competitive advantage over the similar rival destination, political stability in and en route to destination etc are the prime factors that must be

explored and analyzed during the pre-feasibility study. The prior consultation with the Kathmandu based private sector institutions and agencies are very important in this phase.

With the emerging of responsible tourism concepts, present visitors are in quest for greater authenticity and they want to enjoy and experience the things live and on the spot. The use of organic fresh vegetable from the kitchen garden has more meaning for the visitors than it is brought from outside the destination. Only by augmenting the product by authentic, organic and local products, Nepal can compete with the similar rival destinations like Bhutan, Sikkim, Afghanistan, Pakistan and others.

Destination/hub level tourism plan preparation

Another area of focus may be destination/hub level tourism planning that would include product development, product planning, new area development and existing area development. These are relatively advanced level activities and MEDEP should not engage in this level of activities though they are important for overall tourism development.

Institutional development

Institutional development is an important activity in tourism development strategy. It is a vital activity that will enable institutions to undertake tourism development activities. Such institutional development activities can be initiated at the community level. However these need to be capacitated. In order to generate awareness and build capacities of these institutions, following capacity enhancement training and exposure visits can be conducted: accounting and financial management; book keeping; leadership training; programme planning; monitoring and evaluation training; waste management training; training on use of alternative energy technologies; tourism destination development and management training; tourism destination planning training; tourism communication, information and interpretation training; visitor information centre management training; and sanitation, health and hygiene training. NATHM, IEDI and other specialized institutions and agencies can provide these training.

Tourism infrastructure, skills and enterprise development

Following forms of physical infrastructure should be developed for tourism destination development:

- Access: Trail, bridge, road, resting places;
- Communication and interpretation: Telecommunication, Internet and cyber,
- Tourism attraction boards: Arrow board, signage,
- Visitor information centres etc
- Accommodation (public or private): Hotel, lodge, campsite, drinking water
- Health and medical facilities
- Recreational facilities: Resting places, view points/towers, natural hot water bath
- Energy devices: ICS, Biogas, Solar set, micro hydro, wind energy, bio briquette etc
- Heritage related: Monastery, Museum etc
- Others: small irrigation, improved Ghattas.

Infrastructure development work should be coordinated with VDCs, DDCs, line agencies and others.

Skill development:

Following skill development training should be given:

- Local porter and guide training,
- Cookery and bakery training,
- Small hotel and lodge management training,
- Front office management,
- Handicraft production and refinement training.

Organic/Fresh vegetable production,

- Poultry fanning, bee keeping,
- English/foreign language training,
- Hospitality management,
- Product packaging, pricing and branding training,
- Painting and picture making training,
- Fruit jam and jelly preparation training,
- Potato chips preparation training,
- Mushroom production training,
- Vegetable and fruit drying training,
- Juice preparation training
- Basic Hospitality and small hotel/lodge management,

MEDEP is already involved in extending training and enterprise development activities. Necessary assistance can be sought from CSIDB/DCSI, TITI, IEDI, NATHM, Hotel training institutes etc.

Tourism product/enterprise creation:

- Provide tourism entrepreneurship development training,
- Improve easy access to capital i.e. through micro credit, cooperatives or through banking,
- Networking among the products and product sellers
- Forward linkages to NTB and tourism private sectors

Tourism product packaging and branding

Packaging

Destination level package

- Amalgamation of several sub products
- Define itineraries
- Define prices
- Defines activities, facilities and services

Example: Annapurna circuit, Tamang heritage Trail,

Individual business package

Package provided by a hotel and lodge: room, shower, food, restaurants, sight seeing, entertainments, souvenir etc

Individual product package

Production of fresh organic vegetable: time, amount, price, logo/identity, quality, place etc

Publicity, promotion and marketing

- Publicity through local and centre level media, newsletter, journals,
- Promotion through website, brochure, leaflets, posters, documentary, calendars, fairs and events, exhibitions, familiarization visit (of journalist, tour operators and electronic media personnel)
- Marketing through the private sector people

Heritage conservation, management control and up-scaling

- Use of alternative energy devices and technologies
- Proper waste management

- Preservation of culture and tradition
- Approved rules and regulations for community based rural tourism development
- Continuous maintenance of heritage/products
- Continuous improvement of product

In Ghandruk and other sites, relatively big hotels and lodges can consume the micro-enterprise products like vegetables, eggs, wine, milk products etc for their customers.

Some places can act only as production centers. Villages far from the trekking route and tourism hub can produce products and services desired by the tourism market. They can produce crafts, food grains, vegetables and many more non perishable goods to the tourist market. In fact the trekking route and travel circuit can be developed as a business corridor for micro-enterprise products. Some tourist places act as a single and final destination such as Sirubari of Syangja, Bandipur. of Tanahun. whereas other places could be en route to the final destination such as Ghandruk en route to Annapurna base camp.

Some well developed rural areas that can be a potential site for micro-enterprise development are given below:

1. Khumbu region
2. Annapurna region
3. Langtang region
4. Sauraha

Some emerging sites/upcoming tourism products that can be a potential site for micro-enterprise development are given below:

1. Ghalegoan and Ghanpokhara
2. Sirubari
3. Bandipur
4. Briddim
5. Gatlang
6. Bardia
7. Dolpa
8. Chitwan Chepang hill
9. Antu Danda/ilam
10. Tamang Heritage Trail in Rasuwa

Other potential site for micro-enterprise development is given below:

1. Trishuli- Ganesh himal section in Rasuwa-Nuwakot and Dhading: focus on woolen craft,
2. Rhododendron juice, Allo fibre, off seasonal vegetable, potato, soybean, milk products, meat
3. products, and Tamang cultural package
4. Surrounding of Manakamana: focus on wcraft, orange, goat and poultry and Magar cultural package
5. Megghauli and Madi Of Chitwan: focus on ecotourism, Tharu cultural package, food items
6. Surroundings of Palpa Tansen: focus on brass items, orange,
7. Panchpokhari of Sindhupalchowk: focus on pilgrimage package, millet items
8. Rolwaling area Of Dolakha: focus on Junar, Rhododendron juice, off season vegetables
9. 7.Tinjure, Milke and Jaljale (TMJ) area of Terathum, Taplejung: focus on Rhododendron juice, cardamon, local Tongba, Rai cultural package
10. Makalu Barun areas: focus on cardamon, local Tongba, Rai and Sherpa cultural packages
11. Rara and Khaptad: focus on NTFPs and natural package
12. Api and Saipal area: focus on NTFP and Meditation
13. Upper Gorkha/Manaslu area: focus on NTFP, wild products, off seasonal vegetables

14. Chovar area of Kathmandu: focus on pear
15. Chapagoan area of Lalitpur: focus on Newar food items and culture
16. Changu Narayan area of Bhaktapur: focus on pilgrimage circuit walk, wooden craft
17. Pilgrimage package in Swargadwari, Lumbini, Pathivara, and Janakpur area
18. Buddhist circuit package: focus on mud sculptors, Pipal leaf craft, Mala,
19. Koshi Tappu: focus on fish item, Jute items, bird watching package
20. Dharan-Dhankuta- Basantapur area: Orange, Junar and Rhododendron juice
21. Gadhimai-Sirnraungadh area: pilgrimage package
22. Jhapa Antu danda- Taplejung : Organic tea and tea garden
23. Surkhet-Jumla : focus on domestic as well as foreign visitors (Mushroom, Yarsagompa, small hotels, lodges and tea house)
24. Lamjung-Manang: focus on homey hunting, orange and other agro products
25. Dolpa and Mugu: focus on meditation, NTFPs (Yarsagompa) and natural package
26. Baglung-Dhorpatan-Rukum: focus on organic coffee, fish, natural package and Magar cultural package, Seabokthorn juice
27. Bardia- Khaptad-Rara (Wild West Triangle)
28. Parbat-Myagdi route

The potential areas with tourism potential in the existing and the proposed MEDEP districts are identified below.

Tourism Places

District	Place of importance	Activities	Category
Terhathum	Tinjure, Milke, Jaljale (TJM)	Trekking, Sight seeing	Foreign
Sunsari	Koshi Tappu, Barahchhetra	Wild life, Pilgrimage	Foreign, Domestic
Dolakha	Himalayas, Jiri, Bigou, Kalinchok, Bhimsen	Trekking, Sight seeing, Pilgrimage	Foreign, Domestic
Dhanusha	Janakpur	Pilgrimage	Domestic, Indian
Sindhupalchok	Himalayas, Helambu, Panch Pokhari, Tatopani	Trekking, culture, sight seeing, pilgrimage	Foreign, Domestic
Kavrepalanchok	Palanchok Bhagawati, Dhulikhel	Trekking, sight seeing, pilgrimage	Foreign, Domestic
Rasuwa	Langtang National Park, Gosainkunda	Trekking, culture, sight seeing, pilgrimage	Foreign, Domestic
Parbat	Annapurna Conservation Region,	Trekking, sight seeing,	Foreign,
Myagdi	Annapurna Conservation Region,	Trekking, sight seeing,	Foreign,
Baglung	Dhorpatan Hunting Reserve	Wildlife, Trekking	Foreign,
Nawalparasi	Chitawan National Park, Ram gram	Wildlife, sight seeing, pilgrimage	Foreign,
Kapilvastu	Taulihawa, Kapilvastu, Githihawa, Niglihawa	Buddhist pilgrimage	Foreign, Domestic
Dang	Deukhuri valley	Culture	Foreign,
Pyuthan	Swargadwari	Pilgrimage	Domestic
Rukum	Dhorpatan Hunting Reserve	Wildlife, Trekking	Foreign,

Bardia	Bardia National Park	Wildlife	Foreign,
Surkhet	Karnali highway	New area	Domestic
Dailekh	Karnali highway	New area	Domestic
Kalkot	Karnali highway	New area	Domestic
Jumla	Karnali highway	New area	Domestic
Kailali	Ghda ghodi tal	Lake	Domestic, Indian

Potential stakeholders for tourism based micro-enterprise development

Being a multi-sectoral, multifaceted and complex industry, tourism requires a high degree of coordination, partnership and synergy efforts. Different stakeholders with their particular expertise can contribute differently and jointly in the research and survey works on tourism, physical infrastructure development, micro-enterprise creation, service delivery, conservation, awareness building and education, publicity, promotion and marketing, security and safety maintenance etc.

While developing the tourism destination, the existence of possible stakeholders and their possible roles should be clearly identified and should act accordingly.

Some possible stakeholders at district level/destination level are listed below:

- Local Village Development Committee (VDCs) and District Development Committees (DDCs)
- Protected Areas (PAs) management authority (National Park, Conservation area, Wildlife Reserve, Hunting reserve, Buffer Zone Management Committees)
- Tourism related functional groups/associations at destination (Hotel association, craft association, Porter/Guide associations etc)
- Small and Cottage Industry Development Committee
- FNCCI/FNCSI district branch, MEGA, DMEGA
- Line agencies: Agriculture, Livestock, Forest, Health, Education, Security agencies
- District level NGOs, CBOs and Projects
- Banks, cooperatives and other financial institutions
- Community groups

Some possible stakeholders at district and centre level are listed below:

- Nepal Tourism Board (NTB),
- Department of National Park and Wildlife Reserve (DNPWC)
- Ministry of Culture, Tourism and Civil Aviation (MoCTCA)
- Ministry of Industry, Commerce and Supplies (MoICS)
- Department of Industry
- Department of Cottage and Small Industries
- Cottage and Small Industry Development Board
- FNCCI/FNCSI etc
- NMEGA
- National level NGOs, INGOs, Projects

Private sectors organizations

- Trekking Agents' Association (TAAN)
- Nepal Mountaineering Association (NMA)
- Nepal Association of Rafting Agents (NARA)
- Nepal Association of Travel Agents (NATA)
- Nepal Association of Tour Operators (NATO)
- Tourist Guide Association of Nepal (TURGAN)

- All Nepal River Guides Association (ANGRA)
- Handicraft association of Nepal (HAN)
- Craft and souvenir retailers and sellers
- Others intermediate suppliers, promoters and marketers

Some possible role of those stakeholders is presented below in the table

Roles and Tasks	Stakeholders
Research and survey	Nepal Tourism Board, private sectors
Destination selection and feasibility study	NTB, Projects, DDC and VDCs, private sectors
Destination level tourism plan preparation	NTB, DDC, VDC, Projects, PAs, Consulting firms, NGOs
Tourism awareness raising	Community, VDC, NGOs, Projects
Tourism infrastructure development	Community, VDC, DDC, MoCTCA, Line agencies and line ministries
Tourism institutional development	VDC, DDC, PAs, NGOs, Projects
Tourism business creation	Functional groups, Projects, . Gharelu Samiti, FNCCI
Product packaging	Functional groups, DDC, private sectors
Product branding	DDC, NTB
Publicity	
Promotion	Destination promotion by government and civil society, DDC
	Product promotion by private sector institutions and individual entrepreneurs
Marketing	by private sector people and institutions
Conservation and preservation of heritage	PAs, Community, VDC, DDC, Dept. of Archeology

Possible role of VDC and DDC

- Identify the tourism potentiality and declare area as tourism area
- Coordinate the tourism destination development efforts
- Develop minimum infrastructure for tourism
- Provide institutional development support
- Publicize and promote the area with effective tools
- Make backward and forward linkages

Role of NTB

- Demand generation to enhance growth rate of tourist arrival
- Improve destination image by product diversification
- Research and surveys
- Publicity and promotion
- Capacity enhancement activities
- Skill development training
- Branding and
- Make backward linkages

Micro-enterprise could be a viable economic option for uplifting the livelihood of rural poor community while preserving the resources in future. The intervention of MEDEP programme in micro-enterprise development efforts will not only benefit the rural poor but also increase the satisfaction level of the visitors. In fact, it would help to minimize the regional imbalance and reduce gap between the poor and the rich.

In order to develop tourism based micro-enterprises, MEDEP should adopt the following strategies and directives:

- Social mobilization process as an entry point : MEDEP should continue and adopt the social mobilization process at the destination community. It should follow the basic principle of organization, savings and skill for the effective mobilization of community organizations (COs). They should be highly sensitized in the tourism activities
- and should be involved in the tourism plan formulation and implementation. To carry out this, the programme staff should be well trained on the concept of tourism, destination development process, and tourism related micro-enterprises.
- Strong coordination with VDC, DDC, NTB and PAs
- Provision of strong micro credit delivery facilities
- Backward and forward linkage-with community, VDC, DDC, NTB and private sectors
- Provision of venture capital and technology support such as solar drier, briquette, improved cooking stove, plastic green house
- Establishment of souvenir centres (for display and selling)
- Careful selection of destination: more focused on already developed/promoted areas
- Focused efforts: One village one product and one destination one product concept
- Should hit on policy feedback on integration of micro-enterprise in tourism
- Should focus on tourism business plan preparation, in assisting in package preparation and menu preparation
- Should focus on human resource development in rural parts of Nepal

For the better placement of micro-enterprises development initiatives in tourism sector, following further actions are recommended:

- a) Further consultation with the policy level institutions such as Nepal Tourism Board, Ministry of Culture, Tourism and Civil Aviation (MoCTCA) and Department of National Park
- b) and Wildlife Conservation (DNPWC) is recommended for the further clarification and commitment from the respective authority.
- c) Further consultation with the centre level private sector organizations such as TAAN, NMA, HAN, TURGAN etc is recommended to seek suggestions from them and at the same time to ensure the earlier commitment from those institutions
- d) Best practices and case studies can be explored and documented in the final project plan.

Annex3: Possibility of Small and Micro and Small Enterprise Development in Forestry Sector

Background

Poverty, which is mainly associated with economic activities and employment opportunities, has become a dilemma in rural economic. Besides, the poverty has also fuelled the Maoist insurgency in the past and prevailing conflict in the Terai and vice versa with a vicious cycle. Socially excluded People, mainly poor and Disadvantage Groups (DAG), are thus surviving in miserable condition. As a result Migration to urban area and abroad is getting momentum and it has now turned out to be a national issue. Migration has created double marking in rural and urban settings. There is drain out human resources, which is required to carry out management activities in the forest where as the influx has further deteriorated brown environment in the urban areas.

Although livelihood improvement sustains when it fulfils all dimensions of a human being, income, one of the major dimensions, has been taken here as a foremost attribute for the reduction of the poverty in rural areas.

Employment opportunity is hardly available, but there is potentiality of economic activities due to nature's endowment in agriculture, livestock, and forest and non-timber forest based resources that are available in surroundings. From this perspective, Income Generating Activities (IGA) is the best option for the improvement of livelihood. The IGA can only sustains and provide benefits if it will be transformed into rural based small-scale and micro-enterprises.

Rural based small-scale and micro-enterprises, based on the experiences from other programmes and project, has been seen an appropriate and relevant to the present focus of Natural Resource Management (NRM). With a small input it can generate more outputs along with local employment opportunity and source of supply to the nearest market. This can prove a positive impact even by reducing the present conflict.

Forest Based Micro-Enterprise at Present Nepal is rich in forest resources once identified as the major natural resource of the country. The depletion in forest resources due to rampant deforestation has caused serious concern including the need for completely banning timber extraction. Forest coverage declined to 29 percent from well over 37 percent. However, the introduction of community forestry management programme in the country showed impressive results resulting to expansion of forest coverage. The issue now is how to reap the benefits from the forestry sector in a sustainable manner so as to maintain the environmental balance while generating economic opportunities. It has been shown by a study that sustainable timber harvesting in two AusAID districts, Sindhupalchowk and Kavrepalanchowk would yield an annual income of Rs. one billion. It can, therefore, be estimated that the total income potentiality of income and economic opportunities from the forestry sector alone would be enormous. Of course there persists the danger of over exploitation and illegal harvesting which has continued unabated. There is thus a strong need to curb illegal felling and use of forest resources while promoting legal use and harvesting.

One of the ways for attaining this noble goal is through the development of forest based enterprise development and sustainable use of these resources. In this perspective that the collaboration of AusAID and MEDEP should be valued at and it has opened ways to further economic benefits and potentialities of Community Forestry Users Groups (CFUGs). This has created additional scope in working with CFUGs enabling to create new employment and economic opportunities. Working in the forest based enterprises is not new to MEDEP with some 32 percent enterprises belonging to forest based activities. MEDEP has also worked with CFUGs. But the partnership with AusAID has resulted in promoting more congenial working approaches and developing conducive strategies to working with CFUGs and in the forest based sector. This needs to be continued and replicated at the nation wide level gradually. These activities should help in consolidating MEDEP activities to further its goals and dimensions thus providing a comprehensive answer to poverty alleviation and sustainable development.

Micro-Enterprise Development Programme (MEDEP) has provided support to promote forest based micro-enterprises in MEDEP-supported Districts. It, based on the MIS that MEDEP has, indicates that the coverage of forest based Micro-enterprises at present is about 34%, which can be considered as a substantial contribution of MEDEP in promoting such micro-enterprises. Besides, several examples of forest based micro-enterprises such as: Herbal Soap, Incense Stick, Lapsi Products, Bael Juice, etc exist that also reveals that forest based micro-enterprises have got high probability of getting been successful and sustainable. Seeing this, AusAID therefore extended its support to MEDEP.

MEDEP has now fully started working in forestry sector since the end of 2006 when AusAID has provided funds for enterprise development and sustainable livelihoods activities in Sindhupalchowk

and Kabhrepalanchok where Nepal-Australia Community Resource Management and Livelihoods Project (NACRLMP) had funded for development and promotion of Community Forestry Programme in these two districts for more than 35 years. At present MEDEP is executing the following activities under AusAID support in the two districts.

- Preparation and implementation of the Second Generation Community Forestry Operation Plans;
- Pine plantation management;
- Promotion of pine forest based enterprises (Example: Pine Timber, Pine Charcoal, Pine treated pole, Resin tapping);
- Promotion of non-timber forest based enterprises;
- Capacity development of DFOs, CFUGs, and FECOFUN; and
- Policy feed back.

Achievements in both the districts have been encouraging. MEDEP has so far (Till October) succeeded to create 976 micro-entrepreneurs against the target of 1000 meaning that the target will be met or actually exceeded. More focus has been provided to women and Hardcore Poor communities. MEDEP has also provided technical and financials support to 52 CFUGs against the target of 40 Community Forest User Groups for the revision and implementation of their Community Forestry (CF) Operation Plans. During the period thinning guidelines on Pine Plantation has been approved by the government and an enterprise development section has been incorporated in the revised CF Operation Development Guideline (2064) by Department of Forests that is expected to encourage enterprise development activities at the national level contributing to poverty alleviation efforts. MEDEP intervention has helped to enhance Per Capita Income of individual micro-entrepreneurs 63% and the average family income has increased by 12%. In addition, 17 CFUGs harvested following the thinning guideline and sold timber worth of NRs 5.2 million and generated 16700 mandays of work, which has not been included in the estimation of increase in per capita income of the entrepreneur. Other contributions included capacity development efforts of CFUGs and other national and district level partner organizations. The results, within a short period of time, have been quite encouraging and has opened a new avenue for working towards the fundamental goal of poverty alleviation in the country by working with CFUGs.

Achievements in both districts within a short span of time and successful examples of NTFP based micro-enterprises from the other districts indicate that MEDEP has been successful to create forest based entrepreneurs and consequently employment opportunities to them.

Future Possibilities

Since MEDEP has been successful to reach the “unreachable”, promotion of forest based small and micro-enterprises through MEDEP will contribute to reduce poverty in forestry sector by creating more economic opportunities for NRM-Groups¹³. On the other hand, these groups-particularly Community Forest User Groups (CFUGs) are resourceful and by policy they have to invest certain percentage of the annual income for the welfare of their members. MEDEP can therefore intervene in Community Forestry Programme to tap the resources for the promotion of forest based small and micro-enterprises. With these enterprises, MEDEP can create employment for Community Forest User Group members, particularly focusing on poor, women, unemployed youths, and socially excluded members. The following forest based small and micro-enterprises can thus be promoted.

- Timber
- Pole
- Furniture
- Charcoal/Bio-briquette

¹³ That includes Community Forestry User Groups, Leasehold Forestry Groups, Bufferzone Management Groups, Collaborative Forest Management Groups, and so on.

- Craft/Handicraft
- Resin tapping/chemicals
- Eco-tourism
- Tree Seeds
- Herbal and medicine related
- Non-timber based

Similarly, the following service oriented enterprises can also be developed.

- Harvesting/Logging
- Transporting
- Community Forest Operation Plan Preparation

This initiation will not be a regular support programme for the district rather it is a way out or demonstration to open up the possibilities in other districts.

Strategies and Approaches

- Use MEDEP model and approaches
- Utilize CFUG-fund as much as possible with matching fund provision
- Prepare and implement phase “in and out” strategy

There exists high possibility of promoting forest based small and micro-enterprises in forestry sector particularly in Community Forestry Programme that consequently creates economic opportunities for poor, women, unemployed youths and socially excluded communities. It however requires a long term planning with long term investment. Once it gets momentum, then forest based micro-enterprises will be one of the sustainable means that can generate economic opportunities for longer term.

Annex 4: International Trade

Background and Policy Review

Historically, Nepal's trade and industrial regime has been shaped by its long and relatively open border with India. Its close links with Indian market and dependence on India for transit routes has resulted in Nepal having a special economic relationship with India while providing opportunities for increased exports and agricultural and industrial growth which remain to be fully exploited. Following the adoption of liberalisation measure in India, the constraints on policy options in Nepal have been lessened and significant progress has been made in opening up policy environment.

Nepal experienced serious balance of payment difficulties in early eighties and To remedy adverse effects on exports, a new Trade Policy was announced in June 1992 replacing the previous one of 1982. The policy aimed at enhancing internal and international trade through an open and liberal policy increasing the participation of the private sector.

For a country to exploit comparative advantage in the world market, it has to be able to compete with other countries on an equal footing with regard to undistorted markets and policies. The two key ingredients for putting exporters on an equal footing with competitors abroad, or creating so-called “neutrality” status include (i) exchange rate policies aiming at maintaining a real effective exchange rate, and (ii) access to inputs at world market prices.

The GoN undertook a wide array off exchange rate reform programs since early 1990s. In 1992, it introduced partial convertibility in current accounts and announced full convertibility of the Nepalese Rupee for current account transactions in 1993. So far as the Indian currency is concerned, fixed exchange rate regime was adopted. Subsequent reform measures in the external sector included, among others, arrangements that followed exporters to retain all their hard currency earnings in convertible accounts, facilities for opening convertible current accounts for all foreign exchange

earnings, provisions for imports from India through dollar payments, and sanctions to commercial banks to extend credit on convertibles currencies.

To promote manufactured exports, a number of special facilities have been provided by the GoN to exporters to allow them access to imported inputs at world market prices. These include duty drawback and bonded warehouse facilities. Such facilities are vital for promotion of exports so long as the trade regime is not fully liberalised. With a view to promoting exports by removing existing trade anomalies, an Export Promotion Fund was established to formulate, monitor and evaluate export promotion programs; an export Promotion Council having private sector majority was constituted and programmes for product development, market diversification, export encouragement, and quality improvement were implemented.

Transit costs and time has always been an important barrier for increasing Nepal's exports. The delays, thefts, unnecessary hassles created by authorities of the transit country cause significant problems for Nepalese traders. One of the ways to resolve many of the transit issues is the development of full-fledged dry port inside the country. The construction of Inland Container Depot (ICD), which has been operative since 2004 in Birgunj, has significantly helped though there is complaints about lack of its use due to high costs and other impediments.

Besides, Nepal's economic relations with India have profound implications for both the rate of economic growth and the direction of trade. Indo-Nepal treaty of 1950 enabled Nepal to access Indian market freely and has been the foundation of subsequent treaties and understandings. Nepal-India Trade Treaty signed in December 1996 had comprehensive amendments and represents total change of approach than before. The renewed Nepal-India trade treaty is regarded as landmark for the Nepalese trade and industrial development and has fully opened the huge Indian market to Nepalese products. Unlike in the past, the renewed treaty has removed material content restrictions required for Nepalese products for preferential entry into India. Accordingly, either country will be allowed to re-export goods imported from either country with manufacturing activity inside the country without any material content requirement. Furthermore, the number of items in the negative list for preferential treatment in India has been brought down to 3 from 7. Only the items like alcoholic liquors/ beverages and their concentrates except industrial spirits, perfumes and cosmetics, cigarettes and tobacco are included in the negative list. The new treaty on March, 6, 2002 has been a little more restrictive with quantitative restrictions fixed for four items due to alleged surge. It reduced exports to India to some extent. Nepal's trade has re-concentrated with India as a result of these treaties and over two thirds of Nepal's total trade is accounted by Indo-Nepal trade. Despite the treaty, Nepal experienced significant procedural hassles in its exports and levying of countervailing duty, which was abolished just recently during the recent visit of the Indian foreign minister on December, 2006. The 2002 treaty was renewed after its expiry on 2007.

Nepal is taking many initiatives for promoting Nepal's trade in SAARC region. The South Asian Preferential Trading Arrangements (SAPTA) emerged as integral component of the SAARC mandate for development through cooperation. The agreement was implemented in December 1995. SAPTA aims to reduce tariffs and non-tariff barriers among SAARC member countries. SAARC has also gone ahead in establishing South Asian Free Trade Area (SAFTA) in 2006 but it has yet to be operationalised. Nepal acceded to the global trading regime with the membership of WTO on 2004. However, Nepal has yet to make significant efforts to fulfil its commitments and to reap benefits from the membership.

The tenth plan (2002-2007) as well as the interim plan (2007-10) have accorded priority to the trade sector. It emphasises an encouraging private sector participation to promote trade and limit government's role in facilitating and monitoring only. It plans to use WTO membership to boost trade. Imports will be tied with industrial development. Export promotion measures included encouraging FDI in the sector easing transit procedures, encouraging export of hydropower and IT services and emphasizing exports from rural areas.

Review of the policies showed frequent changes but in reality such changes are late and generally delayed. Along with unparalleled import growth could not be substantiated with export growth, which actually has recorded declines in the last few years with declining export to overseas markets as well as due to increasing restrictiveness and difficulties in exports to India. It is true despite increasing unfavourable balance of trade, current account has turned positive due to enhanced remittances. However, trade development would warrant a more positive and concerted approach to reduce procedural difficulties, developing capable and strong institutions, and enhancing linkages and coordination. Timely and positive response taking into perspective of Nepal's niche areas, potentials and competitive advantage is a basic necessity if trade is to be promoted meaningfully and make it a vehicle of faster economic growth and regionally balanced development.

Trade Scenario

The importance of international trade for Nepal is unmistakable as it relies on international supplies for many including consumption, developmental as well as technological products. True, Nepal has comparative as well as competitive advantage in a number of products and services emanating from natural resource endowment, available skills, low labour costs, and physical location of the country between two of the fastest growing and the largest economies of the world. Potentials like hydro-power, natural bio-diversity and physical location have hardly been able to be exploited. On the other hand, there has been an unprecedented growth in imports due to increasing consumption and development requirements as well as rise in fuel prices putting the country in a precarious situation of increasing trade deficit causing a serious drain in the scarce foreign exchange reserve.

Exports have either stagnated or have actually declined due to gradual decline in its major export items like carpet, garment and pashmina. Since last six or seven years, there has been a continuous decline in exports to overseas countries. Decline in overseas exports has partly been recovered by export growth to India but the growth in recent times has been marginal only and the growth rate is continuously declining raising serious doubts in the ability of Nepal to expand its export base and reap benefits from growing opportunities. The prospect shown by favourable impact of the liberalisation efforts of early nineties has more or less evaporated. The declining dollar rate has further eroded the competitiveness of Nepalese economy raising the wisdom of pegging Nepalese currency with Indian currency.

Imports on the other hand are growing unabated with the sharp rise in the import bills of fuel followed by consumption and development goods. The result has been a sharp rise in trade deficit. From Rs. 14 billion trade deficit in 1989-90, it has galloped to a whopping Rs. 131 billion or more than nine times accounting for about 17.7 percent of GDP. It is true during the period the trade volume grew by 11 times reaching a level of Rs. 252.5 billion or about 34.1 percent of GDP.

Foreign Trade Scenario

Year	Exports	Imports	Trade Deficit
2003-04	53.9	136.2	82.3
2004-05	58.7	149.4	90.7
2005-06	60.2	173.7	113.5
2006-07	60.7	191.7	130.9

It clearly exhibits that the exports have stagnated. Unparalleled import growth could not be substantiated with export growth, which actually has recorded declines in the last few years with declining export to overseas markets as well as due to increasing restrictiveness and difficulties in exports to India. It is true despite increasing unfavourable balance of trade, current account has turned positive due to enhanced remittances. However, trade development would warrant a more positive and concerted approach to reduce procedural difficulties, developing capable and strong institutions, and enhancing linkages and coordination. Timely and positive response taking into perspective of Nepal's niche areas, potentials and competitive advantage is a basic necessity if trade is to be promoted meaningfully and make it a vehicle of faster economic growth and regionally balanced development.

With the appreciation of Nepalese currency against US dollar, even remittances have declined. It is posing a serious challenge to the economy. Of course, Nepal has taken some initiatives. As an illustration, Nepal is taking many initiatives for promoting Nepal's trade in SAARC region. The South Asian Preferential Trading Arrangements (SAPTA) emerged as integral component of the SAARC mandate for development through cooperation. The agreement was implemented in December 1995. SAPTA aims to reduce tariffs and non-tariff barriers among SAARC member countries. SAARC has also gone ahead in establishing South Asian Free Trade Area (SAFTA) in 2006 but it has yet to be operationalised. Nepal acceded to the global trading regime with the membership of WTO on 2004. However, Nepal has yet to make significant efforts to fulfil its commitments and to reap benefits from the membership.

These initiatives to a lot of extent have however remained unimplemented or desired results have not been able to be reaped. A number of projects and initiatives including UNDP efforts in supporting Attainment of WTO membership and subsequent capacity building, efforts of multilateral agencies, and other bilateral agencies have been playing an important role but the outcome is hardly encouraging. Since long no new product or service has emerged with good potential. Similarly instead of diversifying to new markets, there has been an increasing concentration with only one country, India. Despite identification of products like tea, cardamom, coffee, herbs and herbal plants, and handmade paper as highly potential, they have not been able to make any notable impact at the macro level and Nepalese exports have remained static.

Apart from these, the progress in the global arena too is not very encouraging. The less developed Asia, Africa, and Latin America are supposed to expand trade that would have resulted in the poverty reduction of 128 million people but the progress is hardly anywhere near satisfactory. The 48 poorest countries still account for less than 0.4 per cent of global exports clearly showing the extremely under developed status of trade in these countries despite efforts to change the situation. Therefore there is a need to make international efforts to alter the situation and make trade a driver of change and a means of global integration. Further the need is to link trade with poverty reduction. In this respect, developing countries themselves have the primary responsibility for linking trade with poverty reduction. No country has been able to tackle poverty without increased trade because trade is essential for economic growth. But whether or not trade expansion leads to poverty reduction depends on the effects of trade on productivity growth and on the way in which income increases associated with trade expansion are shared. The employment dimension is at the heart of the relationship between trade and poverty and especially for a country like Nepal where youth employment is one of the main issues for the development of the country. It is in this perspective that MEDEP type efforts should seek better linkages with international trade to generate employment opportunities on a sustainable manner as a means to alleviate poverty.

The major items arranged in ascending order of their revealed comparative advantage (RCAs) in the world market are shown in the table below. However, RCAs has one major drawback. It does not take into account the policy distortions, like subsidies, tariffs, export incentives etc. used to generate exports. Nevertheless they provide the present comparative advantage of products in the country.

Activities of Revealed Comparative Advantage (RCA) for Nepal Exports (1997)

HS	Description of commodity	RCA
570110	Hand knotted woollen carpets	905.6
90830	Large cardamom	67.6
71340	Lentils	56.7
230220	Bran of rice	44
610510	Men's or boys' cotton shirts: knitted or crocheted	38.8
120799	Niger seeds	38.7
620630	Women's or girls' blouses and shirts: cotton	27.1

620342	Trousers, bib and brace overalls, breeches and shorts: cotton	25.0
620520	Men's or boys' cotton shirts: not knitted	23.0
550951	Other yarn of polyester of staple fibres: mixed mainly or solely with artificial	22.93
620462	Trousers, bib and brace overalls, mixed mainly or solely with artificial	19.61
560710	Twine, cordage, ropes and cables: jute or other textile bast fibres	17.45
731300	Barbed wire of iron or steel; twisted hoop or single flat wire	17.99
530310	Jute and other textile bast fibres, raw orated	17.87
410612	Tanned/retanned but not further prepared, whether or not split: goat skin wet blue chrome	16.99
410619	Tanned/retanned but not further prepared, whether or not split: goat skin wet blue chrome	16.19
650590	Hats and other headgear, knitted/crocheted, or made from lace, felt: other than hair nets	14.67
630260	Toilet linen and kitchen, of terry towelling or similar terry fabrics	13.94
550959	Other yarn, of polyester staple fibres: other sewing thread	12.79
611010	Jerseys, pullovers, cardigans, waist-coats, knitted: of wool or animal hair	12.46
91010	Ginger: dried or fresh	11.74
140390	Vegetable material of a kind used in brooms or brushes	11.00
151790	Margarine, edible mixture or preparation of animal or vegetable ghee	10.96
40590	Pasteurised ghee	10.13
330610	Dentifrices: Preparation for oral or dental hygiene, pastes and powders	9.61
151590	Linseed oil or bran oil, salseed oil	9.06
340111	Soap and organic surface-active products/preparations, in the form of bars (for toilet use)	8.01
630510	Of jute or of other textile bast fibres (Sacks and bags)	7.81
100890	Cereals (Buckwheat, millet and canary seed)	7.70
531010	Unbleached woven fabrics of jute	7.48
620640	Women's/girls' blouses, shirts/shirt-blouses, knitted or crocheted (Of man-made fibres)	6.84
410800	Chamois (including combination chamois) leather (raw hides and skins and leather)	6.79
410611	Tanned or retanned but not further prepared, whether or not split: Vegetable	6.48
410110	Whole hides and skins of bovine animals, of a weight per skin not exceeding 8 kg	5.88
970600	Antiques of an age exceeding one hundred years	5.50
800400	Tin plates, sheets and strip, of a thickness exceeding 0.2 mm	4.92
300490	Herbal tea	4.86
640510	With uppers of leather or composition leather (footwear)	4.05
620444	Women's/girl's suits, ensembles, jackets, dresses, skirts, trousers, bib and brace overalls	4.03
640419	Footwear with outer soles of rubber or plastics: others	3.83

Source: Karmacharya (2000)

The advantages in many of these products particularly the garment sector have evaporated with the complete phase out of quota in 2004. The advantages, however, continued for many primary and processed products.

MEDEP Prospects

In this scenario of stagnating exports and increasing imports, it is but imperative that concerted effort is put to enhance exports. This is where even micro-enterprises are expected to make feasible contribution to these efforts. The potentialities emerge from the fact that quite a few products

identified above as having revealed comparative advantage are primary or handicraft products. Hence, there is always a possibility of linking micro-entrepreneurs' products in the feasible international markets.

Realising this very potentiality MEDEP and its entrepreneurs have been exploring foreign markets too though formal approaches are not visible. MEDEP entrepreneurs, especially from Phase I, are moving into situations that require more sophisticated business skills and better linkages to viable market chains. For this segment of the market, product quality, timely delivery, increased production capacity, competitive pricing and sharper packaging are all required. The growth strategies pursued have resulted to a number of success stories leading to linkage with the international market. Some of the products for which export possibilities have emerged and developed include honey, handmade paper, natural fibre, ginger and processed ginger, *Dhaka* textile and products, incense sticks, craft products like bamboo products, among others. Honey is being exported to the European market and the potential is enormous though the issue of certification to ensure quality and free from pesticide use is creating serious hindrances. Much higher level consideration will be required to respond to such challenges and cooperative efforts of the government, producers and MEDEP type initiatives will be required. Interesting market has emerged for the incense sticks in India and Tibet. Nepal since long has been importing incense sticks from India but MEDEP efforts have not only led to substitute imports but has also enabled to export to the same country from where Nepal has been importing. Producers, particularly from Dhanusha are manufacturing incense sticks totally based on local resources and exporting without using the scent. It means that with the improvement in the quality of scent as per market needs, there is a possibility to add further value. More activities directed towards value chain, should enable to attain these goals. Demand from Tibet is another positive thing that has happened.

In view of the size of the demand, there is a need to expand and standardise products through feasible means like developing cooperatives. In order to fully exploit export potential, more activities are needed that include product improvement, standardisation, market linkage and promotion, e-marketing etc. To date, many opportunities for expanded markets are being missed, especially because: (a) not all MEDEP entrepreneurs understand the critical requirements of these markets; (b) the communication linkages are not in place allowing micro-entrepreneurs to respond rapidly to opportunities; and (c) micro-entrepreneurs are not prepared to produce in sufficient quantities. To overcome these deficiencies, there is a need to give attention in some aspects to improve export potentialities. The strategies should include,

- Identification of the market
- Segregation of opportunities between Indian, Tibetan and other Overseas market
- Introduction of product standardization and quality control mechanisms
- Identification of viable channels
- Fulfilling certification and other requirements

The activities required at the project level would be,

- Market and product identification
- Devising quality control and checking mechanisms
- Introducing project wide branding
- Market surveys and promotion
- Linking/improving with middlemen consultation

The activities at the enterprise level would be,

- Production at proper scale
- Meeting quality standards
- Meeting quality

- Meeting date lines
- Scaling up and growth orientation

Of course, it should be borne in mind that the prospect of linking micro producers with the international market is limited due to limited outputs, product quality and scattered production activities. However, gradual linkage with the international market will not only enhance the benefit at the enterprise level but will also contribute at the macro level. Hence, it is desirable that requisite attention is paid towards building international market in what has already been achieved in terms of international market linkage.

8.3 Annex 5: Meetings and discussions conducted during the scoping study of MEDEP

MEDEP Phase II Scoping Study Team members

Dr. Pushkar Bajracharya Team Leader (Tel: 4438190 @, Mobile: 9841-684519)
 Ms. Kanchan Lama (Verma) Team Member (Tel: 977-1-5006034 @; mobile: 98510-61384)

Date: From 1 September to 6 November 2007

Date	Time	Activity	Responsibility	Remarks
2 September 2007 Sunday		• Joining by Consultant Dr. Pushkar Bajracharya	NPSO	confirmed
3 September 2007 Monday		• Joining by Consultant Ms. Kanchan Lama (Verma)		confirmed
4 September 2007 Tuesday	15:15 -14:00	• Meeting with Arun Dhoj Adhikary and Nabina Shrestha	UNDP	confirmed (Santa)
6 September 2007 Friday	11:00 12:00	• Meeting with Mr. Baburam Ranabhat, Executive Director, Industrial Enterprise Development Institute (IEDI) and member of PSC of MEDEP, Mr. Bishwa Karki, Director, Rural enterprise Assistance Project (REAP)/IEDI Tel: 4261241 and member of Outcome Board of MEDEP	IDEI	confirmed (Sharmila)
	12:15 - 13:00	• Meeting with Mr. Yudha Bahadur Pant Chhetri, Executive Director, Mr. Bharat Bahadur Basnet, Dy. Directro, Cottage and Small Industry Development Board (CSIDB) and member of Outcome Board of MEDEP	CSIDB	confirmed
	13:30 14:30	• Meeting with Ms. Rachana	MEDEP	confirmed

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		Pandit, President, NEDC Tel: 016- 215404 (9841-586499)			
		14:30-15:30	Lunch		
7 September 2007 Friday	11:00 – 12:00	• Meeting with Ms. Lata Pyakurel, 1 st Vice President, Mr. Shyam P. Giri, General Secretary, Mr. Komal Palikhe, Act. D.G., Federation of Nepal Cottage and Small Industries (FNCSI) Tel: 4468337 (98510 -25136)	FNCSI	confirmed	
		12:00-13:00	Lunch		
		13:30-14:30	• Meeting with Ms. Kumudini Rosa, Senior Adviser, and Mr. G.B Banjara, Coordinator, PSPP/GTZ Tel: 5554197/96	GTZ	confirmed
		14:45 – 15:45	• Review of relevant documents, MEDEP's achievements and database, meeting with MEDEP's professionals	MEDEP	
8 September 2007	Saturday				
9 September 2007 Sunday	10:30 – 11:30	• Meeting with Dr. Krishna Chandra Poudel	MoFSC	confirmed	
		12:00-17:00	• Review of documents at NPSO/MEDEP		
10 September 2007 Monday	10:00-13:00	• Review of documents at NPSO/MEDEP			
		13:00-14:00	• Lunch		
		14:00-16:00	• Mr. Tony Burton, Deputy Head of DFID, Mr. Matthew Greenslade, Economic Adviser, Ms. Donata Garrasi Senior Social Development Advisor and Ms. Jasmine Rajbhandary, Social Development Adviser, Tel: 5559006	DFID	confirmed
11 September 2007 Tuesday	10:30-11:30	• Meeting with Ms. Araceli Llored, Portfolio Co-ordinator Private Sector Development Unit, SNV Nepal Tel: 5523444	SNV	confirmed (Karuna)	
		12:00-13:00	• Meeting with Mr. Bishnu Nath Sharma, Joint Secretary, Ministry of Local Development and member of outcome board of MEDEP 5524280 (98510 -26225)	MLD	confirmed
		13:00-14:00	• Lunch		

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	14:00-15:00	• Meeting with Mr. Purusottam Shrestha, National Programme Manager, PPPUE, Jhamsikhel, Lalitpur	PPPUE	confirmed	
	16:00-15:00	• Mr. Mahesh Dahal, Under Secretary, Ministry of Local Development and member outcome board of MEDEP 5524280 (98510-73934)	MLD	confirmed	
12 September 2007 Wednesday	10:30-11:30	• Meeting and discussion with Mr. Ram Krishna Pokharel National Programme Manager, DLGSP, Bakundol Tel: 5523770	DLGSP	confirmed	
	12:00-13:00	• Meeting and discussion with Mr. Kiran Man Singh National Programme Manager, REDP, Khumaltar Mobile: 9851037916	REDP	confirmed	
	13:00-14:00	• Lunch meeting with Ms. Nabina Shrestha and NPSO/ MEDEP Staff	MEDEP	confirmed	
	14:00-15:00	• Meeting with Mr. Yog Nath Poudel, Under Secretary, Ministry of Finance, Singha Darbar Tel: 4211304	MOFSC	confirmed	(Gopal Pokharel)
	15:30-16:30	• Meeting with Mr. Chandi P. Dhakal, President, Federation of Nepalese Chamber of Commerce and Industries (FNCCI), Mr. Ajad Shrestha 3 rd Vice-president Tel: 4262003 and Outcome Board of MEDEP Tel: 4262218/4266889	FNCCI	confirmed	(Uttam)
13 September 2007 Thursday	11:00-11:30	• Meeting with Mr. Maheshor Prasad Sharma Poudyal, Director General, Department of Cottage and Small Industry (DCSI) and Mr. Dhruba Joshi, Director and Member of Outcome Board of MEDEP Tel: 4259875, 4259842	DCSI	confirmed	
	12:00 - 13:00	• Meeting with Mr. Purusottam Ojha, Secretary, Ministry of Industry, commerce and Supplies (MOICS) and Chairperson, outcome Board of MEDEP and Mr. Niranjana Baral, National Programme Director (NPD), MEDEP and Joint Secretary, MOICS, Mr. Tej Raj Shakya, Joint Secretary, MOICS and other Officer	MOICS	confirmed	(Ganesh)
	13:00 - 13:30	Lunch			
	13:30 - 14:30	• Meeting with Mr. Bijay Shrestha Project Chief, Mr. Binod, Livelihood Forestry Project, Baluwatar 98510-34719	LFP	confirmed	
	16:00-17:00	• Meeting with Ms. Heather Bryant, Monitoring and Evaluation Unit and Dr. Lazima Onta Bhatta, Gender and Social Inclusion Advisor, Mr.	UNDP	confirmed	

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Sunil Lama, Risk Management Officer, UNDP				
14 September 2007 Friday	10:30 - 11:30	<ul style="list-style-type: none"> • Dr. Ram Prakash Yadav, Honourable Vice-Chairperson, Poverty Alleviation Fund, Chakupat Tel: 5553671, Mobile: 98510-86341 	PAF	confirmed Kopila.
	16:00 - 17:00	<ul style="list-style-type: none"> • Meeting with Mr. Sharad C. Neupane, ARR, Governance Unit 	UNDP	
15 September 2007 Saturday	10:55 -	<ul style="list-style-type: none"> • Departure Kathmandu – Dhangadi at 10:55 am. by Buddha Air - Dr. Pushkar Bajracharya - Ms. Kanchan Lama - Dr. Lakshman Pun 		
	1:00 - 14:00	<ul style="list-style-type: none"> • Brief presentation by DPIO/MES at DPIO Kailali followed by discussion and interaction with staff Lunch • Field Visit Dhangadi, Kalali 		
16 September 2007 Sunday	10:00 -	<ul style="list-style-type: none"> • Field Visit Dhangadi, Kalali • Travel from Dhan gadi to Nepalgunj 		
17 September 2007 Monday	17:55	<ul style="list-style-type: none"> • Field visit Bardiya and Banke Districe • Fly Back Nepalgunj – Kathmandu at 5:55 pm by Buddha Air 		
18 September 2007 Tuesday	11:00 - 12:00	<ul style="list-style-type: none"> • Meeting with Mr. Chhatra B. Saijuwal, Deputy General Manager Agriculture Development Bank of Nepal Tel: 4252356 	NPSO	confirmed with DGM
	12:30 - 13:00	<ul style="list-style-type: none"> • Meeting with Mr. Yogeswor Pant, General Manager, Agriculture Development Bank of Nepal (ADBN) and member of outcome board of MEDEP Tel: 4262797 • Departure Kathmandu – Pokhara at 12:30 by Buddha Air - Dr. Pushkar Bajracharya - Dr. Raj Bahadur Shrestha - 		G.M. is busy right now
19 September 2007 Wednesday	2:15 - 2:45	<ul style="list-style-type: none"> • Departure Kathmandu – Pokhara at 2:15 by Buddha Air • Field Visit Myagdi - Dr. Pushkar Bajracharya - Dr. Lakshman Pun - Dr. Raj Bahadur Shrestha 		
20 September 2007 Thursday		<ul style="list-style-type: none"> • Field Visit Myagdi - Dr. Raj Bahadur Shrestha - Dr. Pushkar Bajracharya - NPSO Staff 		

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	8:00-	<ul style="list-style-type: none"> • Field Visit Kahbrepalanchowk and Sindhupalchowk - Ms. Kanchan Lama - Ms. Heema K.C 		
21 September 2007 Friday	11:30-	<ul style="list-style-type: none"> • Fly Back from Pokhara – Kathmandu - Dr. Pushkar Bajracharya 		
	14:00- 15:00	<ul style="list-style-type: none"> • Meeting with Mr. Li Shengjie, Director, and Mr. Gerry Mc....., Chief Technical Adviser, Employment Creation and Peace Building Board on Local Economic Development (EMPLED) ILO <p>Tel: 5555777, 5550691 (ext: 115)</p>	ILO	confirmed Sita
	14:50	<ul style="list-style-type: none"> • Fly Back from Pokhara – Kathmandu at 2:50 pm. - Dr. Lakshman Pun - Dr. Raj Bahadur Shrestha 		
		<ul style="list-style-type: none"> • Field Visit Kahbrepalanchowk and Sindhupalchowk - Ms. Kanchan Lama - Ms. Heema K.C 		
22 September 2007 Saturday	4:00	<ul style="list-style-type: none"> • Back from Kahbrepalanchowk - Kathmandu - Ms. Kanchan Lama - Ms. Heema K.C 		
				Saturday
23 September 2007 Sunday	10:30- 11:30	<ul style="list-style-type: none"> • Mr. Bikram Tuladhar, Under Secretary, MOFSC, Singha Durbar <p>Tel: 4244703 4223862 Ext: 47 (9841-231503)</p>	MoFSC	confirmed
		<ul style="list-style-type: none"> • Meeting with Mr. Tirtha Raj Sharma, Secretary, MoFSC <p>Tel: 4220067</p>	not available	Manju Joshi
	12:00- 13:00	<ul style="list-style-type: none"> • Meeting with Partner Institutions Mr.Parshu Ram Pandey, Global Packaging, Tel: 4283358, Mr. Sunil Chitrakar, MAHAGUTHI, , Tel: 4220655, Ms. Mahalaxmi Shrestha, Api-Net, Ms. Tamanna Hamal, Tel: 5544981, WEAN, 	Organic Village	confirmed
		<ul style="list-style-type: none"> • Mr. Samir Nawa, The Organic Village, Tel: 4414383/ 9851038161, Dr. Mohan Bikram Gywali, RECAST, Tel: 43303448, Mr. Rajendra Manandher MOEST Mr. Brajesh Vaidya, Love Green Nepal, Ms. Indira Bhattarai, Bhotu Indira, <p>at The Organic Village Pvt. Ltd. Baluwatar followed by lunch</p>		not available
24 September 2007 Monday	10:30 – 11:30	<ul style="list-style-type: none"> • Meeting with Ms. Tara Gurung, Country Manager, AusAID 	AusAID	confirmed
		<ul style="list-style-type: none"> • H.E. Mr. Graeme Lade, Ambassador of 		

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Australia				
	13:30 - 14:00	•	Lunch	
	14:00 - 15:00	•	Meeting with Mr. Jan Morren Hof, Advisor, Dr. Madan Singh Karki, Project Director, APPSP, Singha Durbar Plaza 4218472, 4212206	APPSP confirmed (Depeeka)
25 Sept. 07 Tuesday		•	Indra Jatra Holiday	
26 Sept. 07 Wednesday		•	Document Review	NPSO
27 September 2007 Thursday		•	Document Review	NPSO
28 September 2007 Friday	10:00 - 10:30	•	Meeting with Ms. Kesha Pariyar, Chairperson, N-MEGA	MEDEP confirmed
	11:00 - 12:00	•	Meeting with Sushil Ram Mathema, Executive Director, Nepal Rastra Bank, Mr. Gyanendra Dhungana, Director, Micro-Credit Department, Nepal Rastra Bank	NRB confirmed
	12:00 - 13:00	•	Lunch	
	13:30 - 14:30	•	Meeting with Mr. Roshan Bajracharya, Sr. Economics, Ms. Lynn Bennett, Lead Social Scientist, World Bank, Durbar marg Tel: 4226792, 4439571 (ext: 140/109)	World Bank confirmed Sunita Rajani
29 September 2007 Saturday		•	Saturday	
30 September 2007 Sunday	10:00 - 11:00	•	Meeting with Mr. Nir Bahadur Jirel, Project Manager, Skill for Employment Project, Bijuli Bazar Tel: 016-226685 Mobile: 98510-00646	SEP confirmed
1 October 2007 Monday	10:00 - 12:00	•	Report Preparation	
	12:30 - 15:00	•	Meeting with Mr. Arun Dhoj Adhikary, Head, Pro-Poor Policy, Ms. Nabina Shrestha, Private Sector Analyst, Pro-Poor Policy, UNDP MEDEP staff • Review documents and meeting with NPSO staff	NPSO/MEDEP confirmed Santa
2 October 2007 Tuesday		•		
3 October 2007	09:00 - 10:00	•	Meeting with Mr. Krishna Panday, Senior Project Implementation Officer and Mr. Shyamal	ADB confirmed

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Wednesday		Shrestha, Economic Officer, Asian Development Bank, Kamaladi Tel: 4227779, 4220305		
	10:30-11:30	• Meeting with Mr. Krishna Gyawali, Joint Secretary, Ministry of Finance, Singha Darbar Tel: 4211371		call on 207 (Gopal)
	3:30-4:30	• Meeting with Mr. Ram Risal, Country Director, HELVETAS Tel: 5526719	HELVETAS	confirmed Bhim Kumari
	5:00-6:00	• Meeting with Mr. Ghulam Isaczai, DRR, (Programme) Mr. Arun Dhoj Adhikary Head, and Ms. Nabina Shrestha, Private Sector Analyst, Pro-poor Policy and Sustainable Livelihood Unit, UNDP and member of outcome board of MEDEP	UNDP	confirmed (Bandana)
5 October 2007 Friday	10:00-12:00	• Free time for report preparation	NPSO	
	13:00-14:00	• Meeting Mr. Matthew Greenslade, Economic Adviser, Tel: 5559006	DFID	confirmed
7 October 2007 Sunday	13:00-14:00	• Meeting with Dr. Jagadish Chandra Pokharel, Honourable Vice-Chairperson, Tel: 4211136, Dr. Pushpa Raj Rajkarnikar, Honourable Member, Tel: 4228107 and Mr. Bhim Prasad Neupane, Honourable Member, National Planning Commission, Singha Darbar Tel: 4211039		confirmed (Narayan)
8 October 2007 Monday	15:00-16:00	• Meeting with Mr. Shiva Sharma Poudel , Sr. Programme Officer, DANIDA Mr. Finn Thilsted, Ambassador, DANIDA 4413010	DANIDA He is busy with Minister visit	confirmed Mithila Rana
9 October 2007 Tuesday	11:00-11:30	• Meeting with Mr. Dhan B. Shrestha, Project Coordinator, WUPAP Unit, Mr. Basu Babu Aryal, Country Coordinator, Ministry of Local Development Tel: 5552247	MLD	confirmed
	11:30-12:00	• Meeting with Mr. Hemanta Kharel, Member Secretary Karnali Unit, Ministry of Local Development Tel: 5549722, 98510-48150	MLD	confirmed
15 October 2007 Monday	10:00-5:00	• Lease hold forestry national workshop, Staff College	Staff College	Kanchan Lama Only
	11:45-13:00	• Meeting with Mr. Rajan Shrestha, Project Manager, EU Mr. Chris-Touwaide, Attache, EU Dr. Giap Dang, European Union (EU) Tel: 4423569, 4429445	European Union	confirmed Ranju

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17 October 2007 Wednesday	10:00 - 11:00	<ul style="list-style-type: none"> Meeting with Mr. Petri Hautaniemi, Counsellor (Development), Embassy of Finland 	Finland	confirmed
		<ul style="list-style-type: none"> Meeting with Dr. Munni Sharma, Embassy of Finida Tel: 4441164, 4417443 		
	14:00 - 15:00	<ul style="list-style-type: none"> Meeting with Ms. Genevieve Federaspiel, Deputy Country Director, Mr. Eak Bahadur Gurung, Sr. Programme Officer, SDC, Ekantakuna Meeting with Mr. Jean-Mare Clavel, Country Director, SDC, Ekantakuna Tel: 5524927 	SDC	confirmed Aljina Gyogi Gurung
29 October 2007 Monday	12:30 - 13:30	<ul style="list-style-type: none"> Meeting with Nabina Shrestha, Private Sector Analyst, UNDP and NPSO Staff 	NPSO	confirmed
6 November 2007	15:00 -	<ul style="list-style-type: none"> Meeting with Private Sector Promotion Project (PSP) of GTZ 		