FINAL REPORT

ECONOMIC ANALYSIS OF MICRO-ENTERPRISES IN NEPAL

Submitted to:

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Acronyms and Abbreviations

APSO	:	Area Programme Support Office
BDSPOs	:	Business Development Service Providing Organization
BMO	:	Business Membership Organization
CSIDB	:	Cottage and Small Industries Development Board
CSIDBO	:	Cottage and Small Industries Development Board Office
CSIO	:	Cottage and Small Industries Office
CTEVT	:	Council for Technical Education and Vocational Training
DCSI	:	Department of Cottage Small Industry
DDC	:	District Development Committee
DEDC	:	District Enterprise Development Committee
DFAT	:	Department of Foreign Affairs and Trade (of Australia)
DMEGA	:	District Micro-Entrepreneurs Group Association
EDC	:	Enterprise Development Committee
EDF	:	Enterprise Development Facilitator
EDP	:	Economic Development Plan
EAME	:	Economic Analysis of Microenterprises Promoted by MEDEP and MEDPA in Nepal
FSP	:	Financial Service Provider
GESI	:	Gender Equality and Social Inclusion
GoN	:	Government of Nepal
IEDI	:	Industrial Enterprise Development Institute
M &E	:	Monitoring and Evaluation
ME	:	Microenterprise
MED	:	Micro- Enterprise Development
MEDC	:	Municipal Enterprise Development Committee
MEDEP	:	Micro- Enterprise Development Programme
MEDF	:	Micro- Enterprise Development Fund
MEDP	:	Municipal Economic Development Plan
MEDPA	:	Microenterprise Development for Poverty Alleviation
MED-SP	:	Micro- Entrepreneurship Development Service Provider
MEG	:	Micro- Entrepreneurs Group
MEGA	:	Micro- Entrepreneurs Group Association
MIS	:	Management Information System
MoF	:	Ministry of Finance
MoFALD	:	Ministry of Federal Affairs and Local Development
MOI	:	Ministry of Industry
NASC	:	National Administrative Staff Collage
NEDC	:	National Entrepreneurship Development Centre
NMEFEN	:	National Micro- Entrepreneurs Federation Nepal
NPD	:	National Programme Director
NPM	:	National Programme Manager
NPSO	:	National Programme Support Office
RRF	:	Results and Resources Framework
UNDP	:	United Nations Development Programme

1. INTRODUCTION

The Federal Democratic Republic of Nepal is one of the least developed countries (LDCs) characterized by slow economic growth, socio-economic underdevelopment and a low level of human resource development. The country is moving forward towards effective implementation of Nepal Constitution, 2014. All the efforts of the government and relevant stakeholders are focusing and delving in systematically structuring institutions and operating those institutions for developing the country and people.

Nepal has emerged from a politically and socially fragile post-conflict situation, structurally generated poverty, inequality and deeply entrenched form of social exclusion. The economic growth has averaged 4 percent over the last decade while absolute poverty decreased from 42 percent in 1995 to 25 percent in 2010 which further decreased to 23.8 percent in 2015. However, there are large disparities in incidence of poverty by gender, social group and geographical area. Nepal is one of the few countries that have accomplished impressive human development gains over the last two decades. In 2014 Human Development Report, Nepal was ranked at 145 out of 187 countries. Having started from a very low base, Nepal still has a low human development status. Nepal aspires to emerge as an inclusive, equitable, and prosperous middle-income country with a spirit of welfare state. The country aims on achieving sustainable poverty reduction and human development with low vulnerability and higher human development.

People's subsistence livelihood and their empowerment are the key to people confidence and their meaningful participation in the nation building process. Constitution has made provision for the participation of women and socially excluded groups in all level of state re-structuring. In this crux, microenterprise development is one of the means for self-employment creation, income generation and eventually empower explicitly under privileged, excluded and marginalized people including women in all the section.

1.1. Background

In Nepal different initiatives are being implemented to improve the livelihood of the poor, women and socially excluded people, through self-employment creation and income generation through package of services. Microenterprise Development Programme (MEDEP) is one of the initiatives contributing poverty reduction goal of the Government of Nepal's (GoN) through developing micro-entrepreneurship and supporting for employment generation since 1998. The programme has targeted the people below the nationally defined poverty line, with special focus on women and socially excluded groups, such as *Dalits*, Indigenous Nationalities, Religious Minorities, and Unemployed Youth, Ultra Poor and Excluded *Madheshis*[1]. MEDEP started as a pilot programme in June 1998 in ten districts and the program has now covered all 75 districts of Nepal.

MEDEP has successfully completed its First Phase (1998-2003) as piloting, Second Phase (2004-2008) was focused on district expansion and that of Third Phases (2009 – 2013) was focused on district expansion and internalization of the MEDEP into Government systems. The first phase as piloting in ten districts with main funding of UNDP and a small grant of Australian Embassy was successful in poverty reduction of target group families using microenterprise as the instrument of poverty reduction which later resulted into a Microenterprise Development (MED) model. Keeping in view of the success of the Project during the first phase, government and UNDP decided and replicated this model in additional 15 districts during the second phase wherein development partners such as DfID, the then AusAID and NZAID mobilized their resources through UNDP to accelerate MEDEP implementation.

During the third phase significant results were achieved not limiting to effective Project service delivery but also in policy implications such as formulation of new and/or amendment of existing policies such as Microenterprise Policy 2007, Industrial Policy 2010 (which included Microenterprise Policy 2007 as a section) Micro-Finance Policy 2007, Community Forest Users Group Guidelines, other Guidelines of Ministry of Forest and Soil Conservation, Agri-business Policy, etc. These Policies and Guidelines were microenterprise friendly and government for the first time accredited and

[1] The national poverty line defined by Nepal Rastra Bank's Economic Survey and adjusted according to current price is Rs. 28,796 per person per annum which is less than a dollar a day per person. MEDEP and MEDPA use this figure as a baseline. The World Bank and ADB cite a figure of US$ 1.90 per person per day.

included Microenterprise as priority programme for poverty reduction from the Eleventh Three Year Plan (2007/08-2009/10) along with programmes, target and budgets. However, budgets and targets related to MEDEP were included in 2009/10's Budget speech of the government and MEDEP became a regular programme of government. This became a precedent for government to continue programmes and budget on MED to include in the consecutive periodic plans such as Twelfth Plan (2010/11-2012/13), Thirteenth Plan (2013/14-2015/16) and current Fourteenth Plan (2016/17-2018/19). The internalization and institutionalization process of MED model into government system formally started only after Microenterprise Development for Poverty Alleviation (MEDPA, 2013/14-2017/18) begun as a five-year strategic and "flagship programme" of the government. The MEDPA was approved by cabinet meeting in 2013. According to this strategic plan government has replicated MED model in all 75 districts in the current Fiscal Year 2017/18. MEDEP IV started from August 2013 and will be phased-out by July 2018 overlapping MEDPA Strategic Plan period. The fourth phase of the Project was geared at institutionalizing MED Model into MEDPA. MEDEP IV had following main objectives for institutionalization of MEDEP within the GON system.

a) To support the Government to take over delivery of MED activities through MEDPA programme;
b) To build the capacity of GoN and the private sector including NGOs (MED service providers) to sustainably deliver MED; and
c) To strengthen the capacity of micro-entrepreneur's associations to sustainably provide members with a number of business development services such as access to markets, access to finance, improved technology and market.

There has been significant and notable shift in the role of MEDEP in MEDEP IV from direct project implementation to facilitation and advisory role for effective implementation of MEDPA of GoN under Ministry of Industry, Commerce and Supply (MoICS.

MEDEP has adopted an integrated approach called MED model which includes following six components.

- Social Mobilization for Enterprise Development,
- Entrepreneurship Development,
- Technical Skill Training,
- Access to Finance,
- Access to Appropriate Technology, and
- Marketing and Business Counseling.

The Project intends to support hard-core poor and socially excluded families, and targets to reach at least 70 percent Women and 30 percent Men; of which 40 percent from Indigenous Nationalities; of them 30 percent *Dalits* and 60 percent Unemployed Youths and other deprived people of the communities. In this manner, MEDEP intends to advocate reserving optimum representations of these groups in the decision-making positions in their associations or organizations both practically and strategically.

The achievements of the above objectives constitute "the theory of change" of MEDEP. In other words, the parameters of the Project are to reduce poverty and create employment as impact; create MEs and make them resilient as outcome; empower the MEs to access various business development services envisaged in the MED model and become functional; and ensure sustainable system that delivers the MED model as desired change.

As of March 2018, the program has created a total of 137,404 MEs (89,228 MEs from MEDEP and 48,179 MEs from MEDPA)[2]. The research study had taken into consideration these figures as "disaggregated" as well as "universal sample" frame in order to calculate the sample size for the economic (financial) analysis of Microenterprises Promoted by MEDEP and MEDPA in Nepal. This will demonstrate comparative impact of the MEs created under MEDEP and MEDPA independently and will be instrumental to recommend important lessons learnt.

Earlier in 2010, an impact assessment study was commissioned by the Ministry of Industry (MoI) and the UNDP, for systematic analysis of the changes brought about by program intervention in the socio-economic conditions and livelihoods of its "primary stakeholders" and impact of the support to local people tangibly to operate microenterprises. However, the study had some limitations, including

[2] Based on information received from MEDEP database on April 5, 2018.

overlooking analysis of the magnitude of change brought by the MEDEP intervention[3]. Often the attribution of success to the Project was also arbitrary and there was no economic analysis using hard-nosed objectively verifiable facts and figures; as well as validate economic variables generated from GESI-MIS database and other available database from the past available studies.

MEDEP is currently in the final year and it is imperative to analyze its contribution to economic development/empowerment of micro-entrepreneurs, including those representing women and excluded groups, during the project period. The research study and its analysis has examined economic (financial) analysis of microenterprise promoted under the MEDEP and MEDPA programs, assessed the economic impact of MED on individuals and their households, including micro-entrepreneurs, i.e. their income, employment, individual and household poverty and assess contribution of MED on national and local economies, i.e. GDP, export, import substitution, multiplier and demonstration effects – and extent of such contribution; and identify factors supporting and inhibiting positive economic impact. It is expected that the findings of this economic (financial) analysis study potentially contribute and guide the interventions of MEDPA II strategy and MEDPA guidelines under development/revision in accordance with the evolving Federal structures in Nepal[4]. Further, the research study will be replicable as a measure to assess economic impact of MEDEP and MEDPA interventions.

As alluded above an aggregated total of 137,404 micro-entrepreneurs were created as of March, 2018. A substantial number of these MEs were able to increase production, sales and profit through their established microenterprises. There is strong likelihood that these economic activities and project transactions through Project's "primary stakeholders" or micro entrepreneurs, who were below the poverty line, vulnerable women, *Dalits* and socially excluded groups, had increased their per capita income (PCI) due to project interventions. This hypothesis implies that there had been significant impact on socio-economic conditions of entrepreneurs and their families. In addition to the "strategic interventions" of the Project and its direct outcomes, i.e. PCI change, total number MEs created etc., there had been "spin-offs" and "spill-over" economic effects from Project's efforts. However, as of today, MEDEP had not been able to conduct such a comprehensive research study in order to validate its "theory of change" and its impact. This study is an attempt for undertaking in-depth examination of economic impacts of the project.

The key questions, therefore, are to be designed around its **objectives** and **intervention strategies** such that important lessons are identified for future programme improvement by MEDPA and other interested stakeholders. Such an analysis has provided important light on impact of the Project on livelihoods of the poorest of the poor entrepreneurs including their contribution to local and national economy. Such evidence-based research study provides stock of information on policy formulation by influencing policy advocacy at national level. These results can guide GoN and other development organizations/Projects on proper planning and implementation of poverty reduction programme through MED approach. In cognizance to this, MEDEP management has felt the need to undertake the economic (financial) analysis of the programme to assess the socioeconomic status of the MEs supported by MEDEP and MEDPA by analyzing their performance.

1.2. Objectives

The main objective of the study was to conduct an economic (financial) analysis of microenterprise in Nepal of the MEDEP and MEDPA programs. The specific objectives of the study were the following:

1. Determine the direct economic impact of MED on individuals and their households, including micro-entrepreneurs, i.e. their income, employment, individual and household poverty.
2. Assess the contribution of MED on national and local economies, i.e. GDP, export, import substitution, multiplier and demonstration effects – and extent of such contribution.
3. Identify the factors supporting and inhibiting positive economic impact on (1) and (2) above.

1.3. Scope of Works

[3] Rather than "target group" or "beneficiaries" the term used here for MEDEP's MEs are "primary stakeholders" or focused "primary stakeholders". The accepted terms in a right based development approach is termed the "right holders" or "duty bearers".

[4] Lessons are first "identified" and become 'lesson learnt' only when applied for further programme improvement and development as mind-set and behavior change.

The scope of the study was breakdown at different aspects to determine direct economic impact of MED on individuals and their households, including micro-entrepreneurs, i.e. their income, employment, individual and household poverty.

The scope of this study was the following:

- Provide a clear and concise economic (financial) analysis of microenterprises in Nepalese framework outlining research study design (including sampling), research tools, research questions and logical research analysis. The framework was designed to be replicable for MEDPA in order for it to conduct similar studies in the future years.

- Determine progress out-of-poverty, increment in income status, including per capita income (PCI) and employment status of individuals and households benefiting from MEDEP/MEDPA.

- Find out the pattern through which household level and seasonal enterprises graduate as micro-entrepreneurs, come out of income poverty, sustain their business as well as probability of relapse or close and go back under the poverty line providing logical answers to these phenomena.

- Identify enabling factors on growth or deteriorate such as enterprises, who didn't grow, who have closed, who have switched and who have attained upgrade to small and medium sized entrepreneurs.

The study has assessed the contribution of MED on national and local economies, which included:

- Identify contributions made to national and local economics through Gross Domestic Product (GDP), product development, import substitutions, exports, and contribution to national accounts/exchequer, through various taxes.

The study has identified factors and actors supporting on economic impact. Those are

- Analyse economic impacts on different target groups under gender equality and social inclusion strategy and its categorization over time-series project phases[5], and identify reason(s) where differences are significant.
- Perform comparative analysis of MEDEP and MEDPA in terms of package, services and process to contribute in all economic impact indicators. Explain reason(s) where differences are significant.
- Perform sector-wise assessment of all of relevant points above to determine the most efficient / promoting sector[6] for poverty alleviation, employment generation, and contribution to national and local economics, and explain the reason(s) where differences are significant.

1.4. Impact of Results

Impacts of the result of this study were the following.

- Various data-set defined substantiating improved understanding and lessons identified from Project cycle implementation for the last 19 years (data included sample from 1998 to 2017).
- Data-sets that address key questions stated in objectives of the study above.
- Baseline data-set that facilitate writing various thematic papers by professionals/academics and experts on the MED model for the National Conference later on.

1.5. Report Organization

This report is organized into eight sections. After this introductory section, section two provides the overview of MEDEP in Nepal, while section three provides an outline of review of relevant literatures. Section four provides brief accounts of outline of the approaches, methodologies and tools used in this study while section five provides an overview of the micro-level financial analysis of microenterprises promoted under MEDEP/MEDPA, while section six outlines similar analysis at macro-level. Section seven provide an assessment of factors supporting and inhibiting positive

5 The time-series analysis by graduation were attempted but currently the data-set is not totally complete.

6 As per the Industrial Enterprise Act 2016, the micro-enterprise categories include: energy, manufacturing, agriculture and forest based, mines, construction, tourism, information services, services, http://www.doind.gov.np

economic impact at micro- and macro level, and the report ends with summary, conclusions and recommendations at section eight.

2. MICROENTERPRISE DEVELOPMENT PROGRAM - OVERVIEW

Over seventy percent of Nepal's populations live in rural areas. Inadequate income generating opportunities rural areas, inaccessible hills and mountain areas have been a major cause of widespread poverty and migration of productive workforce abroad for better income and security. GON and UNDP started implementing MEDEP in 1998. Since then, it has evolved as an enterprise development model with potential to enable thousands of people progress out of the poverty. MEDEP has targeted the rural poor, women and disadvantaged groups, and has successfully completed three phases. Currently it is about to complete the fourth phase. Since 2009/10, GON started internalizing MEDEP model and started implementing MEDPA and on its fourth phase. At present, MEDPA is gradually taking over MEDEP's role of creating and sustaining micro-entrepreneurs, while MEDEP is more focused on capacity development of government, line agencies and private organizations for sustainable MED. Role of MEDEP remained at developing enabling environment and building institutional capacity of the MOICS and other partners for the sustainable delivery of MED services thereby contributing on poverty reduction through transferring MED knowledge and skills; creating, promoting, and sustaining microenterprise and generating self-employment and wage employment opportunities to the rural poor. MEDEP considered a long-term visionary framework as shown in figure1 (below) to demarcate its scope of work.

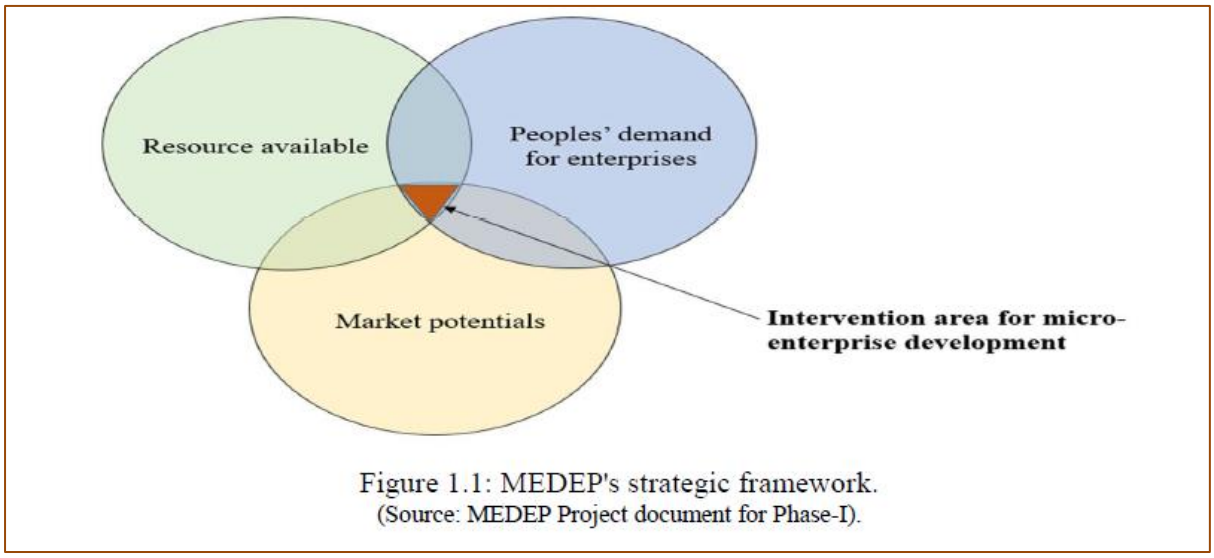


Figure 1.1: MEDEP's strategic framework.
(Source: MEDEP Project document for Phase-I).

Figure 1: Long-term Visionary Framework of MEDEP

The current phase of MEDEP is funded by Australian Department of Foreign Affairs, and Trade (DFAT). It is creating systems, structures, and enabling environment for sustainable development of microenterprise sector by (i) supporting the GON to implement MEDEPA programs; (ii) building the capacity of the government and the private sector including Non-Government Organizations (NGOs) which are also MED service providers to sustainably deliver MED; and (iii) strengthening capacity of micro-entrepreneurs association to sustainably provide members with a number of business development services such as access to markets; access to finance, improved technologies, and advocacy.

MEDEP has continued to support uplifting rural poor by motivating them to engage in enterprises development. To do so, MEDEP (i) provides skill and business training and other support, especially for women, poor and disadvantaged people to set-up microenterprises, (ii) assists to establish business support services and representative organizations for micro-entrepreneurs, and (iii) works with government to improve policy environment.

MEDEP's technical support has led government to replicate MEDEP model as MEDEPA from 2010. Currently GON has expanded MEDEPA in all the 75 districts of Nepal. Cabinet has endorsed MEDPA operational guidelines which laid on a plan for overtaking and expanding MEDEP. In order to internalize the MEDEP into MEDPA, GON has been contributing 25% of total budget (NRs. 4.1 billion) from government's core fund with a commitment of 67 percent from donors and development partners (DFAT/UNDP) and 8 percent from local bodies. With these resources, as of March 2018, GON has

developed 48,176 micro-entrepreneurs and supporting them scale-up. In order to create environment for sustainable development of microenterprises, MEDEP facilitated approval of a number of national level policy and guidelines. In 2013, GON endorsed MEDPA Five Years Strategic Plan (2070/71 – 2074/75), MEDPA Operational Guidelines and MEDEP Phase IV (2013/14 – 2017/18) document. In 2010 GON endorsed Industrial Policy which identifies MED as one of the important pillars of country's economic development. Lately, the GON enacted Industrial Enterprise Bill.

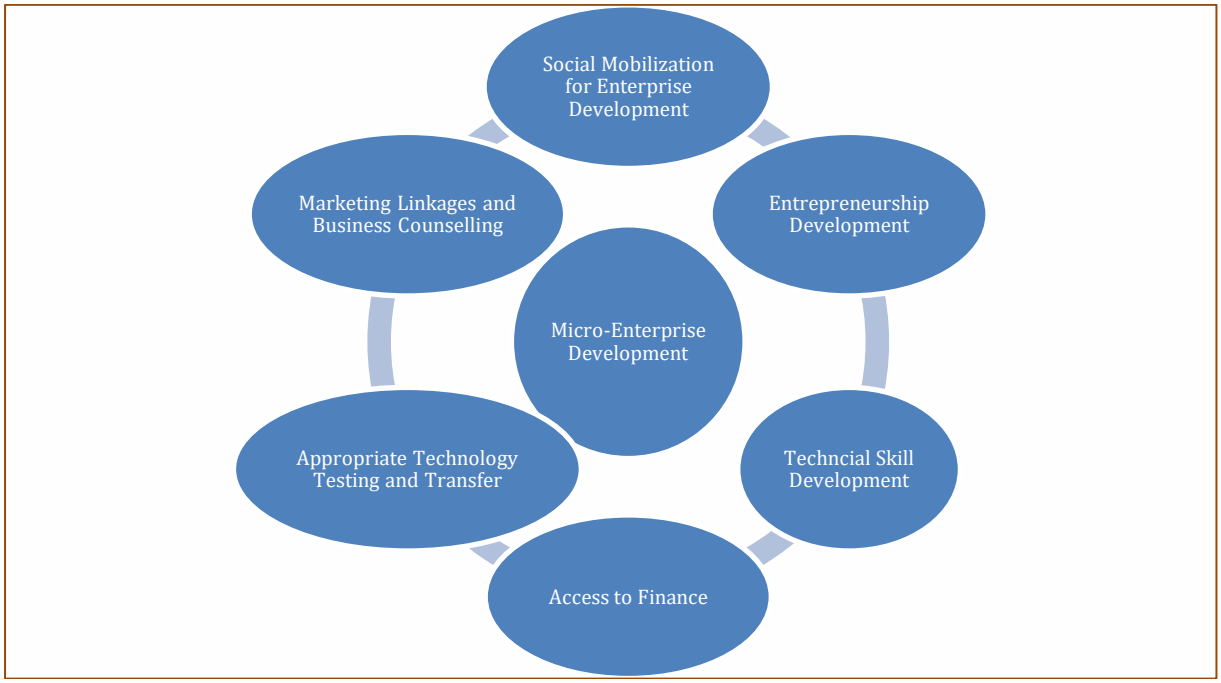


Figure 2: MEDEP Model for Enterprise Development

At present, the focus of MEDEP has been on ensuring a full Government ownership of this poverty-reduction vehicle and to further strengthen microenterprise associations' ability to deliver business development services for their members. Despite the challenges resulting from earthquake 2015 April, and the significant loss on the stability and gains MEDEP had achieved in the previous years, the programme has reached several milestones. Number of micro-entrepreneurs created by MEDEP and MEDPA reached to 137,404 as of March 2018, and the MEDEP/MEDPA created microentrepreneurs had contributed mainly on self-employment creation and income generation among rural poor, women and socially excluded groups.

MEDEP's has been quite efficient for reducing poverty and hunger by increasing the incomes of poor rural households, promoting gender equality and empowers women, increasing women leadership and participation and enabling new women entrepreneurs to strengthen role in household decision-making, to improve school attendance and health of mother and children[7], to promote environmental sustainability by working with forest users' groups for the sustainable harvesting of forest products and with promoting environment-friendly enterprises, etc.

7 There are instances where women's incomes are utilized for better food, clothing, and education for their kids and to pay for their health care.

3. REVIEW OF LITERATURE

A microenterprise is a small business that either self employs the microentrepreneurs or employs a small number of workers. A microenterprise operates with fewer than 10 people and is started with a small amount of fixed and working capital finance. Most microenterprises specialize in providing goods or services for their local areas.

Economic/Financial analysis has been conducted on microenterprises by estimating a net cash flow from revenue and investment and operating cost estimates. In cases where microenterprises have a gestation period of more than 1 year, with a negative cash flow in the first year, the analysis assesses viability in terms of a financial internal rate of return (FIRR) that is subjected to sensitivity analysis. Where it is not possible to estimate an FIRR (i.e., where revenue exceeds costs in the first year of operation in microenterprises that have a product cycle under 1 year), viability is assessed on the basis of net profit earned during an average cycle. Microenterprises analyzed include the microenterprise promoted under MEDEP and MEDPA.

The decision of whether or not to participate and be an entrepreneur is influenced by a myriad of factors. Economists and other scholars have identified three theories underlying entrepreneurs' production decisions: production based on their attitude towards risk; utility derived from being an entrepreneur; and for-profit reasons (Agnieszka and Beata 2011).

Margaetha and Supartika (2016) conceive that profits are a dynamic surplus. It exists in a dynamic environment. Further, with no changes in the conditions of demand and supply, the prices paid to the factors of production based on their marginal productivity would exhaust total value of production and cost of production. However, in competitive long run equilibrium, price equals average cost of production and thus no pure profits are made. Given this state of affairs, they contend that the only forces that would lead to profits are the changes in the quality and quantity of human wants, techniques and modes of production, amount of capital, and forms of business organization.

Mumba et. al (2012)stressed that successful innovations are an important source of profits, and divided innovations into two categories such as those innovations that (i) reduces cost of production and (ii) raise the demand for a product. Mumba et, al (2012) concluded that innovations if successful yield profits and profit is also a motive for innovation. At times, profits are associated with the degree of competition in a particular industry. The monopoly power of an enterprise is associated with profits in that the enterprise has the ability to raise prices of a product. Such enterprises can only enjoy super-normal profits in instances where strong entry barriers exist in the industry (Agnieszka and Beata 2011).

Several factors have been identified to influence enterprise profitability at farm level. These include: farm gate price, government price policies, farm location, production costs, quality of production inputs use, farm size, production technologies, experiences, education, age, and gender of the entrepreneurs; household size, off-farm income, extension services, and distance to market (Mumba et. al 2012).

Mumba et. al (2012) found that farm size, production costs, farm location, interaction between production costs and farm gate price as well as the interaction between the quality of production inputs and technologies to be significant in explaining observed gross margins. However, contrary to literature farm size was found to negatively influence the gross margins. Their views on the relationship between farm size and gross margins contrast with findings elsewhere such as those by Margaetha and Supartika 2016 who found the positive relationships between gross margins and farm size. The interaction between production cost and farm gate price was found to be positive and significant while farm gate price alone was insignificant. Thus, the factors affecting the productivity of the enterprise are outlined to be: farm size, enterprise age, growth, lagged profitability, productivity, and industry affiliation. A discussion on each of them follows hereunder.

Enterprise Size: There are various result of effect between enterprise size and profitability. VijayaKumar (2011) found a positive influence between enterprise size and profitability. Stierwald (2009) found that size has a positive large effect with profitability. Ayele (2012) found that size of the enterprise positively influences the profitability and uncovered the positive effect between size and return on asset. While the study by Salmon and Yazdanfar (2012) found that enterprise size has a

negative effect on profitability. Ramasamy (2005) found that the enterprise size negatively related to the enterprise performance. Dhawan (2001) specifically added, companies that have a smaller size will result in higher profits but no longer competitive than larger companies.

Age of Enterprise: According to Vijaya Kumar (2011) enterprise age positively effects to profitability. While empirical study of the Yazdanfar (2013) indicated that age of the enterprise negatively influences profitability. Salmon and Yazdanfar (2012) found that enterprise age have a negative effect to profitability. Mehari and Aemiro (2013) found that enterprise age negatively related to profitability. Malik (2011) found that there is no influence between ages of the enterprise and profitability.

Enterprise Growth: VijayaKumar (2011) found that growth rate of the enterprise significantly affects to the profitability of the enterprise. According to Yazdanfar (2013) growth of the enterprise positively influences profitability. Solman and Yazdanfar (2012) found that enterprise growth has a positive effect to be profitability. Code (2011) examined the determinant of enterprise growth and found that growth of the enterprise has a negative effect to profitability. Jasra (2011) also found that growth of the enterprise has a negative influence to the profitability.

Lagged Profitability: According to Stierwald (2009) lagged profitability of the enterprise has positive large effect on profitability. Vijayakumar (2011b) investigated that past profitability is significantly associated with current profitability. According to Yazdanfar (2013) lagged profitability of the enterprise positively influences profitability. Salmon and Yazdanfar (2012) uncovered that lagged profitability influence to profitability. According to McDonald (1999) lagged profitability of the enterprise is the main profitability determinants.

Productivity: Stierward (2009) found that factor productivity in the enterprise has a positive large effect on enterprise profitability. Yazdanfar (2013) examined that productivity of the enterprise positively influence profitability. Salmon and Yazdanfar 2012) found that productivity have a positive effect to profitability.

Industry Affiliation: VijayaKumar (2011) concluded that vertical integration is significantly associated with profitability. Solman and Yazdanfar (2012) found that affiliation of the enterprise with the networks have a positive effect to profitability. McDonald (1999) found that affiliation influences the profitability of the enterprise. In contrast, the study by Yazdanfar (2013) found that the affiliation of the enterprise negatively influences the profitability.

On the review of previous studies in this section, the hypothesis of this research/studies are summarized in figure 3.

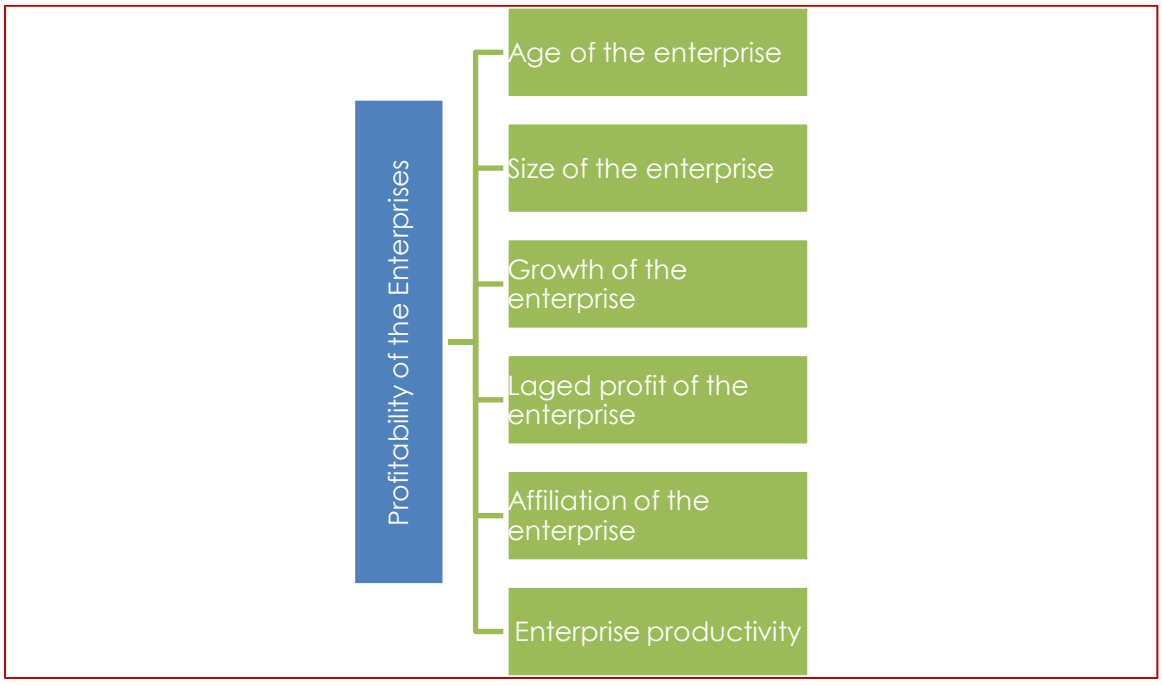


Figure 3: Factors Affecting the Profitability of the Enterprise

4. APPROACHES, METHODOLOGY AND TOOLS

4.1. Approaches

A multi-method data collection approaches were used in this study to collect secondary and primary data for undertaking economic (financial and social) analysis of the microenterprises promoted under MEDEP and MEDPA. Appreciative enquiry and consultation with primary and secondary stakeholder approaches were adopted for qualitative information collection and to assess impact to the people from microenterprise intervention. Secondary sources of data collection included mainly the desk review. The research team collected and reviewed relevant and available reports and studies relating to microenterprise sector in general and MEDEP/MEDPA in particular. This included project documents, annual progress reports, MEDEP IV scoping and other study reports, microenterprise policy, industrial policy, microfinance policy, and so forth. Review of these reports in the light of the requirements of the study TOR provided a clear picture about the nature and scope of programme, types and nature of information to be collected, refine study methodology, and triangulate the study findings.

4.1 Conceptual Framework

Economic analysis concept for microenterprise development was prepared in close scrutiny and assessment of objectives and scope of work of this assignment. This study primarily focused on undertaking economic (financial and social) analysis of microenterprises promoted under MEDEP/MEDPA and established micro-macro linkages, i.e. relationship of micro-level initiatives at macro-level. Overall framework of the study was conceptualized in Figure 4 in the next page. Enterprise level analysis focused on assessing financial and social impact of microenterprise development on individuals and their households, including micro-entrepreneurs. Focus was on assessing impact on income, and employment from enterprise on attacking individual and household level income poverty from MEDEP/MEDPA. The study analysed enterprise pattern of operation such as seasonal, short term-temporary and year-round operational and its graduation as micro-entrepreneurs, come out of income poverty, sustain their business and probability of relapse or close and go back under poverty line providing logical answers to these phenomena. The study also identified enabling factors on growth or factors deteriorating enterprise growth and development among target groups and enterprise sectors. This includes enterprises and entrepreneurs belonging to different social groups including women, who didn't grow, who have closed, who have switched off, and who have attained upgrade to small and medium sized enterprises. At the end clear and concise economic (financial) analysis framework was prepared for assessing the microenterprises expecting to replicable for MEDPA in order for it to conduct similar studies in the future years.

A conceptual framework to identify contribution of the micro-level initiative on microenterprise development to national and local economics through GDP, product development, import substitutions, exports, contributions to national accounts/exchequer, through various taxes were also developed. Contribution of microenterprise development on national and local economies covering aspects such as GDP, export, import substitution, multiplier and demonstration effects, etc. were estimated using micro-level parameters/coefficients. Cause effect analysis was done to identify factors such as (i) social mobilization for enterprise development, (ii) entrepreneurship development, (iii) technical skill development, (iv) access to finance, (v) appropriate technology testing and transfer, and (vi) marketing linkages and business counseling supporting and inhibiting positive economic impact on micro (entrepreneurs' income and employment) and macro (GDP, export, import substitutions, multiplier and demonstration effects) level. Aggregate net income effects (net of transfer payments) were used as an estimate of macro-level effect including contribution to GDP.

Study commissioned by MEDEP on Impact Assessment of Microenterprise Development Programme in 2010 had used the Quasi Experiment Design, and this study used that as a benchmark to apply Quasi Experiment Design approach in this study.

4.2 Analytical Framework

Analytical framework of this study revolved around (i) enterprise support mechanism (model and process) and its resources (expenses), (ii) types of enterprise and its sustainability (causal, seasonal, year round) (iii) beneficiaries groups and contribution in increasing assets building (iv) application of

microenterprise graduation model, (v) measurement of progress out of poverty, (v) comparative analysis of microenterprise sector and microenterprise developed under MEDEP and MEDPA, and (vi) estimation of the micro-level (production and profit) coefficient to extrapolate or estimate contribution of microenterprise on macro-level variables such as GDP, export, import substitutions, multiplier and demonstration effects. Overall framework of analysis is provided in Figure 4.

Framework for Financial Analysis from the Perspective of the Micro-entrepreneur:

Pursuant to Industrial Act, microenterprise promoted under MEDEP/MEDPA are classified into eight different categories such as agriculture and forestry based, production based, service based, tourism based, construction based, information and communication technology (ICT) based, energy based, and others. This study selected samples representing most of these enterprise categories. Samples were drawn from 10 randomly selected districts. These districts represented three ecological (mountains, hill and terai) belts and five developments (eastern, central, western, mid-western and far-western) regions of Nepal. A total of 997 micro-entrepreneurs (846 experiment groups and 151 control groups) were selected randomly from those 10 selected districts. The samples were randomly selected from different enterprise categories operated by women and men; dalit, indigenous Janjati, Madhese, Muslim and others.

Database maintained by MEDEP and MEDPA was classified micro-entrepreneurs into two: active (that is currently operating) and inactive (that is no longer operated by trained microentrepreneurs, either dead, or transformed or operated by spouse of children). The 846 microenterprises selected from among MEDEP/MEDPA promoted microentrepreneurs as experiment group included both active and inactive microenterprises. The study noted that there is no inactive microenterprise per-sea, rather entrepreneurs have shifted or diversified or transformed by own self or other family members after having skill on entrepreneurship. There are few cases of death of microentrepreneurs.

Microenterprises promoted by MEDEP can further classified into three: (a) fleeting type microenterprises which are operated during free time as and when micro-entrepreneurs feel need of money or have interest to earn income such as mudha making, cotton weaving, wool carding, etc., (ii) seasonal type microenterprises which are short duration with seasonal operation such as petty trade, seasonal agricultural activities, etc., and (c) medium to long duration type microenterprise such as agro-processing, forest based, tourism based, etc. The study adopted separate methodologies for financial analysis to (a) fleeting, (b) seasonal, and (c) medium to long duration type of microenterprise. In cognizance to the fact that the financial status of microenterprises differs according to their nature of operation such as flitting, seasonal, and medium to long term duration, slightly different approaches of financial analysis framework was applied to estimate the micro and macro level impact of these enterprises on income and employment.

Financial analysis of seasonal type of microenterprises:

Seasonal type of microenterprise operates in one season per year, and micro-entrepreneurs need to wait until next season to second cycle of microenterprise operation. In general, the continuation of seasonal type of microenterprise in second cycle, which will be usually, next year depends on level of profit earned in previous year. In general, probability of such microenterprise to change or shift or close in next season or year is relatively high. The study included sample of both active and closed/switched/diversified/transformed seasonal microenterprise to understand the reasons for continuation, dropping, switching, diversifying and transforming seasonal microenterprise. With this information MEDEP/MEDEPA database were reviewed to assess mortality rate and/or shifting / transforming / diversifying rate of this type of microenterprises. In the database, there is limitation on the level of entrepreneurship knowledge and skill, which is one of the major inputs from MEDEP.

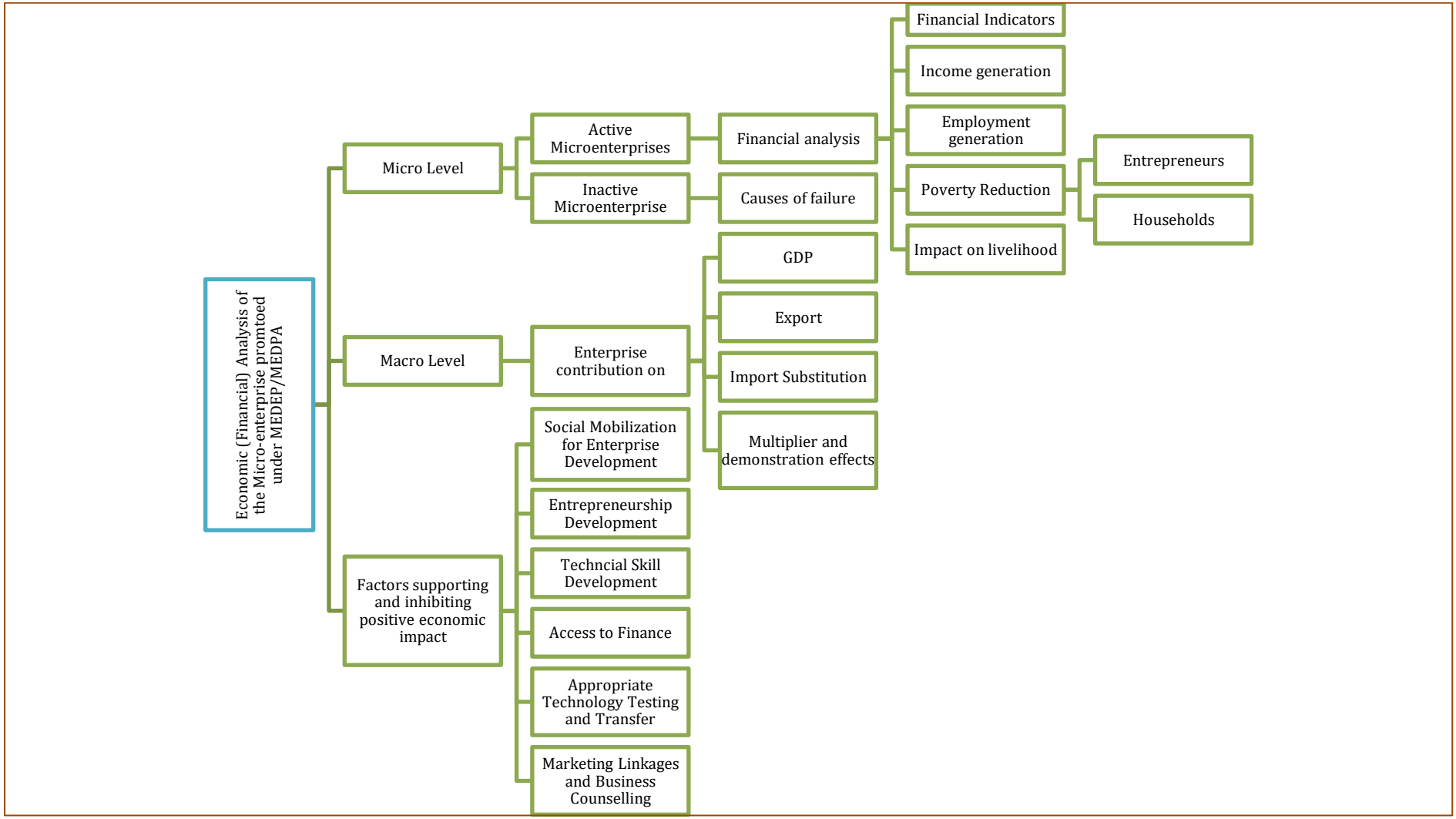


Figure 4: Conceptual Framework of the Study

Finally, regarding financial management, some microentrepreneurs have managed required finance using (i) their own savings or grant or both, (ii) borrowing, or grants or own equity and (iii) loans and grants. In-depth enterprise financial analysis was conducted to understand the nature and mode of financial management.

Methodologies adopted for assessing the seasonal types of microenterprise were the following:

a) Assess/measure the production/enterprise unit (area, size, and capacity),
b) Estimate/collect information on initial fixed investment (land, building, machineries, equipment, etc.) required for starting enterprises,
c) Estimate/collect information on annual fixed cost (rent, depreciation, interest cost, indirect labor, utilities, registration fee, regular repair and maintenance)
d) Estimate/collect information on annual variable cost (direct labor, raw materials, other production inputs, utilities, etc.),
e) Estimate/collect information on gross (main and by-products) revenue from microenterprise,
f) Estimate/collect information on wage, price of raw materials, main products, by-products, seed, chemicals, utilities, etc.
g) Calculate gross income, and total (annual fixed, and annual variable) cost and net income,
h) Analyze sources of fund (equity, loan, grant) used for setting-up of seasonal microenterprises
i) Prepare cash flow projections (cash inflow, cash outflow and net cash flow) under with and without debt situation, and assess the debt service capacity.
j) Analyze share of different cost (fixed and variable) of production such as raw materials, labor, seed, chemicals, utilities etc. on total income,
k) Estimate income and employment effect from gross and net income of microenterprise,
l) Assess probability that micro-entrepreneur potentially provide continuity to selected seasonal type of microenterprises.

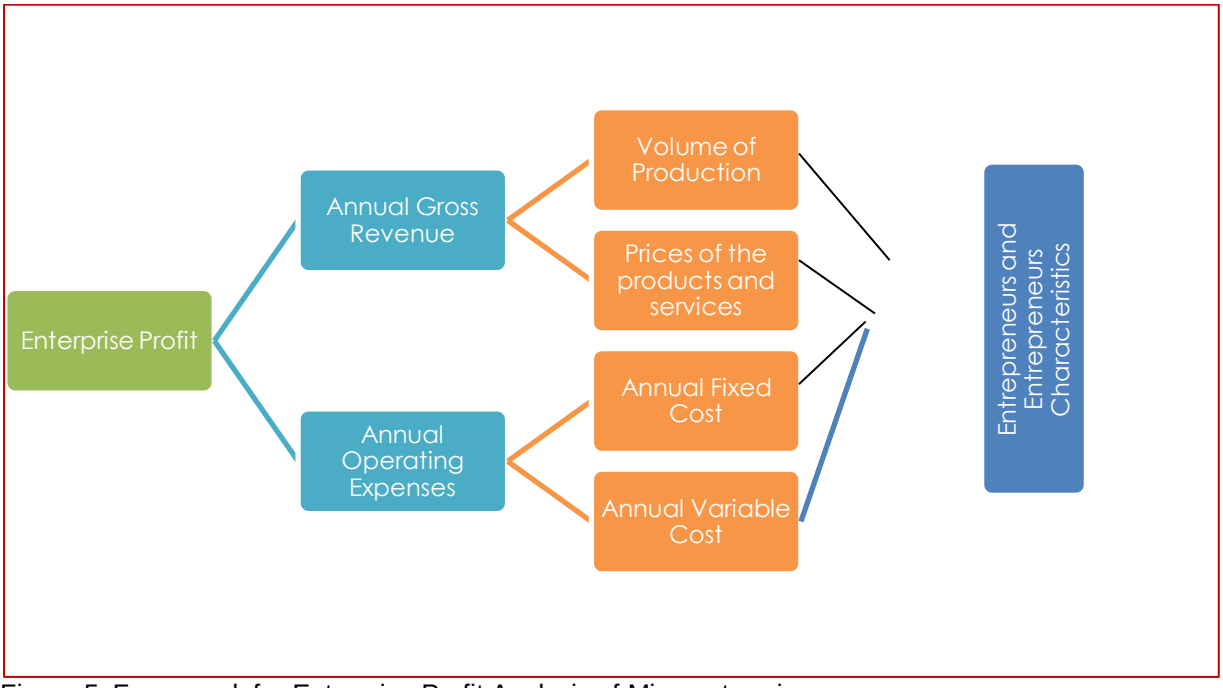


Figure 5: Framework for Enterprise Profit Analysis of Microenterprise

Financial analysis of the medium to long duration type of microenterprises:

Medium to long duration type of microenterprise operates multi-year, and they include clear-cut features such as fixed investment, annual operating fixed cost, annual operating variable cost, and annual gross revenue. Chances of continuing medium to long type of microenterprises in subsequent years depend on level of profit and even if losses occur or entrepreneurs realized less profit than anticipated profit level, micro-entrepreneurs continue enterprise operation to few more years with the expectation of improved profitability situation in the subsequent year. Thus, in general, likelihood of enterprise mortality is relatively lower in these types of enterprises. The study has included sample of both active and switched / diversified / transformed medium to larger duration type of

microenterprises. The surveyed medium and long duration microenterprises were analysed and detailed financial cost benefit analysis were done to understand their profitability, financial status and viability.

Methodologies followed for undertaking financial cost and benefit analysis of medium and long duration type of active and switched / diversified / transformed enterprises were as under.

a) Assess/measure the production/enterprise unit (area, size, and capacity),
b) Review and analyze history of enterprise (year of establishment, support received, motivation, enterprise cycle, etc.),
c) Define life (future) of microenterprise,
d) Collect information on initial fixed investment (land, building, machineries, equipment, etc.) incurred at the time of enterprise set-up/start, and estimate the value of fixed investment as of survey time[8] to capture inflation effect,
e) Collect information on annual fixed cost (rent, depreciation, interest cost, indirect labor, utilities, registration fee, regular repair and maintenance, etc.) incurred in 2017 and workout the basis for future forecast
f) Collect information on annual variable cost (direct labor, raw materials, production inputs, utilities, etc.),
g) Collect information on gross (main and by-products) revenue from microenterprise,
h) Collect information on wage, price of raw materials, main products, by-products, seed, chemicals, utilities, etc. for 2017, information on past price, and future forecast of the price level over the life the microenterprises.
i) Calculate gross income, and total cost (annual fixed cost, and variable cost), and net income,
j) Analyze sources of fund (equity, loan, grant) used for setting-up of microenterprises, including nature of finance (term loan and working capital loan). In case of term loan, calculate the duration of loan, repayment cycle, and amount, interest rate, loan installments, etc.
k) Collect historical (2016 and before) information on enterprise profitability i.e. annual fixed cost, annual variable cost, gross revenue, price of inputs and outputs, debt and debt servicing, etc.
l) Collect information on future projection on fixed investment, annual fixed cost, annual variable cost, gross income, price of inputs and outputs, loan (debt) need assessment, interest, etc.
m) Prepare actual (before 2017) and projected cash flow situation (cash inflow, cash outflow and net cash flow) under with and without debt,
n) Analyze the share of different cost of production such as raw materials, labor, seed, chemicals, utilities etc. on total income over the entire life of the project,
o) Estimate income and employment effect from gross and net income of microenterprise over the life of the project,
p) Considering that interest rate provided by leading commercial banks for their prime clients ranges between 10-12% per annum, an 11% discount factors were used to bring future income into present income. Discounted cash flow statement was used to compute Net Present Value (NPV), Internal Rate of Return (IRR) of medium and long duration type microenterprise.
q) Discounted measures of project worth were based on inclusion of capital costs in the year when financing take place, and not on a depreciation schedule for capital costs.
r) Other indicators like debt service capacity and pay-back period of medium and long-term type microenterprise were calculated, and unlike NPV, payback period will be calculated as an undiscounted measure.
s) Probability of micro-entrepreneurs, will continue and sustain their operation were calculated and provide continuity to selected medium and long-term type microenterprises using the financial indicators of microenterprises surveyed.

Calculate enterprise closer / switching/ diversification / transformation rate**:**

Framework for assessing enterprise mortality is depicted in Figure 6. As discussed already, the study selected random sample of both active and closed / switched / diversified / transformed (i) fleeting, (ii) short duration/seasonal and (ii) medium and long duration type microenterprises representing all eight types of microenterprises promoted under MEDEP/MEDPA in 10 selected districts. The study conducted in-depth financial analysis and estimate enterprise closer / switching/ diversification /

8 In this study, December 2017 will be used as a bench mark. Actual information related to micro-enterprise operation between January to December 2017 will be collected through an in-depth interview with the microentrepreneurs, past records (2016 and onwards) will be reviewed if it is available, and forecast of the future information (2018 onwards) will be done in consultation with the microentrepreneurs.

transformation rate of all nine types of microenterprises operated by women and men, dalit, janajati, Muslim, Madhese and others promoted under MEDEP/MEDPA to identify significant factors of success, closer, switching, diversification, and transformation. In-depth financial analysis provided average incremental income and employment effects from microenterprises. The estimated total incremental income and employment provided income and employment generated by the sample of 846 microenterprise promoted by MEDEP/MEDPA. The incremental income and employment thus obtained were adjusted with estimated (likely) enterprise closer, switching, diversification, and transformation rate to estimate income and employment effects of microenterprise developed under the project.

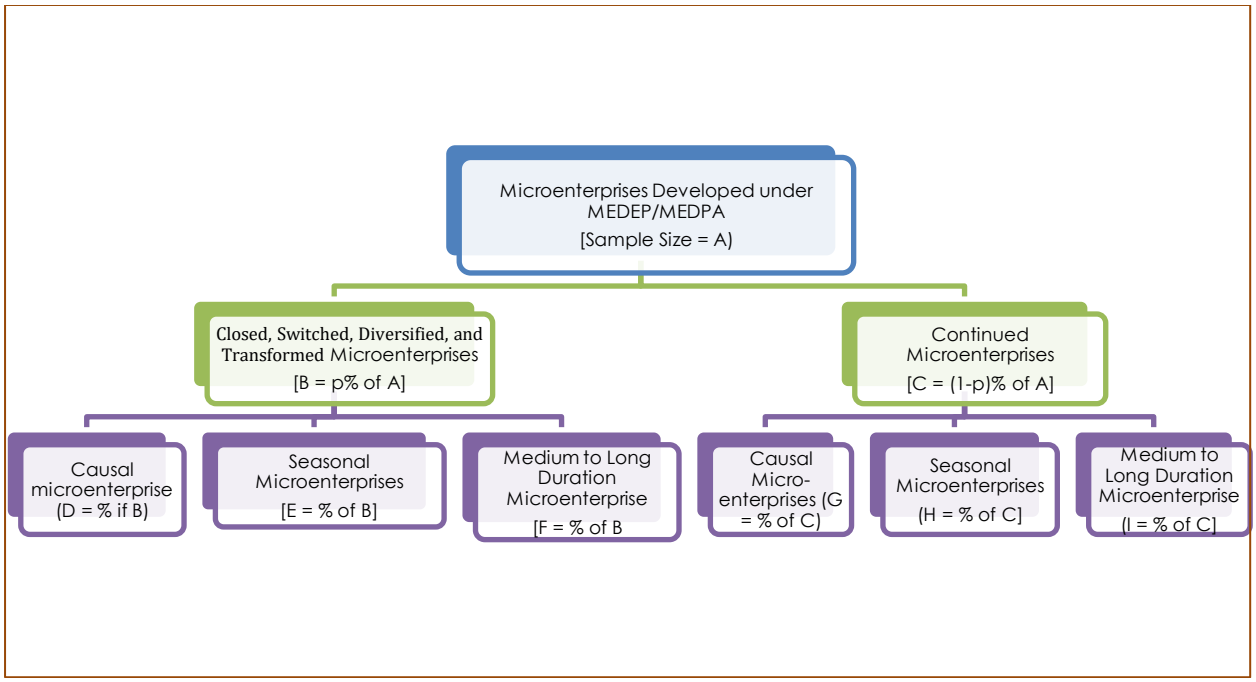


Figure 6: Microenterprise Survival Model

From the Above Chart:
Total Microenterprises (A) = [D + E + F + G + H + I]

Continued microenterprises (C) = [G + H + I]

Closed, Switched, Diversified and Transformed Microenterprise (B) = [D + E + F]

$$\text{Micro} - \text{enterprise continuity rate} = \frac{Total\ Continued\ Micro - enterprises}{Total\ Enterprise} \times 100$$

$$\text{Micro} - \text{enterprise closed, switched, diversified and transformed rate} = \frac{Total\ Closed, switeched, diversified\ and\ transformed\ micro - enterprises}{Total\ Enterprise} \times 100$$

Total incremental income and employment generation effect estimated from enterprise budget and financial cost and benefit analysis were adjusted for microenterprise closer, switching, diversification, and transformation by dividing the total enterprise benefit by total number of enterprise surveyed under this study irrespective of whether the enterprise is closed, switched, diversified, and transformed.

Estimation of the income and employment contributed to GDP and employment generation:

Sample average income, and employment of the microenterprises were extrapolated with the total population of the enterprise developed under MEDEP/MEDPA to estimate the income and employment contribution to GDP and employment generation. The figure obtained with this method will be the proxy contribution for GDP and employment generation respectively from MEDEP / MEDPA adjusted to microenterprise closer, switching, diversification and transformation rate.

Other Dimensions of Analysis:

Livelihood continuum theory was tested on determining pattern of household graduation through MEDEP/MEDPA intervention. The graduation chain was assessed as depicted in flow diagram presented in Figure 7.

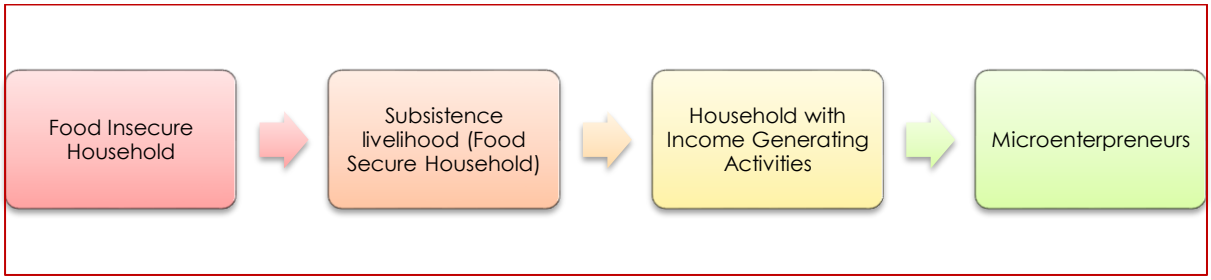


Figure 7: Schematic Diagram on Microenterprise Graduation Model

This study collected information that provided basis on pattern through which individual who had food insecurity before joining MEDEP/MEDPA became food secured, transformed towards producers with marketable surplus, participated in income generating activities, became microentrepreneurs, and empowered to come out of social and economic poverty, and sustain their business. In general, household graduates from one stage of microenterprise performance to another stage i.e. food insecure become food secure, subsistence livelihood (food secure) adopt income generating activities, those with income generating activities graduated into micro-entrepreneurs and come out of poverty, and further graduate to small, medium, and large enterprise.

The Progress out of Poverty Index (PPI) was prepared to estimate poverty rates of microentrepreneurs developed under MEDEP/MEDPA[9]. In this study poverty score-card and look-up table were used to construct PPI of sample micro-entrepreneurs surveyed in this study.

Information on amount of fixed investment and number of people employed by microenterprise developed under MEDEP/MEDPA were collected and analyzed using MEDEP database, and this was cross-checked or verified during enterprise survey. Using these information, number of micro-entrepreneur's development by MEDEP/MEDPA, those are now small and medium enterprises were estimated. Industrial Policy of 2010 has outlined the criteria for micro, small, medium and large enterprises as under, and these criteria were used as a basis for estimating number of micro-entrepreneurs who are small and medium enterprise at present.

Criteria such as profitability, income, employment, rate of return, enterprise mix and target groups under GESI strategy were used to undertake comparative analysis of microenterprise sector and microenterprise developed under MEDEP and MEDPA.

Production and profitability function of microenterprise surveyed were estimated to create coefficient at micro-level and these coefficients were used to assess the contribution of microenterprise on macro-level variables such as GDP, export, import substitutions, multiplier and demonstration effects. Aggregate net income effects (net of transfer payments) were used as an estimate of macro-level effect including contribution to GDP. Further, works done elsewhere were reviewed to estimate and attribute trade, multiplier and demonstration effects.

Qualitative analysis was done to identify factors such as (i) social mobilization for enterprise development, (ii) entrepreneurship development, (iii) technical skill development, (iv) access to finance, (v) appropriate technology testing and transfer, and (vi) marketing linkages and business counseling supporting and inhibiting positive economic impact at micro (entrepreneurs' income and employment) and macro (GDP, export, import substitutions, multiplier and demonstration effects) level.

4.3 Study Methodology

[9] Please refer to Multilateral Investment Fund, Member of the IDB Group (2014), "The Progress Out of Poverty Index: Detailed Analysis of MFI Implementation" www.fomin.org

4.3.1 **Study Coverage**

Given time and resource constraints and the need to intensively assess the economic status of the microenterprises developed under MEDEP/MEDPA, this study covered following 10 districts representing MEDEPA only and MEDEP/MEDPA districts where MEDEP was implemented under 1st, 2nd and 3rd phases, three ecological belts, and five development regions.

- MEDPA Only districts: Kanchanpur and Tanahu
- MEDEP I district: Terhathum and Dhanusha
- MEDEP II district: Banke, Darchula, and Myagdi
- MEDEP III district: Dailekh, Dolakha and Morang

Furthermore, the sample was drawn with respect of 9 different types of enterprise and proportionate representation of target groups as women, men, dalit, Janajati, Madheshis, Muslim and others.

4.3.2 **Study Methods**

This study used a mix method approach which combined quantitative and qualitative methods.

a. Quantitative method

As part of quantitative method, entrepreneur's survey was carried out using a difference of difference method which comprised a survey of both participants and non-participants. This method helped to assess net impact or contribution made by the programme. Study on "Impact Assessment of Microenterprise Development Programme" conducted by MEDEP in 2010 had adopted this approach, which provided foundation and basis for undertaking this study. As done in 2010 study, for selecting participants (treatment group) and non-participants (control group), a multi-stage random sampling technique was followed for selecting respondents, which represented different sectors, proportionate representation of different caste and sex of entrepreneurs as target of GESI strategy and phases of MEDEP support.

Treatment group included those who reported as entrepreneurs by MEDEP/MEDPA prior to 2014/15 and called as experiment group in this report. Control group included those persons who were selected by MEDEP for enterprise development but not received any interventions from them due to technical reasons. In this study, they were referred as non-participants (control group). The idea was that the socio-economic conditions of the HHs and the persons were very similar to respondents from treatment groups before MEDEP's intervention.

This study covered control group, who didn't receive programme inputs but influence by programme indirectly. This non-participant group forms control group. A comparison of differences between the current status of the control group and experiment group gives an idea of net impact of intervention or contribution made by MEDEP/MEDPA. It is for this reason that this study took a control group. This constituted non-participants who have similar characteristics as participant (experiment) group. In order to ensure this, the control group comprises of new entrants: those who were selected for support under MEDEP, therefore ensuring similarity of characteristics, but are yet to receive any support from MEDEP.

MEDEP/MEDPA participants were selected according to poverty criteria. To ensure that control group had similar characteristics, those participants already selected by MEDEP/MEDPA on poverty criteria and target groups under GESI strategy were selected for control group. As far as possible, other characteristics, such as location, were matched, by spreading control group in all the ten sample districts. All other criteria such as literary and other parameters were collected after selection in control group. This methodology, of taking selected beneficiaries, before they receive project support, is considered best practice internationally, in studies that use control groups. Further, studies that use control groups provide a better understanding of changes due to project than those that only use before-after analysis.

The study surveyed has planned to survey 846 participants (experiment) and 151 non-participants (control) in line with the proportion maintained in 2010 study. The sample size was distributed proportionately among all districts in case of participants whereas for non-participants, respondents were selected based on list of non-entrepreneurs provided by MEDEP. For the enterprise

assessment, microenterprises promoted by MEDEP/MEDPA were categorized into none categories as under.

- Agro-based
- Traditional skill based
- Forest (Timber) based
- Forest (Non-timber) based
- Information, Communication and Technology based
- Production based
- Service based
- Tourism based, and
- Others

This study was designed in such a way that the selected samples are proportionately representing different categories of microenterprises promoted by MEDEP/MEDPA. The study also selects the interviewee representing the focused target groups such as 68% women, 48% indigenous Janajati, 15% dalit and so on.

b. Qualitative method

Qualitative method included intensive participatory interactions with a large number of actors, stakeholders and communities or micro-entrepreneurs, key informant surveys, oral history, focus group discussions, time line preparation, preparation of impact diagram, observation, flow chart etc. Qualitative/participatory methods provided critical insights into beneficiaries' perceptions, value of programme to beneficiaries, the processes that have affected outcomes, and interpretation of results observed in quantitative survey.

In each study districts, interactive discussions were held with BDSPOs, D-MEGA, MEGA and MEG to identify key livelihoods changes, impacts at three levels (individual/households, district, institutional and national level) and other issues as required for the purpose of the study including the nature and types of changes (positive, negative, intended, not intended) brought about by microenterprises. During the focus group discussions, several tools of participatory rural appraisals (PRAs) were used. Focus group discussions were carried out with selected MEGs from ten study districts. Apart from this, some group operated enterprises were also surveyed for the enterprise assessment.

4.3.3 Study Execution

An objectively designed and pre-tested survey instruments were used to collect quantitative and qualitative information[10]. Data collection instruments, including survey questionnaire were revised through discussions with UNDP, MEDEP/MEDPA, and other stakeholders. The revised instruments were pre-tested in Kavre district for relevance and appropriateness and further reformed before translation into the Nepali language and printing for the purpose of survey.

A three-day long orientation on participatory training was organized to orient field supervisors and enumerators on study approaches, methods, and survey instruments. In the first day, enumerators were given orientation about the project, food security concepts, survey objectives and methodology, sample size, techniques for selecting sample households, ways of administering questionnaires with households and communities, role and responsibilities of district coordinator, supervisor and enumerators etc. Second day were spent on field exercise, especially on household survey and administration of group discussion instruments. In third day, feedback session was organized to share problems and challenges of using survey instruments. Further to training, one to one feedbacks were provided to the enumerators and supervisors after reviewing questionnaires filled by them. Necessary guidelines were provided to them thereafter. A four-teams comprising of two coordinators, five supervisors, and 14 enumerators were mobilized for conducting the survey.

Enumerators were responsible for executing survey while field supervisors provided mentoring and technical back-stopping support to survey team. Field supervisors cross checked and edit questionnaire filled by enumerators to avoid discrepancies and data inconsistencies. Enumerators and field supervisors were made to visit same respondents again when any discrepancies were

[10] Refer Annex A for the data collection tools to be used in this study.

observed for any reasons- negligence or human error. Information collected through survey questionnaires were edited in the field then and there for consistency through techniques of random check, comparison of inters- and intra ward responses and discussions with key informants. Consultants and subject matter specialist supervised the survey work.

4.3.4 **Sample Size**

Following the multi-stage random survey, a total of 997respondents (846 experiment group and 151 control group) were surveyed from 10 districts as under. Of the total respondents, 32% are male and 68% are female.

Table 1: Sample Size by Type and Sex

S.N.	District	Sample Size			Sex of the Respondents		
		Control Group	Experiment Group	Total	Male	Female	% of Female
1	Banke	21	108	129	24	105	81
2	Dailekh	17	84	101	38	63	62
3	Darchula	8	124	132	53	79	60
4	Dhanusha	25	130	155	54	101	65
5	Dolakha	26	110	136	56	80	59
6	Kanchanpur	2	20	22	5	17	77
7	Morang	4	50	54	22	32	59
8	Myagdi	17	98	115	21	94	82
9	Tanahu	3	13	16	2	14	88
10	Terhathum	28	109	137	41	96	70
	Total	151	846	997	316	681	68
	% of Total	15	85	100	32	68	

Source: Field Survey, January 2018

Financial analysis of all the 846 experiment groups and 151 control groups were done. Further, 10 Focus Group Discussion (FGD) and Key Informant Interview (KII) were organized in each of sample districts.

4.3.5 **Data Analysis**

Data entry was done in MS-Excel for experiment group and control group. Open-ended questions were coded prior to entering into computer and edited information was entered into the spreadsheet. Entered data were thoroughly checked to remove entry errors and inconsistencies. Data were then transferred into Statistical Package for Social Sciences (SPSS Ver. 17.0) and processed accordingly.

Participant's survey data were analyzed by (a) gender (b) caste group, (c) phase, (d) enterprise category, and program intervention type (MEDEP/MEDPA) while that of non-participants were analyzed by (a) gender and (b) caste/ ethnic groups (c) enterprise types. The caste classifications included the following.

- **BCTS:** This comprises Brahmin, Thakuri, Chhetri and sanyasi (BCTS) caste people who are living mainly in the hills, mountains or terai. This includes both hill and terai caste people;
- **Janajati:** Indigenous people/nationalities (*Janajati*) are those ethnic groups or communities enlisted who has their own mother tongue and traditional costumes, distinct cultural identity, distinct social stricture or written or oral history of their own. They have their own mother tongue and traditional culture,
- **Dalit:** Dalit are considered lower in the caste hierarchy and some are even considered untouchable Hindu groups, such as Kami, Sarki, Damai, Badi and Gaine in the hills and caste like Tatma, Bantar, Musahar, Chamar, Dom and
- **Others:** a category that includes other terai backward caste groups, such as backward castes like Halwai, Hajam, Sonar, Lohar, and Rajbangsi. This also includes a small number of religious groups such as Muslims.

The data were stratified by gender and caste group to make cohort analysis of net impact of intervention at individual and households level by comparing changes among experiment and control

group while data were disaggregated by intervention type, and microenterprise sector to assess the impact of intervention at the enterprise level.

Simple statistical tools such as mean, range, percentage, correlation, and regression analysis were used for analysis of quantitative data, whereas descriptive method were used for analysis of qualitative data. Enterprise production function, enterprise profit function, and socio-economic determinant function were estimated to generate coefficients to extrapolate macro-level from micro-level initiatives of microenterprise development. Statistical significance test was carried out among experiment and control group at present wherever applicable. Where ever data, information and findings from the field were presented through appropriate graphics (diagrams, photographs, etc.). The qualitative data were mostly used to build discussion and interpretation.

4.3.6 **Limitations**

For safely and confidently attributing socio-economic impacts and changes observed among service recipients to MEDEP/MEDPA, this study proposes to use different methods to compare “before and after” and “with and without” approach. However, selecting control group as similar to experiment groups before the intervention was very difficult. The control group of this study comprises of 151 ‘potential’ entrepreneurs. This means that they were selected for programme inputs but excluded to receive inputs for some reason. Ideally, as programme participants are spread over 18 years from 1998 to 2017, the control groups are not similarly spread, and comparison could not be done across cohorts of each year, or each phase. However, experiment and control group who were selected from MIS database was detected in the field, because of migration, enterprise closer / switching/ diversification / transformation. Thus, comparisons between experiment and control group was done for the two groups as a whole, not according to time frame and phases. While this is important to point out, the total numbers are large enough to give us some reliability in the findings.

5 ESTIMATION OF DIRECT IMPACT OF MED ON INDIVIDUALSAND HOUSEHOLDS FROMMICROENTERISE PROMOTED UNDER MEDEP/MEDPA

Primary focus of this study lies at determining the direct economic impact of microenterprise development on individuals and their households, including the micro-entrepreneurs. This section has focused on this assessment.

5.1 Definition of Microenterprises

Since the focus of this study was economic (financial) analysis of microenterprises, defining microenterprise is necessary. This study has followed this definition while analyzing the enterprises.

Definition of microenterprise

Microenterprise means any industry, enterprise or other service business, based particularly on agriculture, forest, tourism, mines and handicrafts, which meet the following conditions:

- In the case of a manufacturing industry, enterprise involving the investment of fixed capital of not exceeding two hundred thousand rupees, excluding house and land, and in the case of a service enterprise, an industry or enterprise involving the investment of the fixed capital of not exceeding one hundred thousand rupees.
- The entrepreneur himself or herself is involved in the management
- A maximum of nine workers including the entrepreneur are employed.
- It has annual turnover of less than two million rupees.
- If it uses an engine or equipment, the electric capacity of such engine or equipment is less than 10 kilowatts.

Source: Industrial Policy 2010

5.2 **Sample Size and Sample Characteristics**

A total of 997 microenterprises surveyed in this study represents from 10 districts as discussed above, recipients (experiment) and non-recipients (control) of the MEDEP support, gender (female and male), different categories of microenterprises, and ethnic group composition.

5.2.1 **Sample Size Distribution**

Proportionate with total number of microenterprises promoted under MEDEP/MEDPA, majority of the micro-entrepreneurs surveyed were from Dhanusha (15.5%), followed by Terhathum (13.7%), and lowest from Tanahu (1.6%).

Of the total sample, 15% were control group, and 84.9% were experiment group. Likewise, total women sample were 68.3% and that of male sample were 31.7%. Majority (53.2%) of the microenterprises managed by the micro-entrepreneurs surveyed were agricultural based, followed by service based (24.1%) and production based (9.1%). The ethnic composition of the micro-entrepreneurs surveyed include: 30.1% Janajaties, 23.8% Chhetries, 16.1% Dalits, and 13.8% Madhese, 10.6% Brahmins, 5.4% Tharu, 0.6% Mushlim, and 0.5% Terai Dalits. The total experiment group surveyed includes both promoted by MEDEP (81.4%) and MEDPA (18.6%).

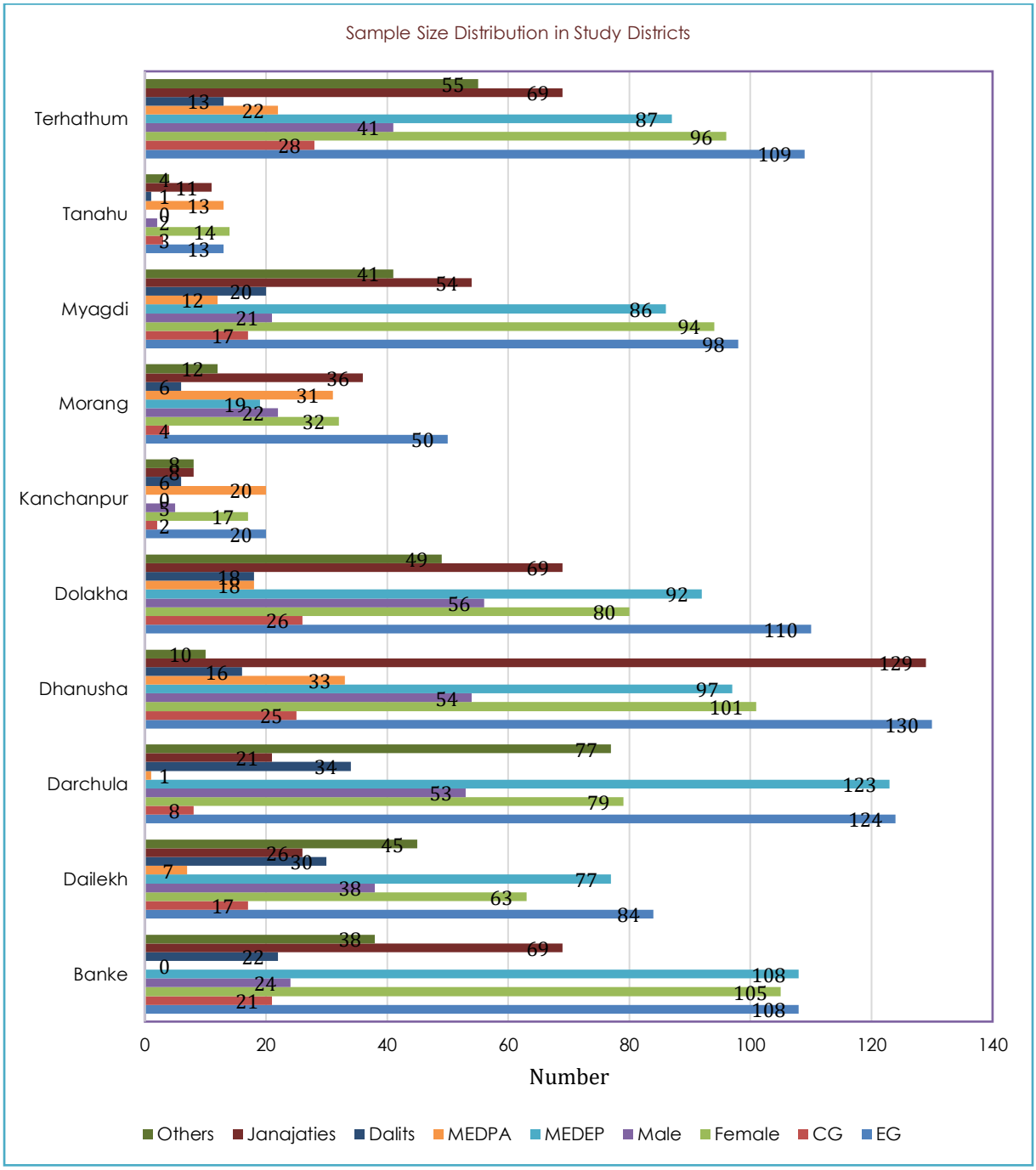
5.2.2 **Spatial and Demographic Characteristics**

Location of the enterprises:
Sample micro-entrepreneurs surveyed in this study represents from different market segments such as rural area, emerging market town, and urban areas[11]. Majority of them (55.2%) were from rural areas, followed by 27.2% from emerging market town areas, and remaining (17.7%) from urban areas.

[11] Rural area refers to living in current rural municipality areas, emerging market town refers those living in the outskirts of the municipality areas, and urban refers to those living in core city areas.

Age of the micro-entrepreneurs

Age of the microentrepreneurs surveyed in this study ranged between 16 years and 75 years with an average of 39 years. Average age of the micro-entrepreneurs surveyed in the study districts ranges between 30 years in Tanahu and 42.3 years in Dhanusha district.

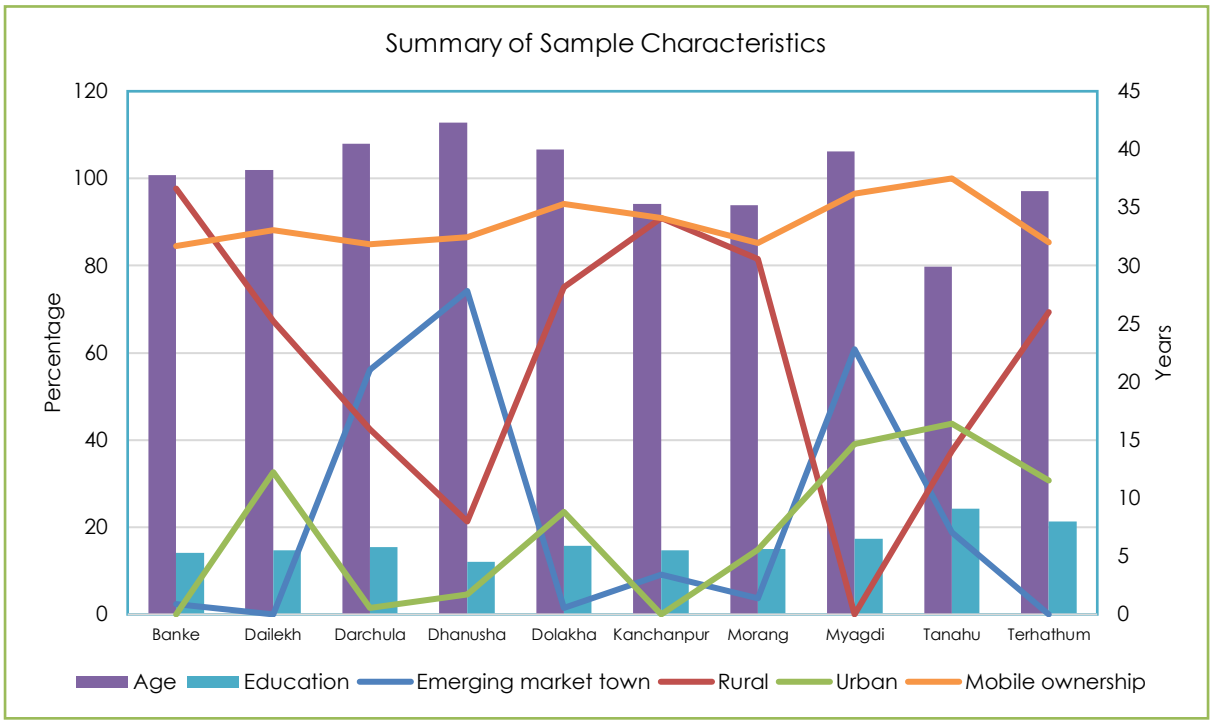


Education of the microentrepreneurs

Education level - proxied by age of formal schooling of microentrepreneurs surveyed in this study ranged between zero years and 16 years with an average of 6 years. Average years of schooling of these micro-entrepreneurs in the study districts ranged between 4.5 years in Dhanusha and 8.0 years in Tanahu district. About 23% of the micro-entrepreneurs surveyed in this study have no formal schooling. Proportion of the micro-entrepreneurs surveyed without formal schooling ranged between 0% in Tanahu and 44% in Dhanusha.

Mobile phone ownership and use:

Having a mobile is quite common practices among the respondent micro-entrepreneurs surveyed in this study. About 89% of the respondent micro-entrepreneurs surveyed owned the mobile phone. Proportion of the micro-entrepreneurs with mobile phone ranged between 84% in Banke and 100% in Tanahu. These entrepreneurs have used the mobile phone for varied purpose.



Family system:
Three types of family system prevail among the sample microentrepreneurs surveyed in this study. They are: nuclear system (51.3%), joint system (47.6%) and extended system (1.1%).

Family size:
Average family size of the micro-entrepreneurs surveyed ranges between 1 and 22 members with an average of 5.7 members. Across the study districts, average family size ranges between 4.4 (Myagdi) and 6.5 (Darchula and Tanahu). Likewise, average female family size ranges between 1 and 12 and that of average male family size ranges between 0 and 11, with an average of 2.84 and 2.85 for female and male family members respectively.

5.3 **Financial Analysis of the Microenterprise across Programme Districts**

5.3.1 **Microenterprise Establishment, Formalization, and Institution Development**

MEDEP/MEDPA had worked to identify potential entrepreneurs, and assisted to starting, existing, and growing entrepreneurs over the last 18 years. Aspects of the microenterprises surveyed under this study covering their age, formalization process and institution development are discussed hereunder.

Age of the Microenterprises

Number of years of the micro-entrepreneurs surveyed ranges between 1 years and 18 years with an average of 6.1 years. Across the study districts, average enterprise age ranged between 2.1 (Tanahu) and 9.1 (Dhanusha).

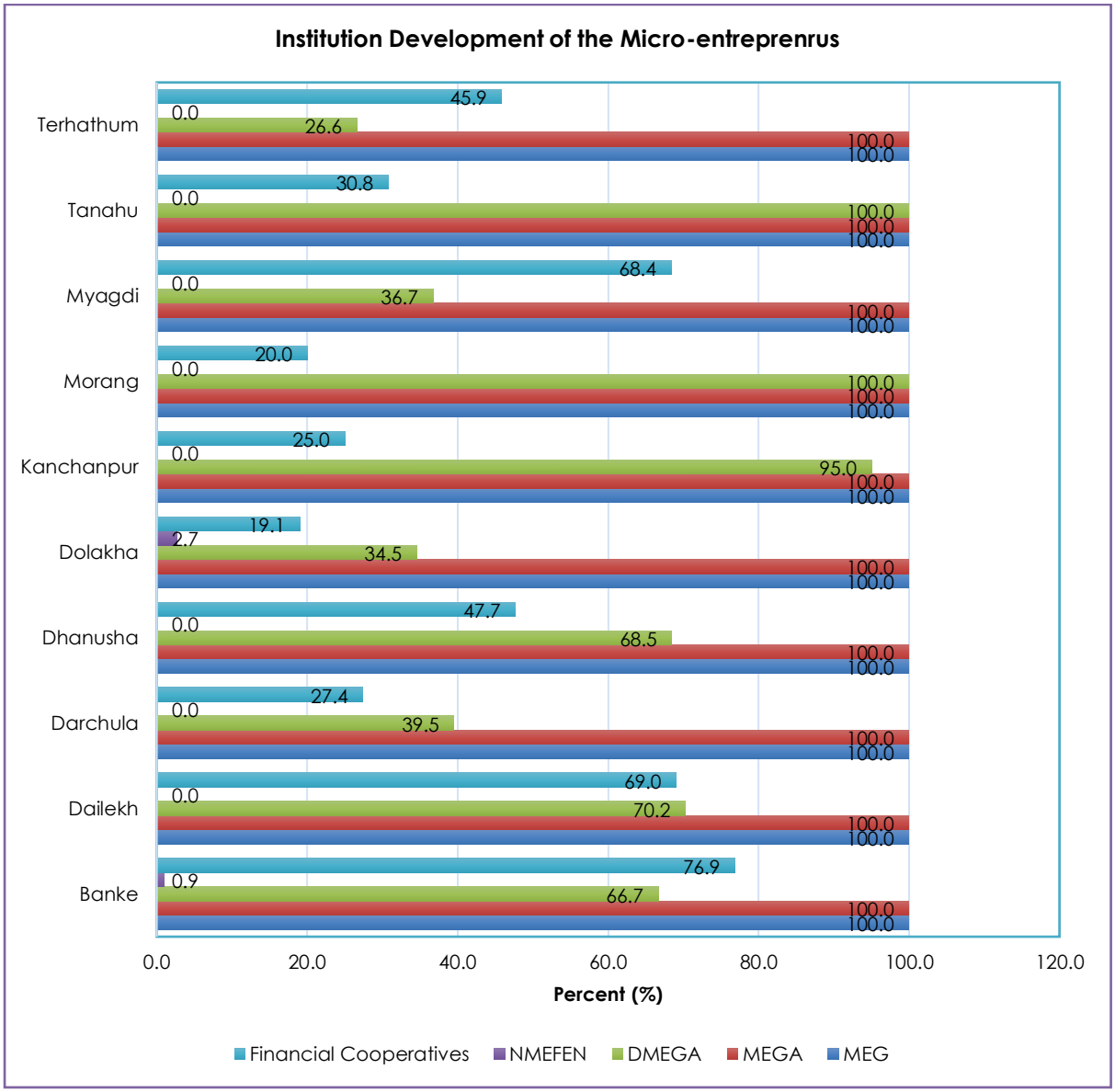
Institutional Development of Microenterprises

Institutional development of the microentrepreneurs through social mobilization process was an integral part of the MED model for enterprise development. Micro-entrepreneurs' Group (MEG),

Micro-Entrepreneurs Groups Association (MEGA), District Micro-Entrepreneurs Group Association (DMEGA), National Micro-Entrepreneurs Federation Nepal (NMEFEN) and transformation of the MEG into cooperatives (savings and credit or multipurpose) are the different types of the institutions promoted under MEDEP/MEDPA.

Micro-Entrepreneurs' Group: All the micro-entrepreneurs surveyed under this study have joined into the MEG. These are the informal groups and number of members in the group ranged between 5 and 25, with an average of 9 persons. In all the districts, the micro-entrepreneurs have offered monthly savings product to their members and savings thus collected has been mobilized as internal loans among members to meet their emergency need for the capital. Savings mobilizes in MEG has mixed performance, with higher irregularities, because of availability of alternatives (Microfinance Institutions, Savings and Credit Groups, financial Cooperatives) institutions to deposit savings at local level.

Micro-Entrepreneurs Groups Association: In general, all the MEGs at a market centre level are federated into MEGA, a market centre level federation of the micro-entrepreneurs. They are informal association of the MEGs and are operating at mixed success. Most of the MEGA are currently inactive. All the micro-entrepreneurs surveyed in this study were the members of the MEGA.



District Micro-Entrepreneurs Group Association: In general, all the MEGAs at all the market centres level are federated into DMEGA, a district level federation of micro-entrepreneurs. They are informal

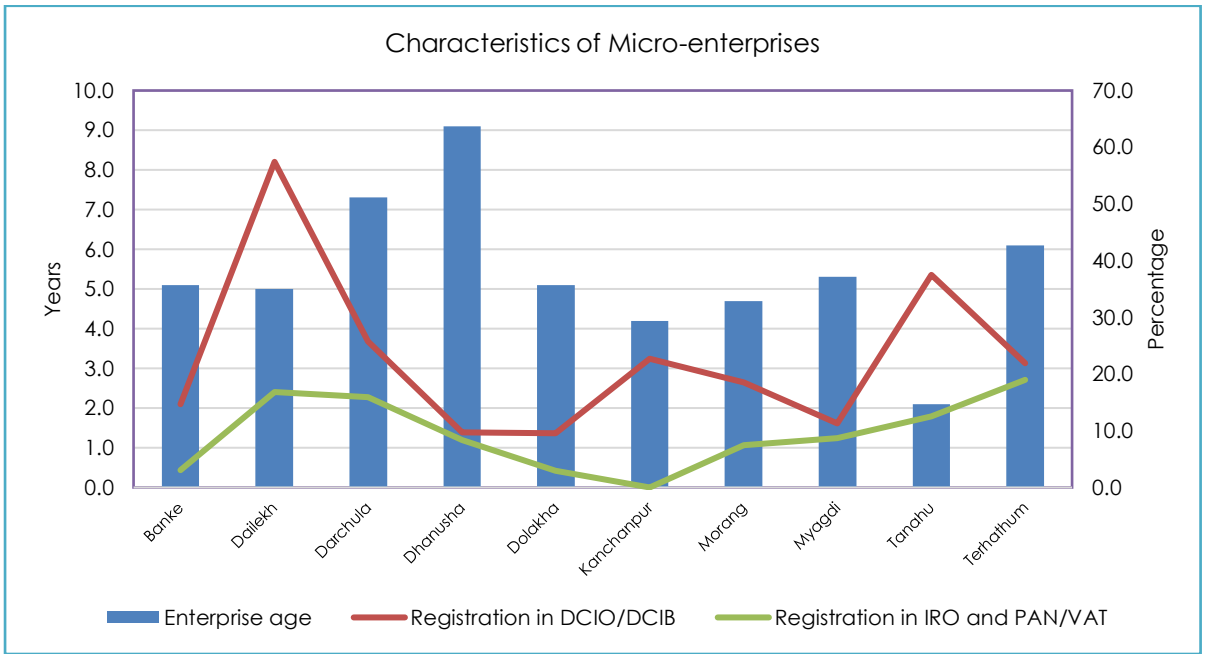
association of the MEGAs and are operating at mixed success. Though all the DMEGA are currently working actively, most of them failed to bring all the members of the MEGA into its ambit. About 45.5% of the micro-entrepreneurs surveyed in this study were the members of the D-MEGA. Across the surveyed districts, proportion of microentrepreneurs being the members of the D-MEGA ranged between 21.2% in Terhathum and 92.6% in Morang. Most of the micro-entrepreneurs surveyed did not realize the importance and potentials of D-MEGA for the growth and development of their microenterprises. As the restructuring for local government, DMEGA has also structured to MMEGA, federated into municipality level in Terhathum. There is no district structure in local government.

National Micro-Entrepreneurs Federation Nepal: In general, all the D-MEGAs in the MEDEP/MEDPA districts are federated into NMEFEN, a national level federation of micro-entrepreneurs. They are formal association of all the micro-entrepreneurs and are operating at mixed success. At present, NMEFEN is working actively, but it failed to bring all micro-entrepreneurs under its ambit. Only 1.1% of the micro-entrepreneurs surveyed in this study were the members of the NMEFEN. Across the surveyed districts, proportion of microentrepreneurs being the members of the NMEFEN ranged between 0% in Dolakha, Morang, Myagdi, Tanahu and Terhathum, and 4.5% in Kanchanpur. Most of the micro-entrepreneurs surveyed did not realize the importance and potentials that NMEFEN has for the growth and development of their microenterprises.

Financial Cooperatives: Lately, MEDEP/MEDPA supported MEGAs to transform into financial cooperative and encouraged micro-entrepreneurs to be the shareholders of these cooperatives. These cooperatives are mainly developed as a financial cooperative. At present, most of the financial cooperatives are operating actively and linked with wholesale finance facilities such as Rural Self Reliance Fund (RSRF) and National Cooperative Development Bank. About 39.5% of the micro-entrepreneurs surveyed in this study were the shareholders of the financial cooperatives. Across the surveyed districts, proportion of microentrepreneurs being the members of financial cooperative ranged between 15.4% in Dolakha and 64.3% in Banke. Most of the micro-entrepreneurs surveyed have realized the importance and potentials that the financial cooperatives has on meeting their need for access to finance especially in isolated remote rural areas for the growth and development of their microenterprises.

Formalization of the Micro-entrepreneurs

Microenterprises surveyed under this study are gradually gearing towards formalization process. They have started to register in District Cottage Industry Office (DCIO) and District Cottage Industry Board (DCIB). Some of them had registered in Inland Revenue Office (IRO) and received permanent account number (PAN) or Value Added Tax (VAT) certificate.



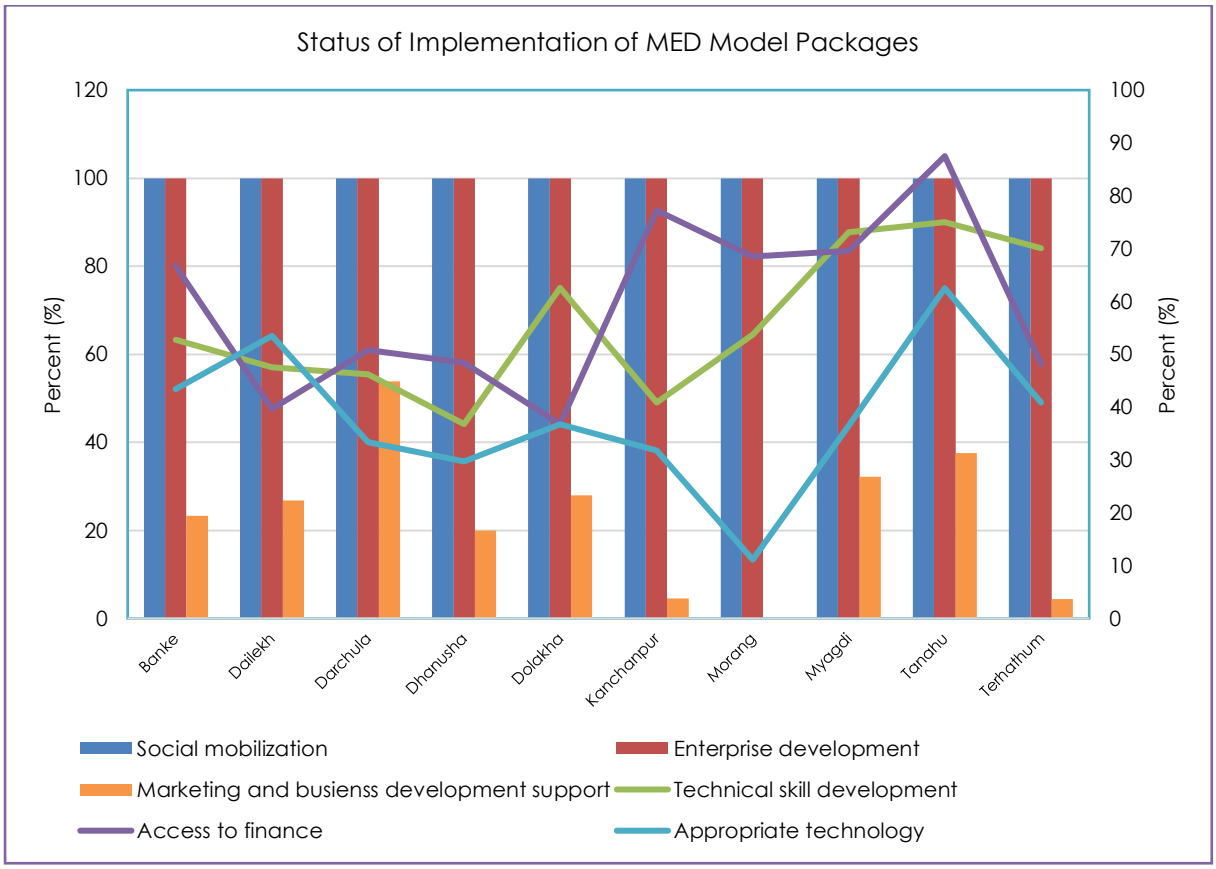
About 20.4% of the microenterprises surveyed had registered in concerned DCIO/DCIB. Across the project district, proportion of microenterprises registered in DCIO/DCIB ranged between 9.6% in Dolakha and 57.4% in Dailekh.

Likewise, about 10.1% of the microenterprise surveyed that are registered in concerned DCIO/DCIB had also registered in IRO and received PAN/VAT certificate. Across the project district, proportion of microenterprises registered in IRO and receiving PAN/VAT certificate ranged between 0% in Kanchanpur and 19% in Terhathum.

Registration on DCIO/DCIB and IRO implies that microenterprise need to be more systematic on accounting their transactions process such as maintaining sales and purchase register, submitting monthly/quarterly sales information in Inland Revenue Department, Annual Audit of transactions and payment of applicable taxes. This has been instrumental to develop professionalism and acted as engine of growth to the microenterprise surveyed in this study.

5.3.2 **Assistance from MEDEP/MEDPA**

Assistance provided by MEDEP/MEDPA to microentrepreneurs surveyed can be grouped into six: social mobilization, enterprise development, and technical skill development, access to finance, appropriate technology support and marketing and business development support. These supports are consistent to MED packages to enterprise development, which worked as catalyst to motivate poor and disadvantaged groups in remote rural, emerging market towns, and urban areas to establish and operate the microenterprises. There is both individual and group enterprise. Group enterprises were on activities such as iron works, mushroom farming, Dhaka weaving, bee keeping, craft works, etc. Most of the group enterprises did not continue long, after individual micro-entrepreneurs gained confidence on enterprise management; they were transformed into individual enterprises.



Social mobilization: MEDEP is an area-based program, it follows three steps microenterprise demand driven module that encapsulate (i) target group selection, and their needs and demands identification, (ii) enterprise development potentials, and (iii) market demand at local, national and international level. It aims to reduce poverty especially among women and socially excluded in rural

areas through microenterprise development (MED). It had done so by applying a highly integrated approach starting with identification of potential enterprises, potential resources and market through specifically trained Enterprise Development Facilitators (EDFs), followed by intensive training and the facilitation for the start-up and continuing with long term support through Micro-Entrepreneurs Associations (MEAs), through specifically tailored social mobilization packages. As discussed already, MEAs are structured from settlements, wards, rural market centers, and districts to national such as MEGs at community/settlement levels, MEGA a federated body of MEGs at Rural Market Centre (RMC) level, and the DMEGA as a federated body of MEGAs at the district level, and NMEFEN as an apex federated body at the national level. Private business development service providers (BDSPs) supported to provide needed technical support and know-how to MEDEP/MEDPA supported micro-entrepreneurs and their local units. All the surveyed micro-entrepreneurs had received social mobilization service packages of MEDEP/MEDPA.

Enterprise development: Enterprise development is one of the key components of MEDEP/MEDPA. Microentrepreneurs surveyed under this study had received different types of entrepreneurial oriented and business management trainings. All the respondents have received at least one enterprise development training and most had received complete enterprise development packages. Training services have been accessed to women, and ethnic groups, but access to training is less to marginalized groups such as women, dalit, and other dalit terai caste even within the poor category of microentrepreneurs surveyed. It has been found that follow up and refresher training was provided to those respondents performing properly in the previous training, set-up enterprise and experienced problems on enterprise management. Since, some of the respondents have participated in these training program few years back (even some 15-16 years ago), older entrepreneurs could not report exactly what training they had received. They have difficulties to distinguish training like Training of Potential Entrepreneurs (TOPE), Training of Starting Entrepreneurs (TOSE), Training of Existing Entrepreneurs, (TOEE) and Training on Growing Entrepreneurs (TOGE). Further, a large majority of entrepreneurs acknowledged that they have received training a few times and argued how important was these training to them to initiate and run enterprises but could not identify exactly the type of training as they do not have certificate for those trainings.

Technical Skill Development: Provision of technical training for meeting additional skill development needs of the microentrepreneurs completing different enterprise development training is one of the important components of MED packages of MEDEP/MEDPA. The model planed provision of the basic technical training according to type of enterprise that candidate intends to start. Since, some of the respondents have participated in these trainings few years back (even 15-16 years ago), older entrepreneurs could not report exactly what types of technical training they received. The most recent recipients of the technical skill training have clearly recalled those trainings. Filed surveyed revealed that about 55.1% respondents have received technical skill training. Across the surveyed districts, proportion of microentrepreneurs receiving technical skill training ranged between 36.8% in Dhanusha and 73.0% in Myagdi district.

Access to Finance: Provision of access to finance to the potential, starting, existing and growing microentrepreneurs through establishment of linkages between financial services providers (commercial banks, development banks, finance companies, microfinance institutions, financial NGOs, financial cooperatives and informal savings and credit groups) and start-up, growth, and matured microenterprises remain at the central of the MED support. Almost all microentrepreneurs surveyed have received access to finance from savings mobilized in their concerned MEGs initially and later from MEGAs transformed into financial cooperatives. Those microentrepreneurs living in terai districts, accessible hills and mountains received financial services from other financial service providers. Survey findings revealed that about 53% surveyed microentrepreneurs have accessed financial services required to establish, grow, and manage their microenterprises. Across the surveyed districts, proportion of microentrepreneurs receiving access to finance ranged between 37% in Dolakha and 88% in Tanahu district.

Access to appropriate technology: Provision of the low-cost technology to the poorest of the poor and appropriate for the rural area to start a business through the “Common Facility Centers (CFC)” is one of the important features of the MED model to microenterprise development. Higher proportion of entrepreneurs from group enterprises have received MEDEP’s support in all areas including machinery, credit, CFC services, sale of produce, packaging, quality control and trade promotion

compared to individual entrepreneurs[12]. In general, likelihood of receiving MEDEP's support was high for group enterprises than enterprises operating under individual or private proprietorship. In general, the probability of access of entrepreneurs to CFC service is high when they operate forest-based, service and non-farm enterprises. Survey findings revealed that about 37% surveyed microentrepreneurs received support on appropriate technology, and across the surveyed districts, proportion of microentrepreneurs receiving appropriate technology support ranged between 11% in Morang and 63% in Tanahu district.

Market Linkages and Business Counseling Support: MED packages include the market linkages and business counseling support to consolidate production by microentrepreneurs, and linkages with wholesale buyers and sellers. Because of the diverse nature of the microenterprises promoted under MEDEP and low capacity of the EDF on market linkages and business counseling, this module has yet to be implemented effectively in MEDEP/MEDPA system. Survey findings revealed that about 25% surveyed microentrepreneurs received support on appropriate technology and across the districts surveyed, proportion of microentrepreneurs receiving market linkages and business counselling support ranged between 0% in Morang and 54% in Darchula. The proportion of respondents reporting to have received MEDEP's support for quality control services was less to date. This implies that future focus on enterprise development program on market needs, demands led and consumers' requirements.

Findings on current state of MED model implementation on microenterprise development revealed the need to ensure balance on implementing different steps of MED model. In general, social mobilization and enterprise development component had satisfactory performance compared to other four components. Further, considering the importance for enterprise success (growth, development and maturity) the market linkages and business counseling component requires added support.

5.3.3 **Microenterprise Management**

Major thrust of MEDEP/MEDPA remained at enhancing the managerial capacity of the women, poor and disadvantaged groups on microenterprise management. This includes management of technology, finance, and raw materials required for microenterprise, and marketing of their products/services.

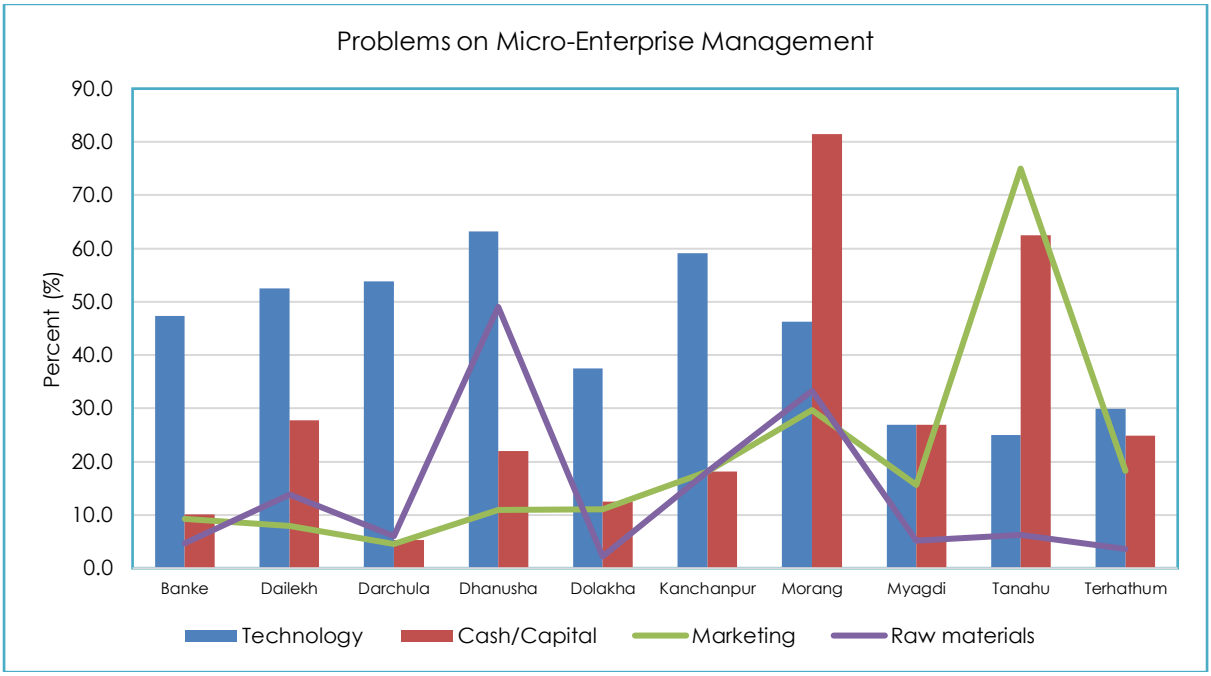
Technology Management
Microentrepreneurs have used different technologies for managing their enterprises, which can be broadly grouped into three: modern, improved and traditional[13]. Choice of technology used by the micro-entrepreneurs differs across microenterprise categories. Majority of group enterprises are using modern or improved technologies, while majority of individual micro-entrepreneurs were using traditional technology especially on agriculture-based enterprises, while individual microentrepreneurs using off-farm and non-farm microenterprises are using modern and/or improved technologies. In general, men are having greater access to improved technologies than women. Access to modern or improved technology is based on performance of the enterprise already run by entrepreneurs. The use of technology has been instrumental to improve labor productivity, production capacity and reduce the cost of production through adoption of modern and improved technologies. In general, group enterprises received a little more support than individual enterprises. MEDEP's current support for the promotion of modern technologies was very useful and productive. Nevertheless, survey findings revealed that about 45% surveyed microentrepreneurs reported the problems on technology management in terms of financing, train person for operation and repair and maintenance across the districts surveyed, proportion of microentrepreneurs reporting such problem ranged between 25% in Tanahu and 63.2% in Dhanusha district.

Financial Management

[12] This is not surprising, given that CFCs are given only to group enterprises, and they are more likely to receive technology up-gradation and market linkages.

[13] Improved technology means improvements in existing machineries or equipment such as use of fan to make fire, motors/engines to improve efficiency, or use of improved seeds. Traditional technologies mean continuation of their existing/local practices. Modern technologies refer to use of new machineries and equipment, for example use of briquette machine, bamboo cutting machine, Bangle dye and cutting dyes, paper plate, etc.

The level of investment made by entrepreneurs indicates economic standing of enterprises. Higher investments in fixed capital could mean low incomes in beginning but may lead to higher incomes in later stages and a high probability of sustainability of the enterprises. Therefore, investment is an important determinant of the status of enterprises. This also indicates the risk-taking capability of the entrepreneurs. Almost all entrepreneurs have invested in microenterprises. However, group enterprises have invested in fixed capital only. They do not count their working capital investment since they have reserve and surplus in the group. Individual entrepreneurs invest their own money in both fixed and working capital, while group enterprises do have some support from MEDEP for fixed capital and has therefore afford to bring in less from own sources. As is typical of small enterprises, a large part of the money of both individual and group enterprises, about two thirds, is invested in working capital. Risks of group enterprises are reduced by virtue of investment cost sharing. External investments had reduced individual entrepreneurs' risks. Survey findings revealed that about 22% surveyed microentrepreneurs has problems on cash/capital management and across districts surveyed, proportion of microentrepreneurs reporting cash/capital problems ranged between 5% in Darchula and 82% in Morang district.



Raw materials management

All the microentrepreneurs surveyed have managed microenterprises that use locally available raw materials. Very few (less than 5%) respondent managed microenterprises that use imported raw materials and such enterprise did not survive long due to lack of capacity to compete with imported finished products. Based on mode of raw materials management, microentrepreneurs are broadly grouped into three such as (i) self-production; (ii) extra efforts made, and (iii) received support from other agencies. Majority are received support from self-production such as forest-based products and food products reported that they have been using their own production, followed by extra efforts made such as development of local entrepreneurs, etc. and received support from other agencies such as District Forest Office, Community Forestry User's Groups, Village Development Committees, District Development Committees, Agricultural Service Centers etc. Field survey revealed that 14.1% surveyed microentrepreneurs reported the problems on raw materials management and across the districts surveyed, proportion of microentrepreneurs reporting such problem ranged between 2% in Dolakha and 49% in Dhanusha district.

Marketing of products

All the microentrepreneurs sell their products in the market to get profit or earn income. The type of products produced by the entrepreneurs can be broadly grouped into three: final products, intermediary products, and mixed. Majority of the entrepreneurs surveyed produce final products, which is ready to sell and a small fraction of the entrepreneurs produce intermediary products. A majority of the enterprises produced products which could be sold directly to consumers rather than

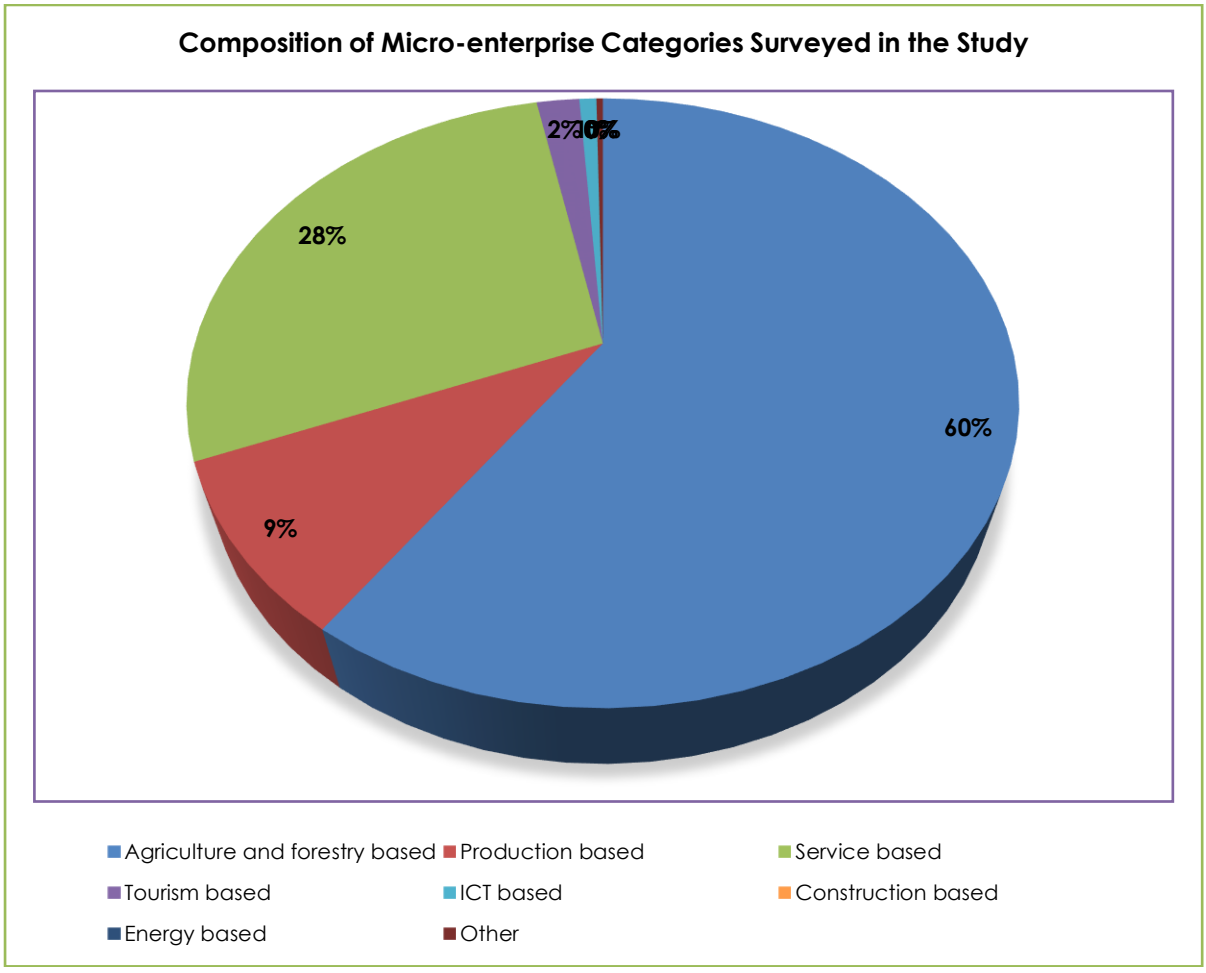
producing intermediary products for the use of other entrepreneurs. This indicates good selection of enterprises, close to the market. At the same time, it is also an indication of possible unexplored opportunities for value addition, which could potentially yield more income, and more profit. Some agricultural products are produced for direct sale or used as intermediary products or both. In general, marketing was not the serious problem to microenterprises surveyed, and only 13% surveyed microentrepreneurs reported the problems on marketing of their products. Across the districts surveyed proportion of microentrepreneurs reporting marketing problem ranged between 5% in Darchula and 75% in Tanahu district. Here marketing problem means demand of the product and competition with imported products.

5.3.4 Nature and Type of Microenterprises

During field studies, nature and type of microenterprise was analyzed based on the following: (i) microenterprises categories, (ii) nature of the microenterprises, (iii) microenterprise mortality versus enterprise shifting/transformation and (iv) overall operational status / capacity utilization.

Microenterprises categories

Over the last seventeen years MEDEP has supported promotion of over 180 different products and services. MEDEP/MEDPA has classified microenterprise promoted under MEDEP/MEDPA into eight: agriculture and forestry based, production based, service based, tourism based, Information and Communication Technology (ICT) based, Construction Based, Energy Based, and others.



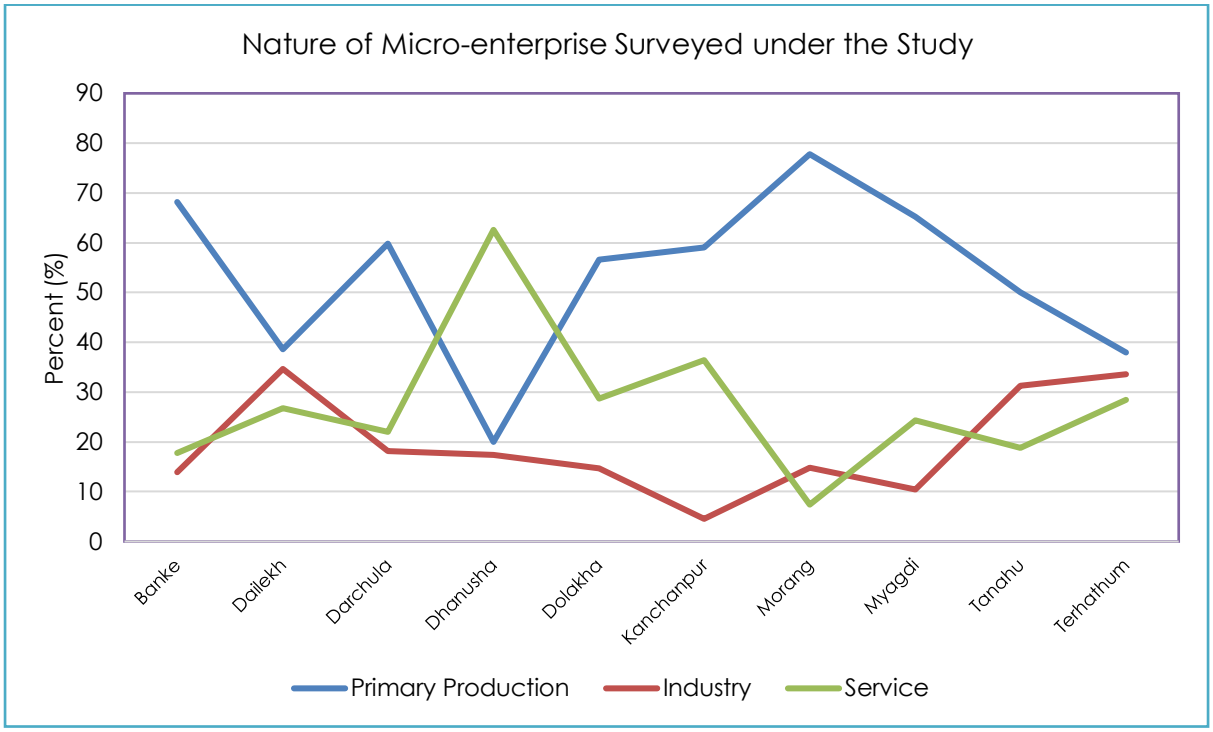
Under this study various types of microenterprise promoted under MEDEP/MEDPA were surveyed which can be broadly grouped into six: agriculture and forestry based (60%), production based (9.1%), service based (28.0%), tourism based (2.0%), ICT based (0.8%) and others (0.3%). These microenterprise categories are operating at different capacity. Various evaluation studies conducted by MEDEP/MEDPA had uncovered that these products/services had contributed in achieving social and economic empowerment of people who are highly poor because of subsistence nature of their

operations, remoteness, limited technical knowledge and skills, and lack of or limited awareness of market opportunities. It had been found that these products and services have not contributed uniformly across all places of MEDEP'S operation nor they have equal potential by virtue of their nature and types or comparative advantages. Moreover, it is natural that some of the products and services excel while others wither over time. Further, some products and services may re-emerge as demand and supply situation and relationships may alter over a period of time.

Nature of the microenterprises

Different categories of the microenterprises promoted under MEDEP/MEDPA can be classified into three based on their nature of process involved on transforming production inputs (labor, capital, technology, raw materials) into outputs. These are primary production based, industry based, and service based.

Primary production-based enterprise refers to the microenterprises that are focused on transferring labor, capital, production technology, raw materials, production inputs into primary output like vegetables, fruits, meat, egg, milk, etc. The industrial enterprises are the enterprise engaged in the manufacture or production of goods pertaining to any industry specific in the first stage or employing plan and machinery in the process of value addition to the final product having a distinct name or character or use such as noodle making, bakery, laha bangles, dhaka and dhaka products, dairy processing and production of dairy products, fruit processing, pickle making, cotton bags, incense sticks, mudha making, making agricultural implements, etc. On the other hand, service enterprise are engaged in providing or rendering service and are defined in terms of investment in equipment or sale of services such as grocery store, tea shop, hotel, restaurant, fancy store, mini-garment and tailoring, blacksmith workshop, etc.



Of the total microenterprise surveyed, 50% were primary production based, 20% were industry based, and 30% were service based.

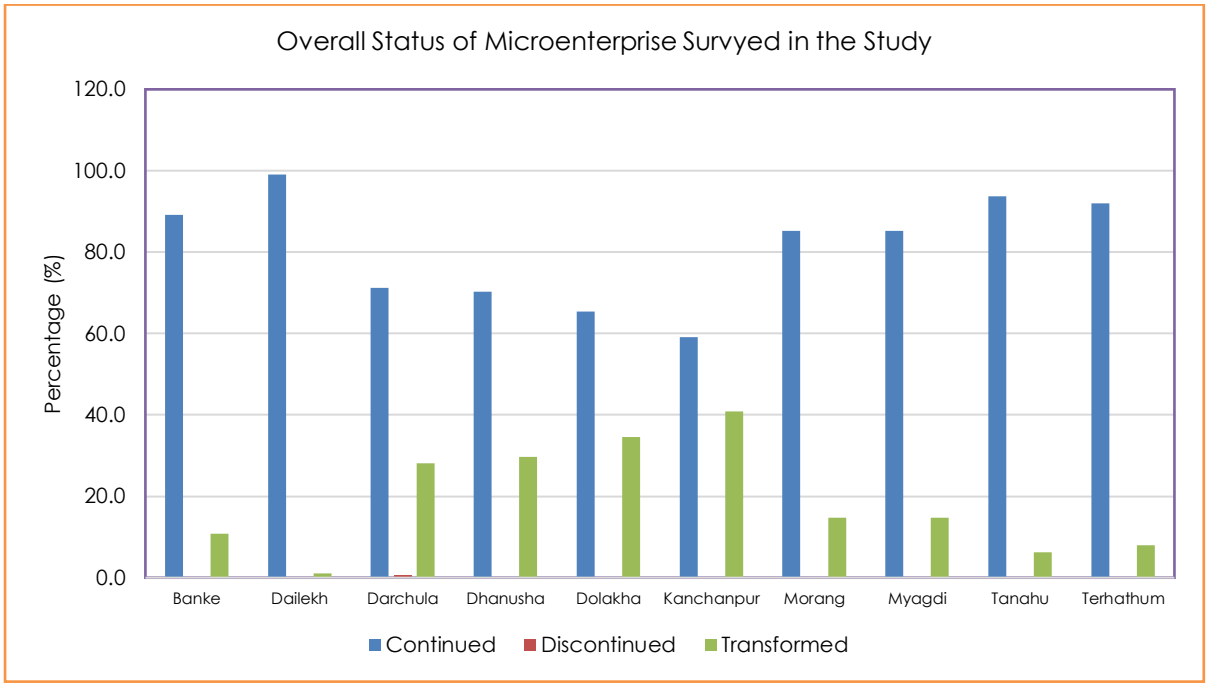
Mortality versus Shifting/Transformation of Microenterprises

Considering current state of operation of the enterprise promoted under MEDEP/MEDPA, these enterprises are further grouped into three: dead, potentially dead, and survival enterprises[14]. Field

[14] Dead enterprise refers to those enterprise which received support on MED package from MEDEP, operate the enterprise for initial few years, but stopped enterprise operation and management, and do not exist at present. On the other

survey revealed that there is not enterprise mortality per sea but there is enterprise shifting due to enterprise diversification [15] .None of the entrepreneurs reported as dead enterprises in MEDEP/MEDPA database were without enterprises, rather they have to other enterprises. Once, they have skill on entrepreneurship, they assess the enterprise trends and identify as potential for dead, then they plan for enterprise shifting/transformation. Of those entrepreneurs who have changed enterprises, most have initiated new enterprises leaving the old ones.

Incidence of diversification was found high among first phase entrepreneurs than second phase. This suggests that with time, entrepreneurs are able to develop the confidence and ability to add new businesses and switch/transform sectors. This can be strongly aided by intensive follow-up and technical support services to develop entrepreneurs from the poor and excluded groups. Developing entrepreneurial skills among risk adverse marginal, very poor and socially excluded groups is a challenge to which MEDEP has successfully responded. It has been found that most of the enterprise using the imported raw materials operated for 1-2 years with great enthusiasm, but eventually could not operate enterprise successfully due to lack of competitiveness (import), price, quality and low profitability status of the enterprise.



Of the total microenterprise surveyed, 80.7% had continued their microenterprises based on their original plan and 19.2% were transformed their microenterprises and remaining 0.1% did not exist due to death of entrepreneur. Across the districts surveyed, proportion of microentrepreneurs reporting to continue original enterprise ranges between 59% in Kanchanpur district and 99% in Dailekh district. Likewise, proportion of microentrepreneurs with shifting / transformation of microenterprises ranges between 1% in Dailekh and 41% in Kanchanpur. The entrepreneurs' dead case surveyed was in Darchula district. There was case of overseas migration of the family members of the microentrepreneurs.

Proportion of participants diversifying their enterprises is relatively higher among those seeing the feasibility to adopt enterprise using imported raw materials. Of those entrepreneurs with diversified enterprises, most of them have discontinued or closed the earlier enterprise and started the new enterprise. Both the individual and group enterprises have diversified enterprises, but the mode of diversification of group-based enterprise had been change from group ownership into individual

hand, potentially dead enterprise refers to those enterprise which are currently operating, but their current level of profitability and management system threats their future existence. Survival enterprise are those with high probability of viability, continuity, and sustainability.

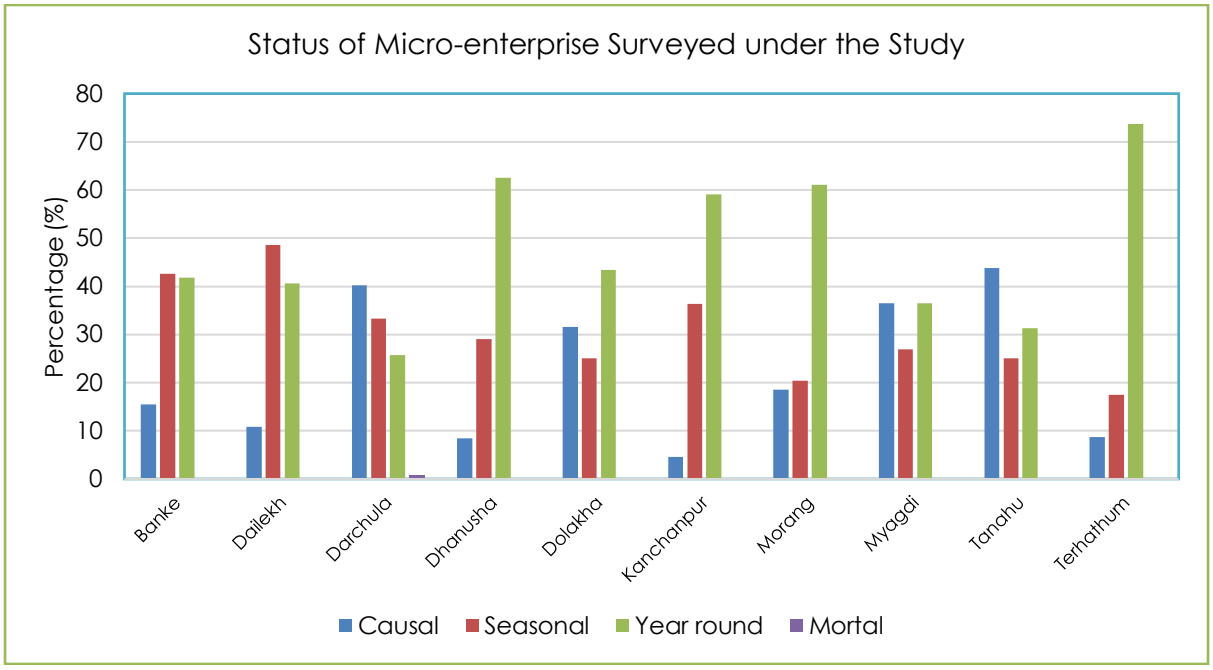
[15] Enterprise diversification refers to the addition or changes in the enterprise after the start of enterprises. This indicates increased capability of entrepreneurs to change the enterprises based on market demand, skills and other factors including capacity to bear risks.

ownership.

Capacity Utilization and Operation

Based on capacity utilization and status of operation, microenterprise surveyed had been classified into three namely year-round (cattle and buffalo farming, goat raising, piggery, seed production, dhaka weaving, dairy processing, dairy product making, tea shop, grocery store, meat shop, slaughter house, iron works and so forth), seasonal (ginger production, strawberry farming, broiler chicken, off-season vegetable farming, mushroom farming, bamboo sticks for ice candy and so forth), and casual (honey production, sewing and cutting, mudha making, mat making, incense stick making, tike making, blacksmith work, etc.). The causal enterprise operates on and off based on market demands. In general, individual enterprise often operates year-round business and employs them, whereas group business could be seasonal and workers tend to get seasonal or causal employment.

Involvement of one or more members of the HHs year-round does not ensure and guarantee that an enterprise is operating at full capacity. Therefore, entrepreneurs were asked whether "do you operate in full capacity for round the year. An enterprise has been considered operating at full capacity when members of the HHs involved in them are fully involved year-round which, means at least 250 days a year to generate full employment, and payment of minimum daily wage of Rs. 400. Using the criteria based on minimum wage, and number of days of employment, it has been found that very few microenterprises promoted under MEDEP/MEDPA are operating at full capacity.



Of the total microenterprise surveyed, 21.3% are providing causal employment, 30.6% providing seasonal employment and remaining 40% are providing year-round employment. Across the districts surveyed, proportion of microentrepreneurs providing causal employment range between 5% in Kanchanpur district and 44% in Tanahu district. Proportion of microentrepreneurs providing seasonal employment ranges between 18% in Terhathum and 49% in Dailekh. On the other hand, Proportion of microentrepreneurs providing year-round employment ranges between 26% in Darchula and 63% in Dhanusha. There was one entrepreneur's mortal case in Darchula district. There was instance of overseas migration of family members of microentrepreneurs, with migration financing for the family members out of the enterprise income. In some cases, migration has closed the business for some time.

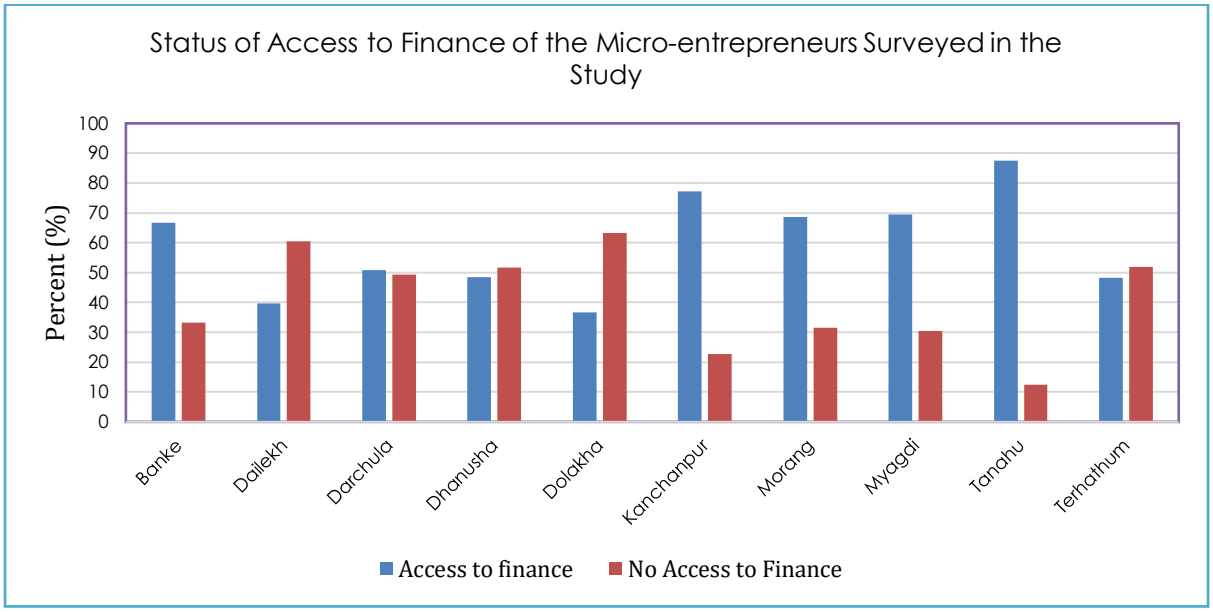
5.3.5 **Access to Finance**

Micro-entrepreneurs surveyed have access to finance from different sources viz. financial cooperatives, microfinance institutions, commercial banks, financial intermediary NGOs, and informal lenders. In general, interviews with entrepreneurs of individual enterprises and group enterprises

show that linkages with banks and financial institutions was automatic and formal linkages mechanism did not work and was not effective.

Status of Access to Finance

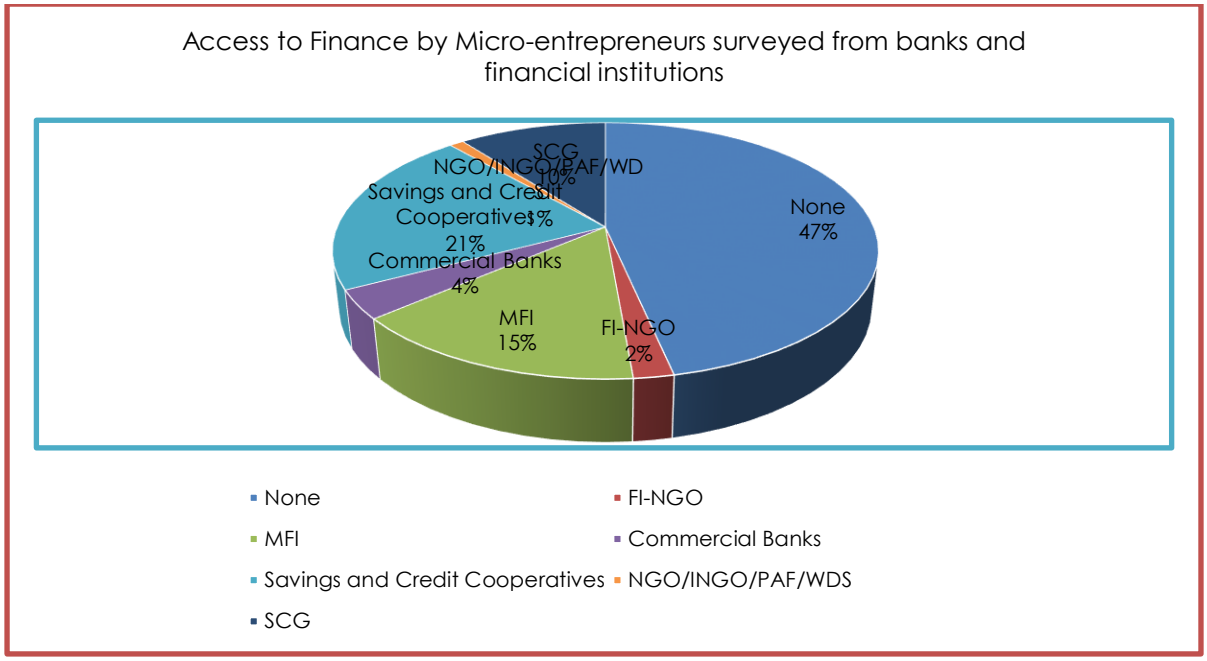
Access to finance is one of the issues for emergence, growth and development of the microenterprises owned by poor and disadvantaged groups. Formal financial intermediaries, such as commercial banks, usually refuse to serve poor households, women and dalit as well as microenterprises because of the high cost of small transactions, lack of traditional collateral, lack of basic requirements for financing and geographic isolation. By doing so, these institutions ignore enormous potential in talents and entrepreneurship of this stratum of society. Providing access to financial services stimulates the independence and self-development of poor households, women, dalit and micro-entrepreneurs; and improve poor people's economic condition, but also to provide a way to maintain or improve their quality of life in the face of uncertainty. Moreover, gaining access to financial services is a critical step in connecting the poor to a broader economic life and in building confidence for them to play a role in the larger community. By increasing access to financial services for the poor segments of society, the financial sector can play an important role in reducing poverty. To achieve sustainable economic growth in these regions, the focus should be on the whole range of economic activities, including micro and small enterprises and farmers. Since first phase, MEDEP focused on enhancing access to finance for the micro-entrepreneurs developed under its initiatives.



Field survey information revealed that 53% of the clients surveyed have access to finance from different financial service providers active in their vicinity. Across the districts surveyed, proportion of microentrepreneurs with access to finance ranged between 37% in Dolakha and 87% in Tanahu district. This is relatively better access to finance of the sample micro-entrepreneurs.

Sources of Access to Financial Services

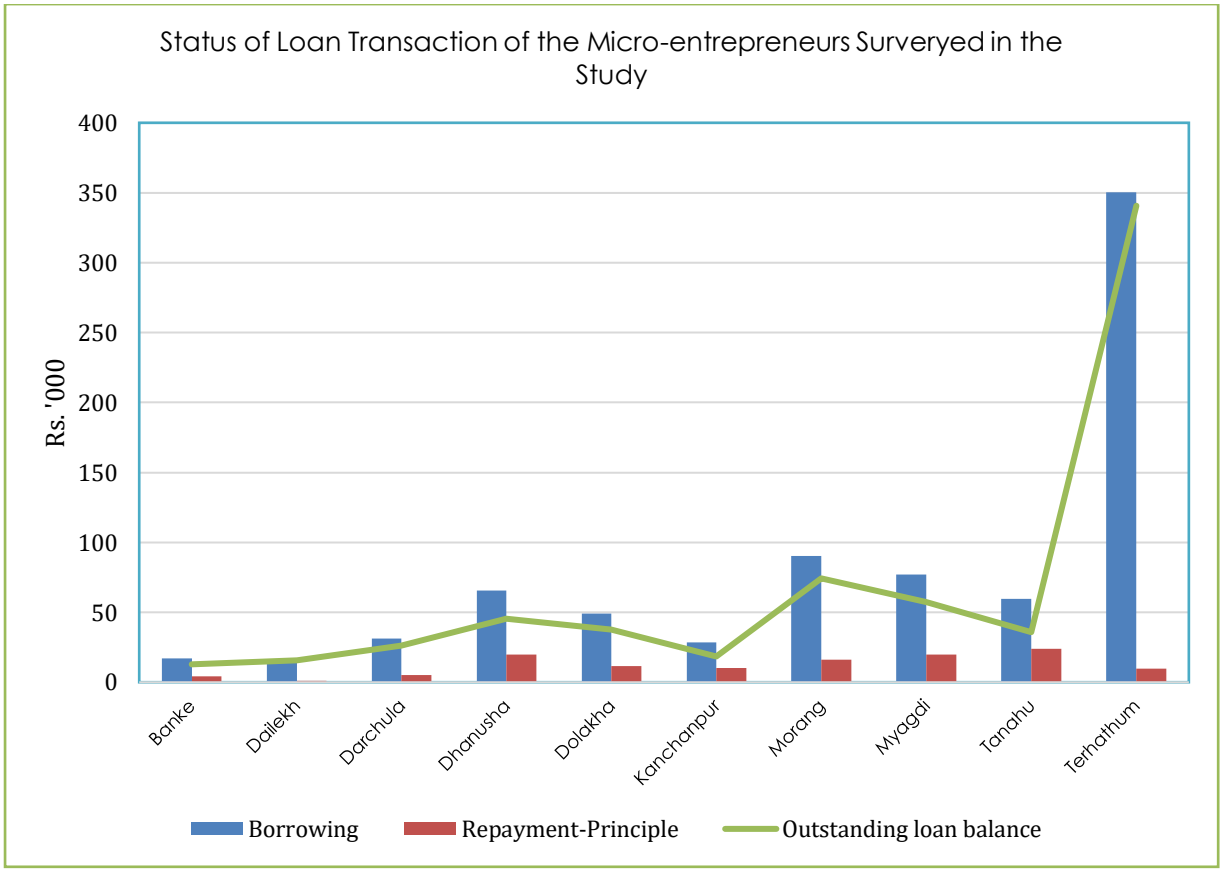
Entrepreneurs surveyed have received access to finance from different sources such as financial cooperatives, microfinance institutions, commercial banks, financial intermediary NGOs, and informal lenders, NGOs, INGOs and Poverty Alleviation Fund (PAF). About 21% micro-entrepreneurs surveyed have borrowed from Savings and Credit Cooperatives (SACCOS). This was followed by borrowing of 15% micro-entrepreneurs surveyed from Microfinance Institutions (MFIs).



About 10% microentrepreneurs surveyed have borrowed from savings and credit groups. Remaining surveyed micro-entrepreneurs have borrowed from commercial banks (4%), FI-NGOs (2%), and NGOs/INGOs/PAF/WDS (1%). Especially those micro-entrepreneurs living in terai and accessible hills have better access to finance from formal sector compared to those living in inaccessible hills and mountains.

Status of Loan Transaction

As discussed already about 53% of the micro-entrepreneurs surveyed have borrowed from different types of the financial service providers in their vicinity, and average amount of borrowing was Rs. 88.4 thousand. Across the districts surveyed, average amount of borrowing of the microentrepreneurs surveyed in this study ranged between Rs. 16.5 thousand in Dailekh and Rs. 350.5 thousand in Terhathum. Of the amount borrowed in the FY 2017, these microentrepreneurs surveyed have repaid Rs. 11.0 thousand, with amount of repayment ranging between Rs. 1.0 thousand in Dailekh and Rs. 23.8 thousand in Tanahu district.



The outstanding loan balance due of the microentrepreneurs surveyed was Rs. 77.4 thousand and across the districts surveyed, average amount of outstanding loan balance with the microentrepreneurs surveyed in this study ranged between Rs. 12.8 thousand in Banke and Rs. 340.7 thousand in Terhathum. The entrepreneurs surveyed were able to maintain 100% on-time repayment rate with MFI, commercial banks and FI-NGOs, but failed to maintain such repayment performance with financial cooperatives, savings and credit groups, and NGOs/INGOs/PAF/WDS due to absence of culture on zero tolerance to default in these institutions.

5.3.6 Financial Dimensions of Microenterprise

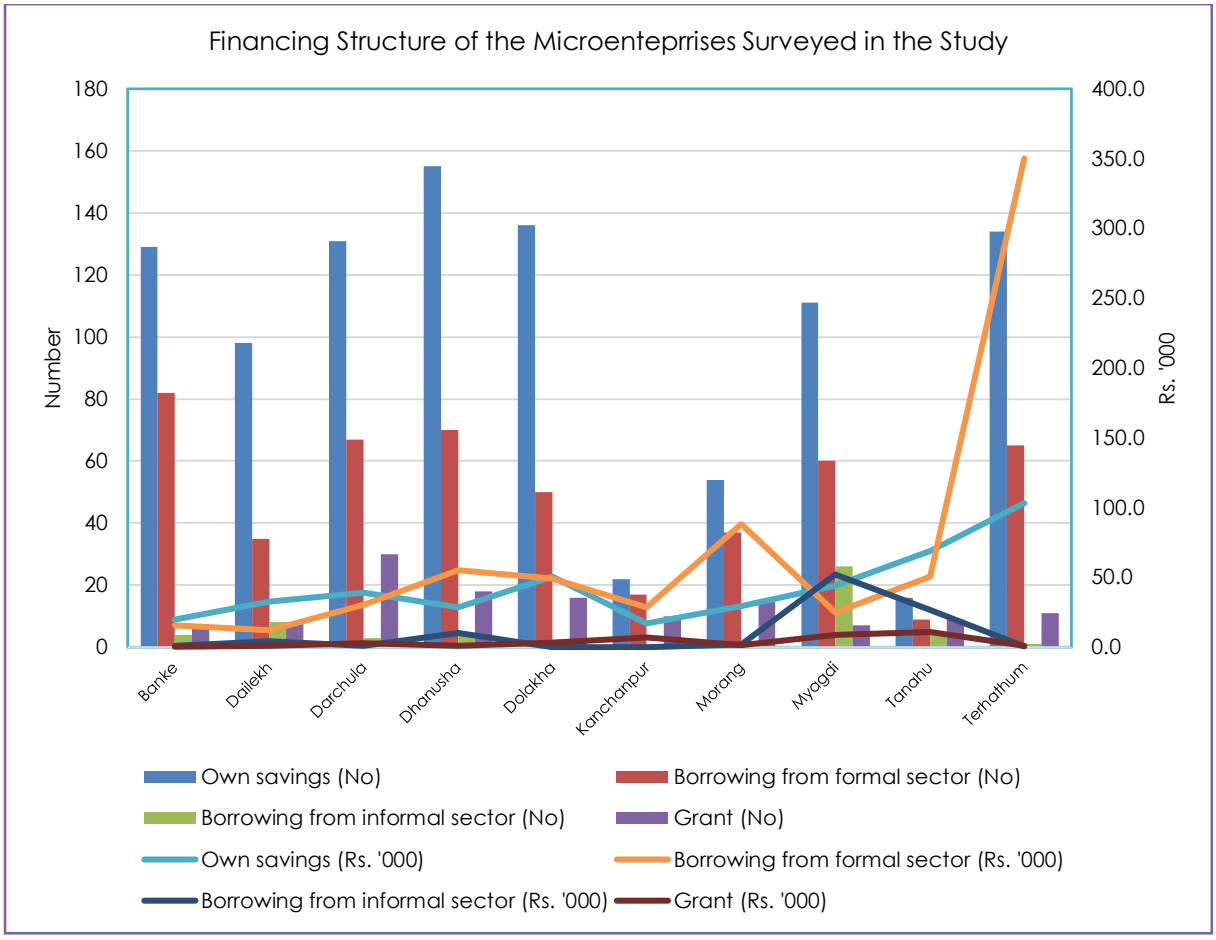
During field studies, financial analysis of the microenterprise was done through an estimation of current level of (i) financing structure, (ii) fixed investment, (iii) annual operating fixed cost, (iv) annual variable cost, (v) gross revenue and (vi) net income. Gross income and expenditure details provided by micro-entrepreneurs surveyed were analyzed to estimate profit or net income by enterprises over the last one year (2016-17). Profit analysis was carried out for 996 microenterprises operated by individual entrepreneurs. Since a large majority of respondents did not keep business details, income and expenditure accounts, data used for financial analysis was based on interviews with respondents, and observation of enterprise operation and management.

Estimation of Financing Structure

A typical MEDEP/MEDPA promoted micro-entrepreneurs had managed financing required for their microenterprises from (i) using own savings, (ii) borrowing from formal sector, (iii) borrowing from informal sector, and (iv) use of grant money from MEDEP/MEDPA or any other agencies.

Use of Own Savings: Of the total micro-entrepreneurs surveyed, 98.9% have used their own savings to set-up their microenterprise. Across the districts surveyed, proportion of the micro-entrepreneurs surveyed investing own savings to set-up the microenterprise ranged between 97.5% in Myagdi and 100% in Banke, Dhanusha, Dolakha, Kanchanpur, Morang, and Tanahu districts. Average amount of own savings invested by the micro-entrepreneurs surveyed was Rs. 44.7 thousand. Across the districts surveyed, amount of owned savings invested by the micro-entrepreneurs to set-up

microenterprises ranged between Rs. 17.0 thousand in Kanchanpur and Rs. 103.2 thousand in Terhathum district.

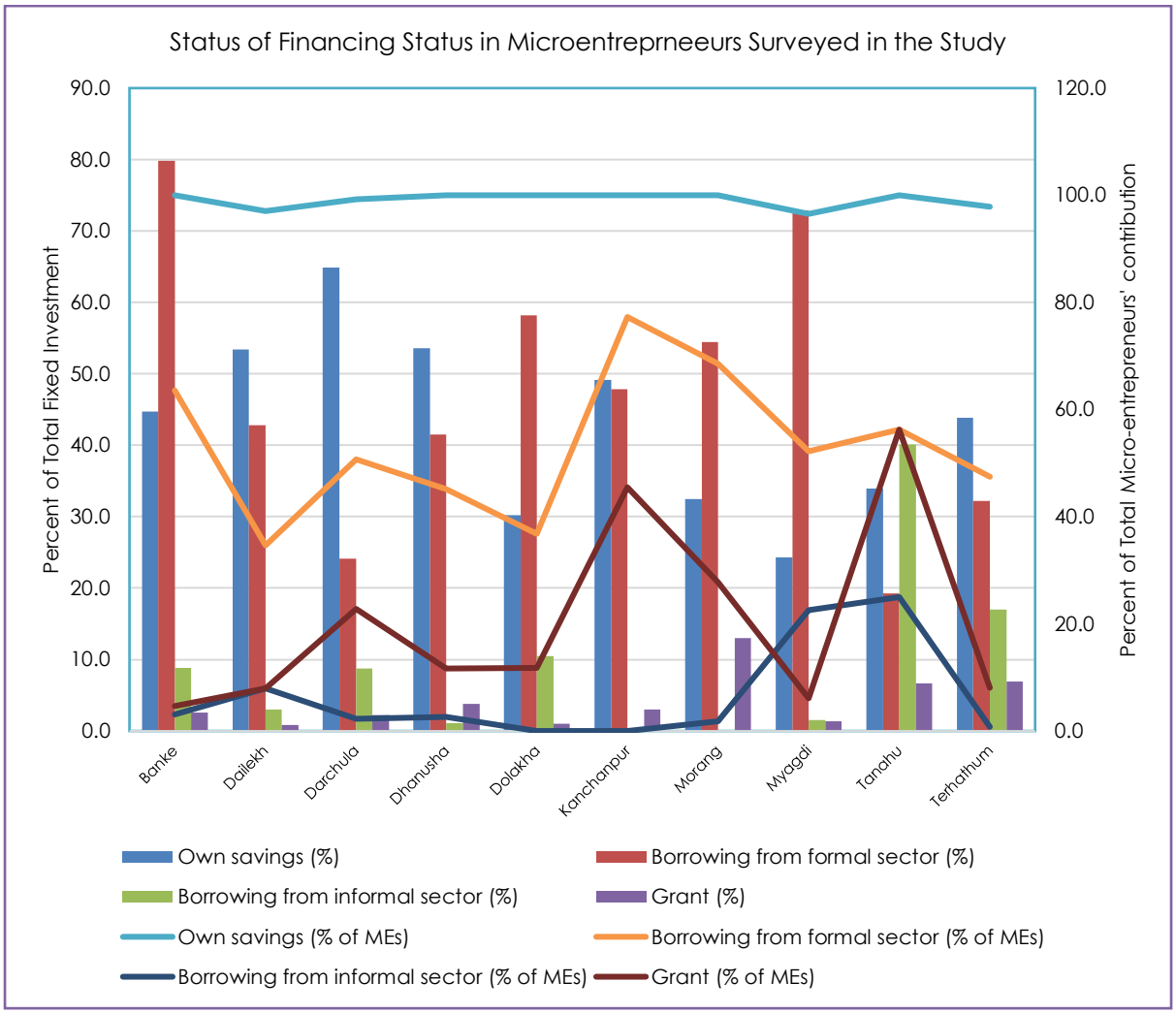


Borrowing from Formal Sector: Of the total micro-entrepreneurs surveyed, 49.3% have used money borrowed from formal sector (financial cooperatives, MFIs, FI-NGOs, and Commercial Banks) to set-up their microenterprise. Across the districts surveyed, proportion of micro-entrepreneurs using borrowed fund from formal sector to set-up microenterprise ranged between 34.2% in Dailekh and 77.3% in Kanchanpur district. Average amount of borrowed money invested by micro-entrepreneurs was Rs. 79.8 thousand. Across the districts surveyed, amount of borrowed money used by the micro-entrepreneurs to set-up microenterprises ranged between Rs. 12.1 thousand in Dailekh and Rs. 350.1 thousand in Terhathum district. Loan sizes of the micro-entrepreneurs borrowing from commercial banks, MFI, FI-NGOs were significantly higher than those borrowing from financial cooperatives.

Borrowing from Informal Sector: Of the total micro-entrepreneurs surveyed, 5.1% have used money borrowed from informal sector (money lenders, savings and credit groups, etc.) to set-up their microenterprise. Across the districts surveyed, proportion of micro-entrepreneurs using borrowed fund from informal sector to set-up microenterprise ranged between 0% in Dolakha and 25.0% in Tanahu district. Average amount money borrowed from informal sector by the micro-entrepreneurs was Rs. 8.8 thousand. Across the districts surveyed, amount of money borrowed by micro-entrepreneurs from informal sector to set-up microenterprises ranged between Rs. 0.4 thousand in Terhathum and Rs. 52.1 thousand in Myagdi district.

Use of Grant Money: Of the total micro-entrepreneurs surveyed, 13.0% have received grant (cash and/or in-kind) from MEDEP/MEDPA to set-up their microenterprise. Across the districts surveyed proportion of micro-entrepreneurs receiving grant to set-up microenterprise ranged between 4.7% in Banke and 56.3 in Tanahu district. Average amount grant used by the micro-entrepreneurs was Rs. 2.6 thousand. Across the districts surveyed, amount of grant used by the micro-entrepreneurs ranged between Rs. 0.3 thousand in Banke and Rs. 8.6 thousand in Myagdi district.

Total amount of financing: All the micro-entrepreneurs surveyed had financed to set up their microenterprises. Average amount of financing was Rs. 135.9 thousand. This includes both for fixed investment and working capital finance. Across the districts surveyed, total amount of financing by the micro-entrepreneurs to set-up the microenterprises ranged between Rs. 36.7 thousand in Banke and Rs. 454.7 thousand in Terhathum district.



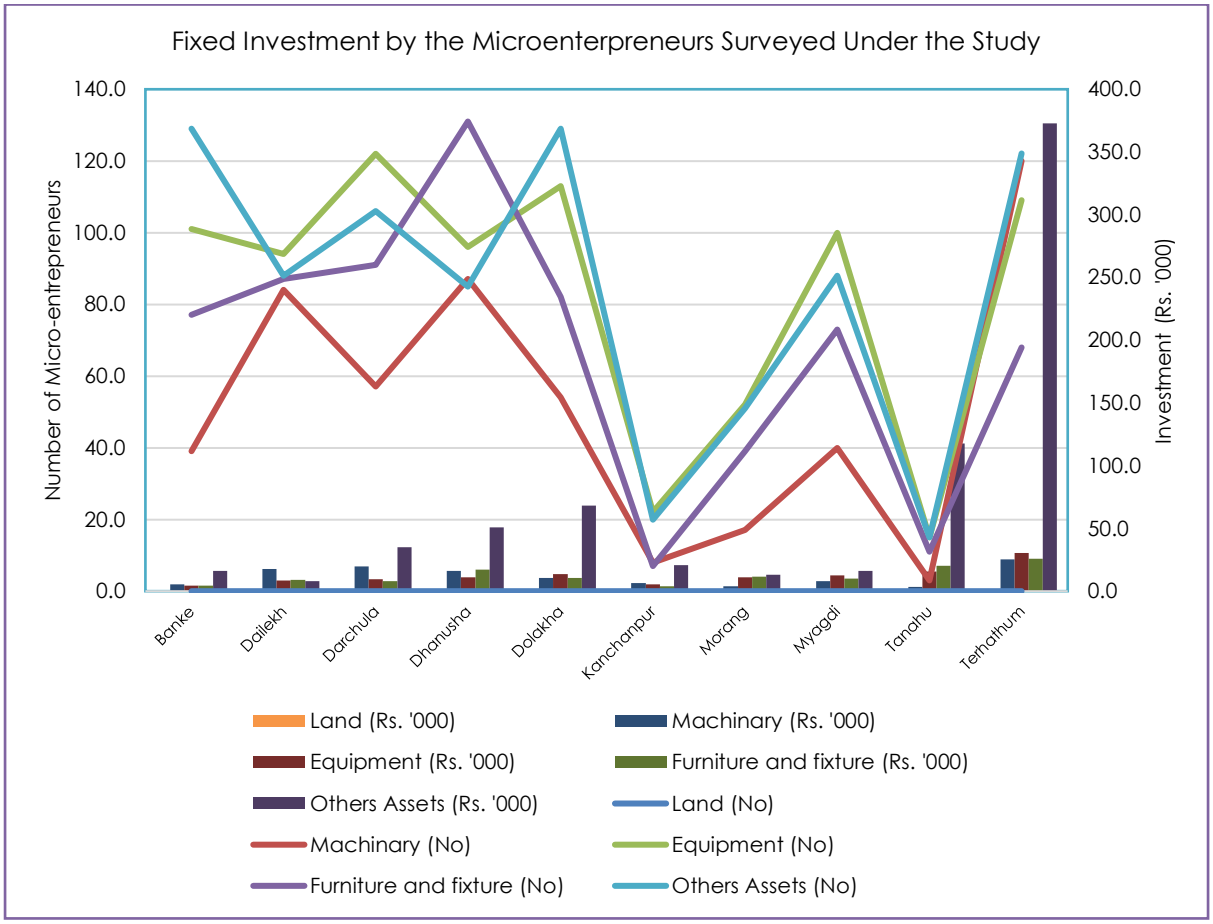
Of the total financing, 32.9% was financed through owners' savings, 58.7% out of borrowing from formal sector, 6.5% from borrowing from informal sector, and 1.9% from grant. The financing structure is location specific and varies greatly across study districts. In general, insufficient sources of internal financing and inaccessibility of the external financing at required amount has been acknowledged by most of the microentrepreneurs to be the crucial constraints on new investment for growing microenterprises.

Fixed Investment Structure Analysis

Almost all the microenterprises surveyed in this study were running in the modest fixed investment structure. They establish the enterprise on their own land and building or in the rented premises, but none have invested in fixed asset like land and buildings. Very few (less than 10%) has constructed low cost shed (warehouse, cattle and buffalo shed, mushroom, etc.) in their own land or rented premises. Typical investment activities include land, building, machineries, equipment, and other accessories. A discussion on fixed investment structure follows hereunder.

Investment on land: None of the micro-entrepreneurs surveyed have invested on land and building. They have managed the microenterprise either on their own land or premises or government land or rented land. There is no investment on land the microenterprise surveyed.

Investment on machineries: About 51.1% microentrepreneurs surveyed have invested in machineries such as fan, motors/engines, briquette machine, bamboo cutting machine, sewing machine, bangle dye, cutting type, etc. Across the districts surveyed, proportion of the microentrepreneurs investing in machineries to set-up the microenterprises ranged between 18.8% (Terhathum) and 87.6% in Terhathum district. Average of amount of investment on machineries was Rs. 13.9 thousand, with average amount of investment ranging between Rs. 3.9 thousand in Morang and Rs. 25.5 thousand in Terhathum district.



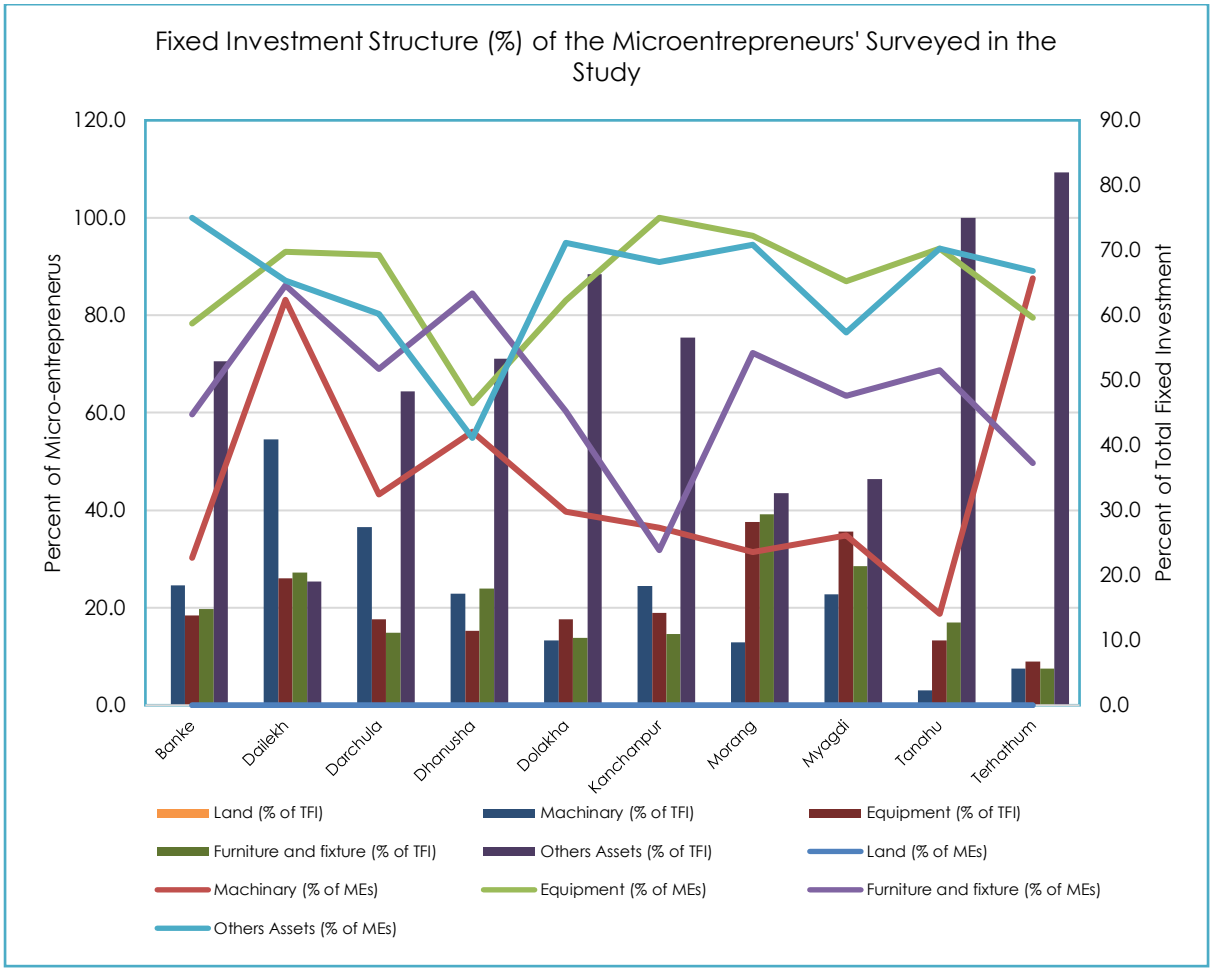
Investment on equipment: Survey findings revealed that about 82.6% microentrepreneurs surveyed have invested in equipment such as farm implements, feeding utensils, tools, etc. Across the districts surveyed, proportion of microentrepreneurs investing in equipment to set-up microenterprises ranged between 61.9% in Dhanusha and 91.8% in Tanahu district. Average of amount of investment on equipment was Rs. 12.8 thousand, with average amount of investment ranging between Rs. 4.2 thousand in Banke and Rs. 30.6 thousand in Terhathum district.

Investment on furniture and fixtures: About 66.8% microentrepreneurs surveyed have invested in furniture and fixtures such as office equipment, tables, chairs, fans, phone, etc. Across districts surveyed proportion of microentrepreneurs investing in furniture and fixtures to set-up and operate their microenterprises ranged between 31.8% in Kanchanpur and 86.1% in Dailekh district. Average of amount of investment on furniture and fixtures was Rs. 13.9 thousand, with average amount of investment on furniture and fixture ranging between Rs. 4.0 thousand in Kanchanpur and Rs. 25.8 thousand in Terhathum district.

Investment on small infrastructure and other productive assets: Survey findings revealed that about 83.6% microentrepreneurs surveyed have invested on small infrastructure and other productive assets such as shed for cattle, buffalo, goat, piglets, cattle and poultry, warehouse, mushroom farming materials, etc. Across the districts surveyed, proportion of microentrepreneurs investing on small infrastructure and other productive assets to set-up microenterprises ranged between 54.8% in Dhanusha and 100% in Banke district. Average of amount of investment on infrastructure and other

productive assets was Rs. 80.9 thousand, with average amount of investment ranging between Rs. 8.2 thousand in Dailekh and Rs. 372.7 thousand in Terhathum district.

Total Amount of Fixed Investment: All the micro-entrepreneurs surveyed had financed for fixed investment to set up their microenterprises. Average amount of fixed investment finance were Rs. 120.0 thousand. Across the districts surveyed, total amount of fixed investment finance by the microentrepreneurs to set-up the microenterprises ranged between Rs. 36.6 thousand in Kanchanpur and Rs. 454.6 thousand in Terhathum district.

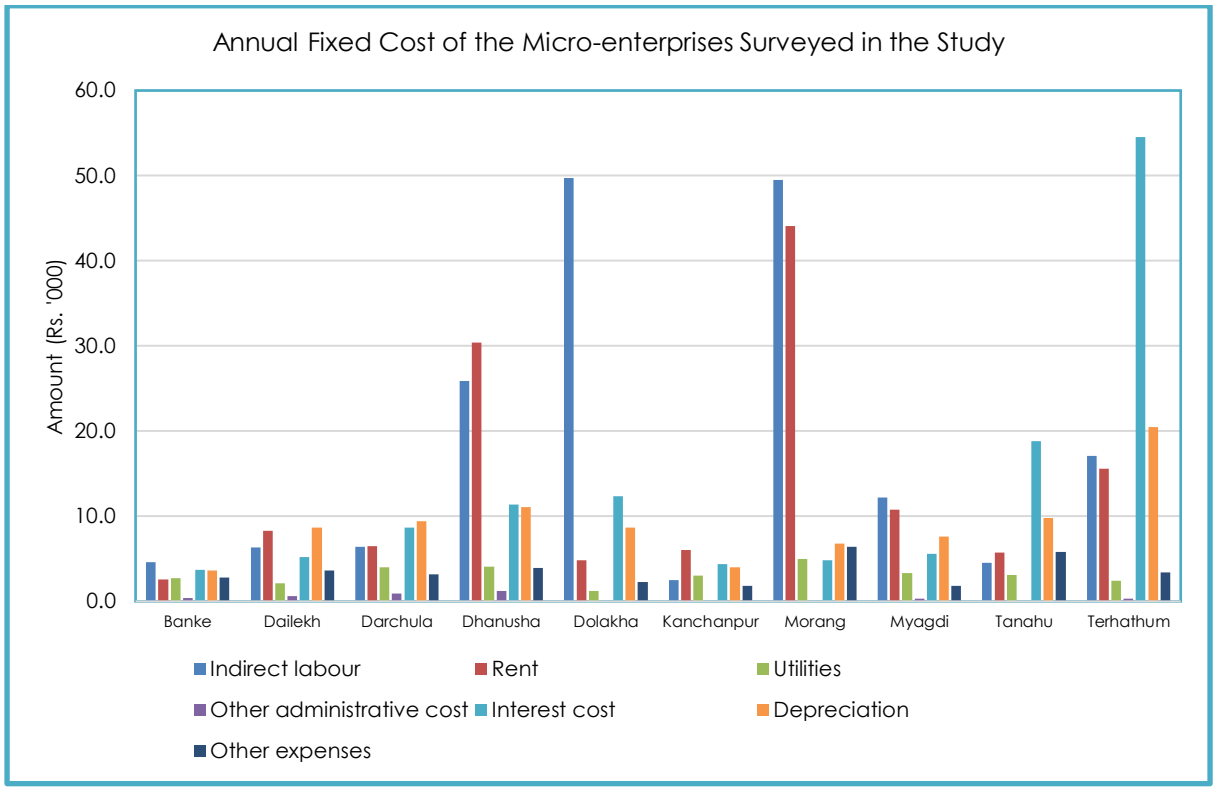


Of the total fixed investment finance, there was no finance for land. Financing was allocated on machinery (11.6%), equipment (10.7%), furniture and fixtures (10.3%), and 67.4% on small infrastructure and other productive assets. The financing structure is location specific and varies greatly across study districts. Most of the microentrepreneurs surveyed are constrained with the insufficient sources of internal financing and inaccessibility of the external financing at required amount leading to their inability to scale-up their microenterprise to a planned level.

Annual Operating Fixed Cost Analysis

All the microenterprises surveyed in this study has incurred annual operating fixed cost such as salary for the indirect labor, rent payment, utilities, other administrative cost, interest cost, depreciation, and other expenses. Current state of annual operating fixed costs is discussed below.

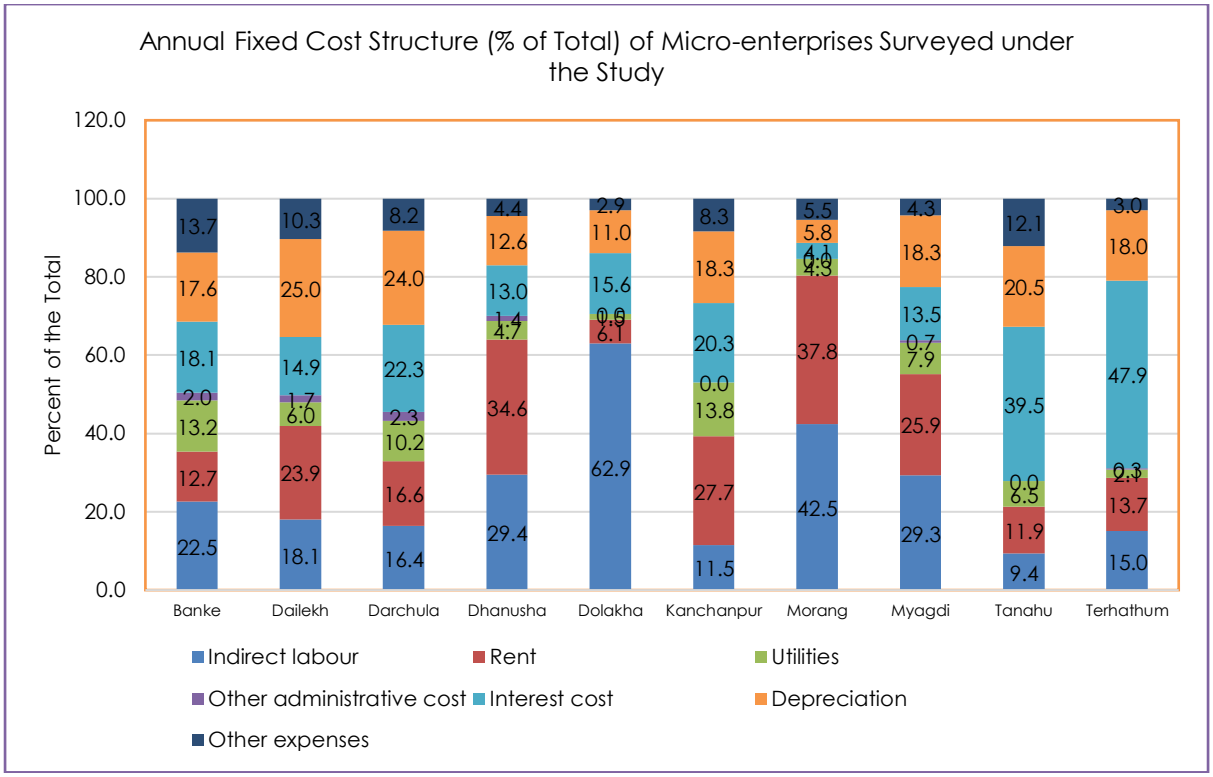
Salary of indirect labor: About 25% microentrepreneurs surveyed had incurred annual fixed cost on indirect labor such as salary for manager, accountant, office helper, guard, etc. Across the districts surveyed proportion of microentrepreneurs incurring salary cost for indirect labour to operate their microenterprises ranged between 5% in Banke and 44% in Morang district. Average salary cost for indirect labour was Rs. 19.5 thousand, with average amount of indirect labour cost ranging between Rs. 2.5 thousand in Kanchanpur and Rs. 49.5 thousand in Morang district.



Rental cost: Field studies estimated that about 64% microentrepreneurs surveyed had incurred rental cost for activities such as land rent, rent of the premises, fish pond, etc. Across the districts surveyed proportion of microentrepreneurs incurring rental cost to operate their microenterprises ranged between 28% in Dolakha and 91% in Kanchanpur district. Average rental cost was Rs. 13.4 thousand, with average rental cost ranging between Rs. 2.6 thousand in Banke and Rs. 44.1 thousand in Morang district.

Cost for utilities: About 66% microentrepreneurs surveyed had incurred annual fixed cost on utilities such as electricity, water supply, communication, etc. Across the districts surveyed proportion of microentrepreneurs incurring cost for utilities to operate their microenterprises ranged between 27% in Dolakha and 96% in Morang district. Average cost for utilities was Rs. 3.0 thousand, with average cost for utilities ranging between Rs. 1.2 thousand in Dolakha and Rs. 5.0 thousand in Morang district.

Cost for other administrative activities: Field studies estimated that about 12% microentrepreneurs surveyed had incurred annual fixed cost on other administrative activities such as renewal of registration, obtaining tax clearance, processing for registration, etc. Across the districts surveyed proportion of microentrepreneurs incurring cost for other administrative activities to operate their microenterprises ranged between 0% in Tanahu, Dolakha and Kanchanpur; and 46% in Dailekh district. Average cost for other administrative activities was Rs. 0.5 thousand, with average cost for other administrative activities ranging between Rs. 0 thousand in Tanahu, Dolakha and Kanchanpur, and Rs. 1.2 thousand in Dhanusha district.

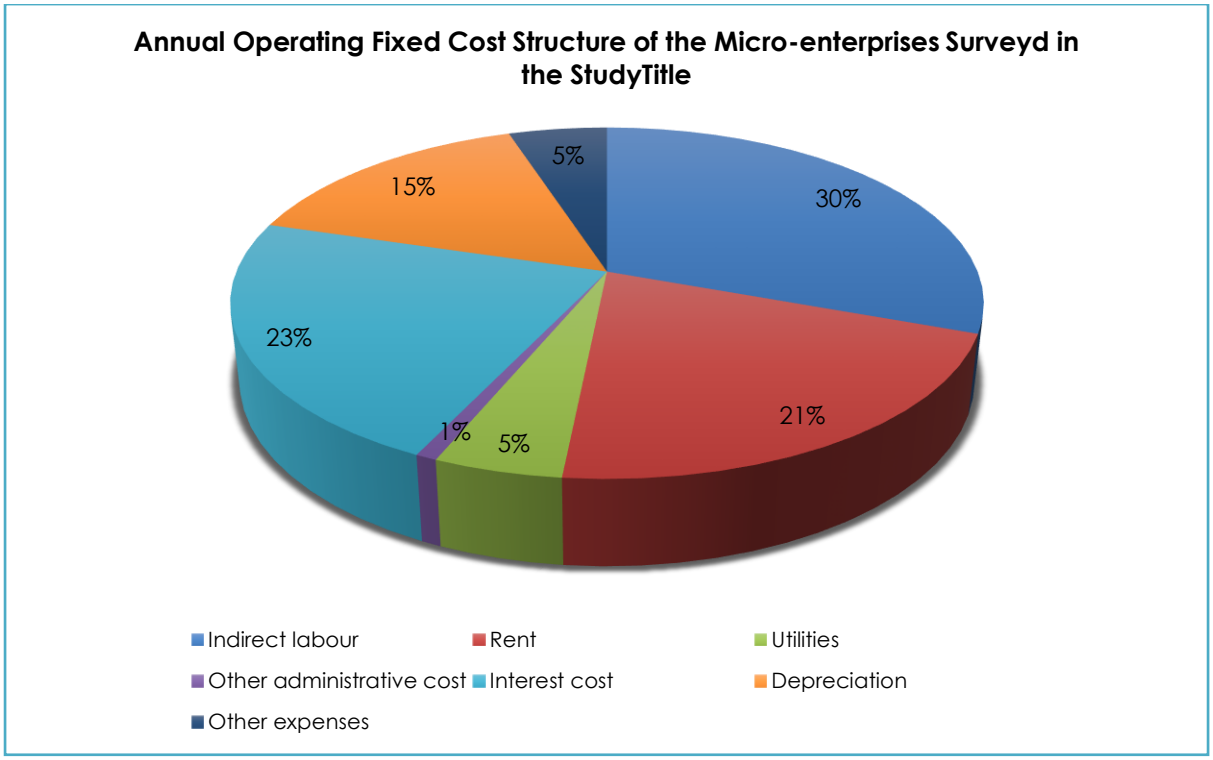


Interest cost: Since all the micro-entrepreneurs have invested few thousands to few hundred thousand rupees to set up their microenterprises, they have foregone opportunity cost of capital or had paid interest for the amount borrowed depending on the source of financing of the fixed investment amount. Average interest cost was Rs. 14.4 thousand, with average interest cost ranging between Rs. 3.7 thousand in Banke and Rs. 54.6 thousand in Terhathum district.

Depreciation cost: Those microentrepreneurs who had purchased machineries, equipment and constructed shed, warehouse, and other consumer durables, etc. have invested few thousands to few hundred thousand rupees on these activities and these items of investment can be used for another 3-5 years depending on their nature and type. About 83% microentrepreneurs surveyed had incurred depreciation cost for machineries, equipment, and other durables, and across the districts surveyed, proportion of microentrepreneurs incurring cost for utilities to operate their microenterprises ranged between 18% in Dolakha and 100 % in Kanchanpur and Morang districts. Average depreciation cost was Rs. 9.8 thousand, with average depreciation cost ranging between Rs. 3.6 thousand in Banke and Rs. 20.5 thousand in Terhathum district.

Other expenses: About 74% microentrepreneurs surveyed had also incurred other expenses such as refreshment, transport, travel, etc. Across the districts surveyed proportion of microentrepreneurs incurring other cost to operate their microenterprises ranged between 49% in Terhathum and 100% in Morang district. Average amount of other cost was Rs. 3.2 thousand, with average other cost ranging between Rs. 1.8 thousand in Myagdi and Rs. 6.4 thousand in Morang district.

Total Annual Operating Fixed Cost: All the micro-entrepreneurs surveyed had incurred annual operating fixed cost to operate their microenterprises. Average amount of annual operating fixed cost was Rs. 63.8 thousand. Across the districts surveyed, total amount of annual operating fixed cost by the micro-entrepreneurs to operate their microenterprises ranged between Rs. 20.4 thousand in Banke and Rs. 116.6 thousand in Morang district.



Of the total annual operating fixed cost, share of indirect labour was 31%, and that of rent 21%, utilities 5%, other administrative cost 1%, interest cost 23%, depreciation 15% and other 5%. The total annual operating fixed cost structure is location specific and varies greatly across study districts. Since most of the microentrepreneurs surveyed lack proper books of account, annual operating fixed cost was imputed based on the observation of current state of operation of microenterprise and interview with micro-entrepreneurs.

Annual Operating Variable Cost Analysis

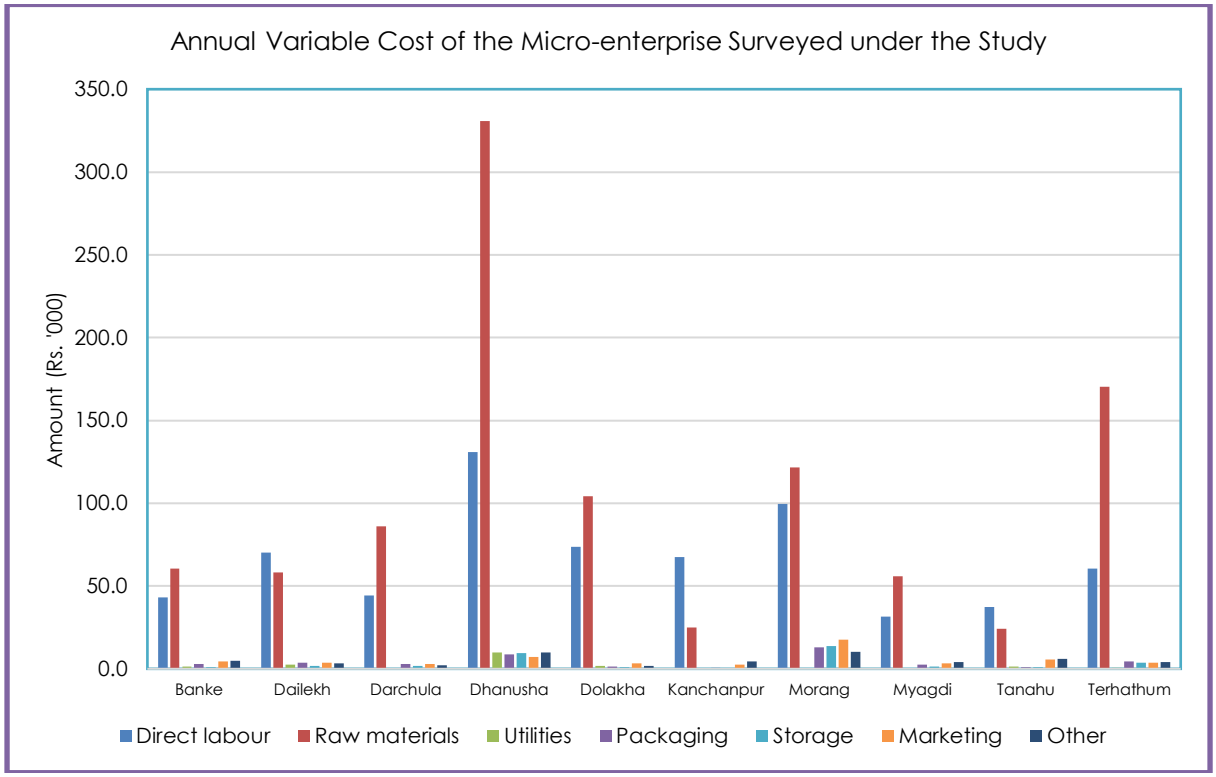
All the microenterprises surveyed in this study has incurred annual operating variable costs such as salary for direct labor, cost for raw materials, utilities, packaging, storage, marketing, and other expenses to operate properly. By virtue of informal nature of operation of these enterprises, their major cost includes direct labor cost and cost for raw materials. Current state of annual operating variable costs is discussed below.

Wages of the direct labor: All the microentrepreneurs surveyed had employed direct labor for production and paid their wages as per. These labours are either family labour or hired labor. They are mainly skilled or semi-skilled labour suitable for the microenterprises they have managed. Average cost for wages of the direct labour was Rs. 68.4 thousand, with average wage paid to the direct labour ranging between Rs. 31.5 thousand in Myagdi and Rs. 131.0 thousand in Dhanusha district.

Cost for raw materials: About 91% microentrepreneurs surveyed had cost for the raw materials such as seed, fertilizers, animal feed, primary products, grasses, sugar, flour, thread, cloths, etc. Across the districts surveyed proportion of microentrepreneurs incurring cost for raw materials to operate their microenterprises ranged between 83% in Dhanusha and 100% in Kanchanpur district. Average cost for raw materials was Rs. 128.1 thousand, with average amount of cost for raw material ranging between Rs. 24.1 thousand in Tanahu and Rs. 330.8 thousand in Dhanusha district.

Cost for utilities: Some of the microenterprise based on forest (timber) products, furniture making, bakery, iron works, preparation of agricultural implements, etc. are energy intensive, and micro-entrepreneurs surveyed have incurred cost for those types of utilities. About 28% microentrepreneurs surveyed had incurred cost for utilities such as electricity, water supply, communication, etc. for their operation. Across the districts surveyed proportion of microentrepreneurs incurring cost for utilities to operate their microenterprises ranged between 0% in Morang and 65% in Dailekh district. Average cost for utilities was Rs. 2.3 thousand, with average amount of cost for utilities ranging between Rs.

0.1 thousand in Darchula and Rs. 10.0 thousand in Dhanusha district.



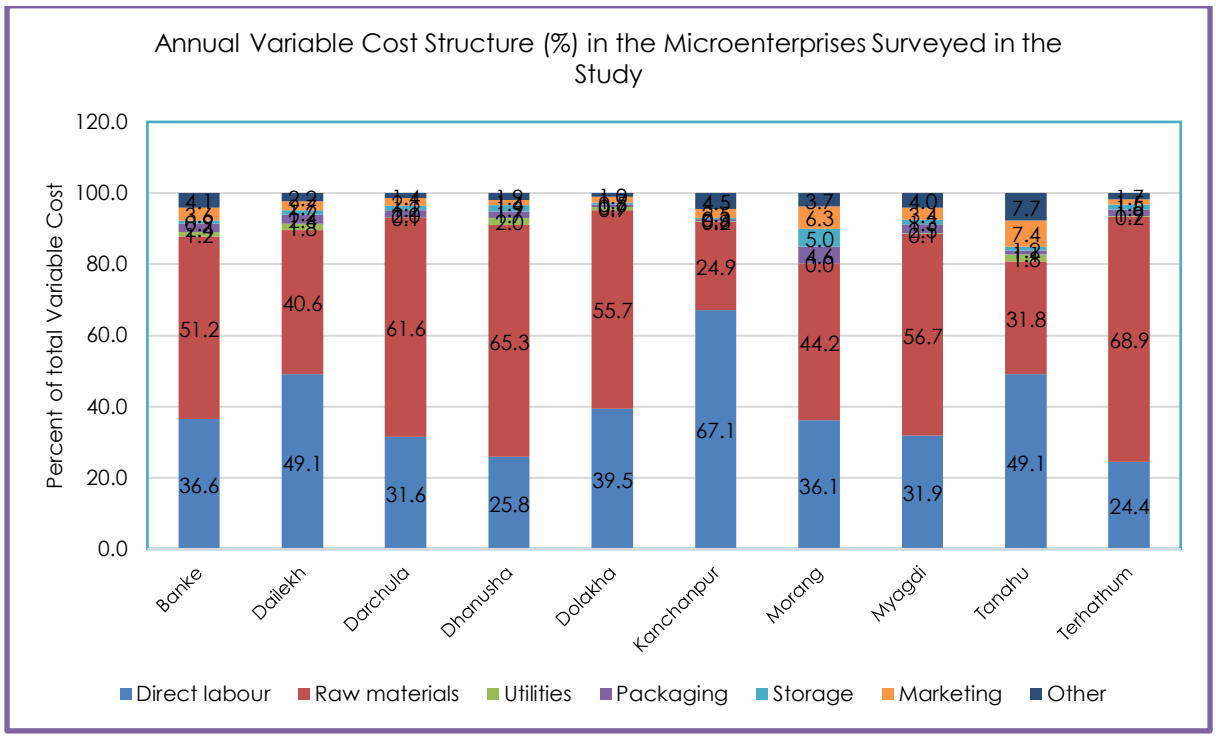
Packaging cost: Cost for packaging of finished products are incurred by microenterprise such as grocery store, honey, meat, eggs, incense stick, vegetable and fruit trade, soap making, etc. About 43% micro-entrepreneurs surveyed had incurred cost for packaging for their operation. Across the districts surveyed proportion of microentrepreneurs incurring cost for packaging to operate their microenterprises ranged between 17% in Dolakha and 61% in Terhathum district. Average packaging cost was Rs. 4.3 thousand, with average amount of packaging cost ranging between Rs. 0.1 thousand in Tanahu and Rs. 12.8 thousand in Morang district.

Storage cost: Various types of products produced by the microenterprises surveyed can be broadly grouped into perishable and non-perishable in nature. Storage cost had been incurred by the micro-entrepreneurs producing the non-perishable item such grocery, honey, incense stick, soap making, agricultural implements, farm equipment, furniture, bamboo products, mudha, etc. About 24% microentrepreneurs surveyed had incurred storage cost of their products. Across the districts surveyed, proportion of microentrepreneurs incurring storage cost ranged between 10% in Dolakha and 48% in Dhanusha district. Average storage cost was Rs. 3.6 thousand, with average amount of storage cost ranging between Rs. 0.3 thousand in Kanchanpur and Rs. 13.9 thousand in Morang district.

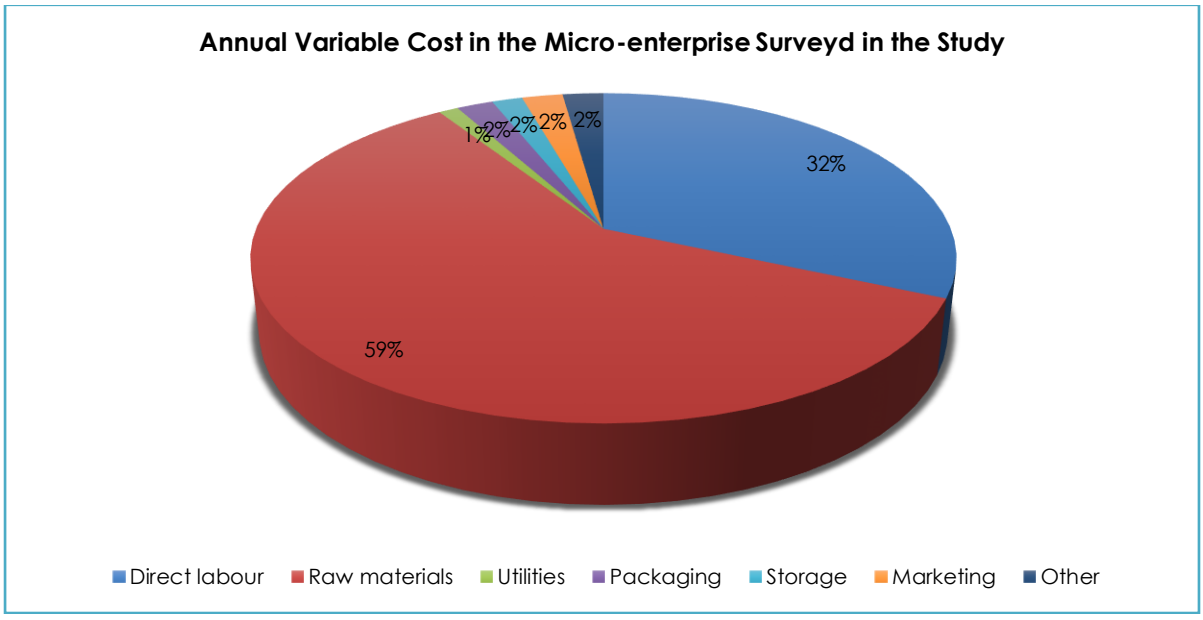
Marketing cost: Different products produced by the microenterprises surveyed are selling in (i) local market, (ii) district market, (iii) regional market, (iv) national market, and (v) international market. Marketing costs are incurred by the microentrepreneurs selling their products in district, regional, national and international markets. About 52% micro-entrepreneurs surveyed had incurred marketing cost for their products. Across districts surveyed, proportion of microentrepreneurs incurring marketing cost ranged between 25% in Dolakha and 69% in Banke and Tanahu districts. Average marketing cost was Rs. 4.8 thousand, with average amount of marketing cost ranging between Rs. 2.5 thousand in Kanchanpur and Rs. 17.4 thousand in Morang district.

Other cost: Microenterprises surveyed has incurred other cost in the form of obtaining market information, services on pricing of products and services, negotiation with wholesalers, traders, transporters and communication etc. Other about 56% micro-entrepreneurs surveyed had incurred other cost for their products. Across districts surveyed, proportion of microentrepreneurs incurring

marketing cost ranged between 15% in Dolakha and 78% in Banke districts. Average other cost was Rs. 4.8 thousand, with average amount of other cost ranging between Rs. 1.9 thousand in Dolakha and Rs. 10.2 thousand in Morang district.



Total Annual Operating Variable Cost: All the micro-entrepreneurs surveyed had incurred annual operating variable cost to operate their microenterprises. Average amount of annual operating variable cost was Rs. 216.3 thousand. Across districts surveyed, total amount of annual operating variable cost by micro-entrepreneurs to operate their microenterprises ranged between Rs. 75/8 thousand in Tanahu and Rs. 506.8 thousand in Dhanusha district.



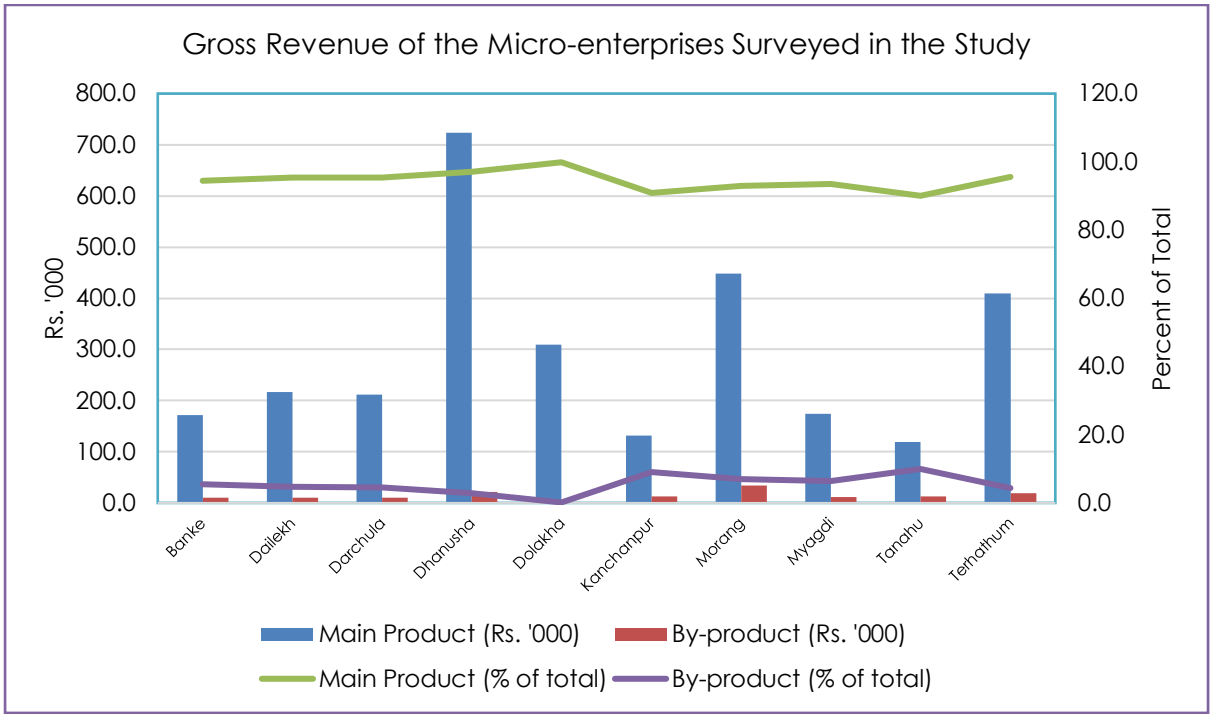
Of the total annual operating variable cost, share of raw materials was 59%, and that of direct labour 32%, utilities 1%, packaging cost 2%, storage cost 2%, marketing 2% and other cost 2%. The total annual operating variable cost structure is location specific and varies greatly across study districts; with higher cost in older MEDEP districts compared to new MEDEP/MEDPA districts. Since most of the microentrepreneurs surveyed lack proper books of account, annual operating variable cost was

imputed based on the observation of their current state of operation of microenterprise and interview with the microentrepreneurs.

Gross Revenue Analysis

All the microenterprises surveyed in this study have earned money through main products and by-products they produced from proper operation and management of their microenterprises. Current state of annual gross revenue is discussed below.

Revenue from main products: Main products refer to the primary goods and services produced by the microenterprises covered under this study. All the enterprises surveyed have produced the produced the main products and these products were valued at the monetary term by using the actual prices they faced. Most the product produced by these microenterprises are sold from the farm gate (case of finished goods) right after harvest or immediately after production, while there are goods/products that had been sold in the district or regional or national or even the international market. In the latter case, they have incurred cost for packaging, storage, marketing and other cost. All the microentrepreneurs surveyed have earned revenue from the sale of the main products, and value of the main products was estimated at Rs. 332.2 thousand. Across districts surveyed, value of revenue from main products ranged between Rs. 119.4 thousand in Tanahu and Rs. 723.4 thousand in Banke district.



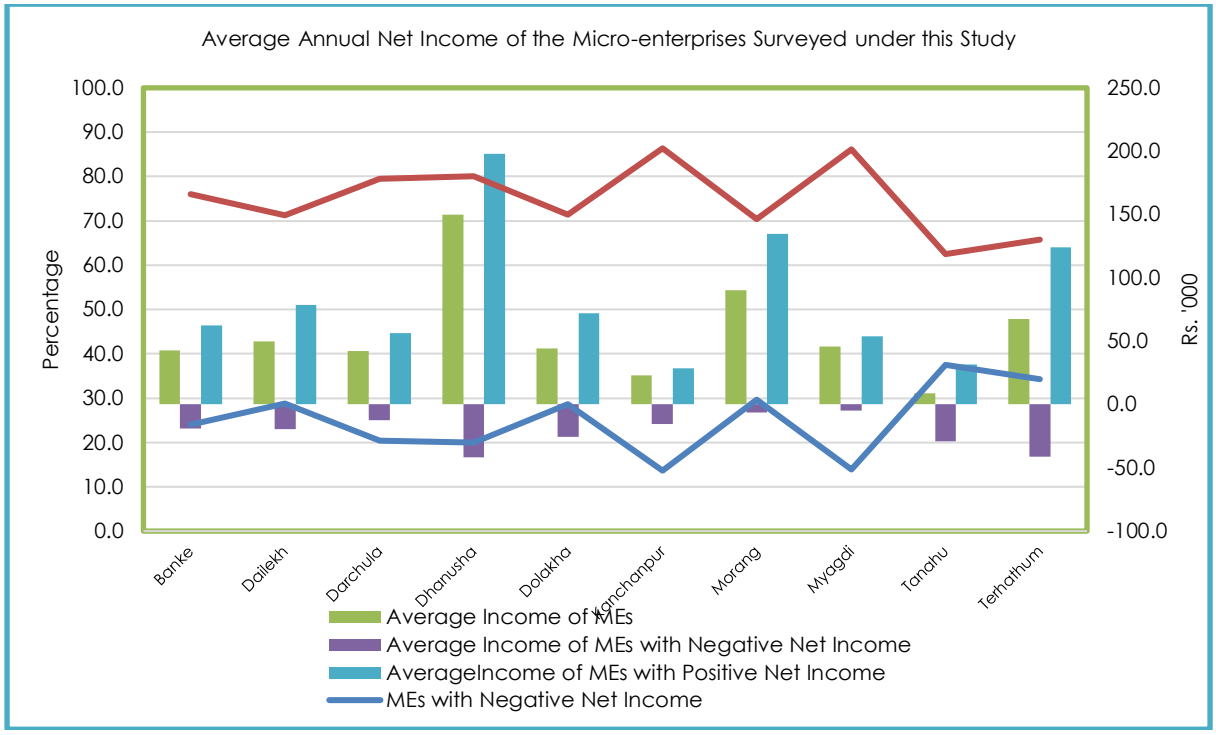
Revenue from by-products: By-products refer to the secondary income out of the secondary goods and services produced by microenterprises covered under this study such as manure, bee hive, scraps of iron works, vegetative portion of the agricultural products (vegetables), intercrops grown in plantation crops, left cloths after design of finish dhaka cloths, cut left in tailoring works, etc. Over 80% of microenterprises surveyed have produced by-products and these products were valued at monetary term by using actual prices they received. Almost all the product produced by these microenterprises is sold from farm gate (case of finished goods) right after harvest or immediately after production. In general, by-products do not need packaging, storage, marketing and other cost. Over 80% of the microentrepreneurs surveyed earned revenue from sale of by-products, and average value of by-products was estimated at Rs. 13.4 thousand. Across districts surveyed, value of revenue from by-products ranged between Rs. 1.4 thousand in Dolakha and Rs. 33.8 thousand in Morang district.

Total gross revenue: Gross revenue refers to sum of main products and by-products of microenterprises managed by micro-entrepreneurs. Average value of gross revenue was estimated at Rs. 345.6 thousand. Across districts surveyed, value of gross revenue ranged between Rs. 132.6

thousand in Tanahu and Rs. 744.8 thousand in Dhanusha district. Of the total gross income, revenue from main products constitutes 96.1% and that of the by-product constitutes 3.9%.

Net Revenue Analysis

Net returns of the microenterprise surveyed have been analyzed by subtracting annual fixed cost and annual variable cost from the gross revenue. All the microenterprise surveyed is not operating microenterprises on profitability level.



Microenterprise with Operating Loss: Financial analysis undertaken in this study revealed that 25% of the microenterprises are operating in losses. Across districts surveyed, proportion of microenterprise operating in losses ranged between 14% in Kanchanpur and Myagdi districts and 38% in Tanahu. Average annual losses of these microenterprises were Rs. 25.1 thousand, ranging across study districts at 4.9 thousand in Myagdi and Rs. 41.9 thousand in Dhanusha district.

Microenterprise with Operating Profit: Financial analysis undertaken in this study revealed that 75% of them operating in profit. Across districts surveyed, proportion of microenterprise operating in profit ranged between 63% in Tanahu and 86% in Kanchanpur and Myagdi districts. Average annual profit of these microenterprises were Rs. 95.5 thousand, ranging across study districts at 28.7 thousand in Kanchanpur and Rs. 198.0 thousand in Dhanusha district.

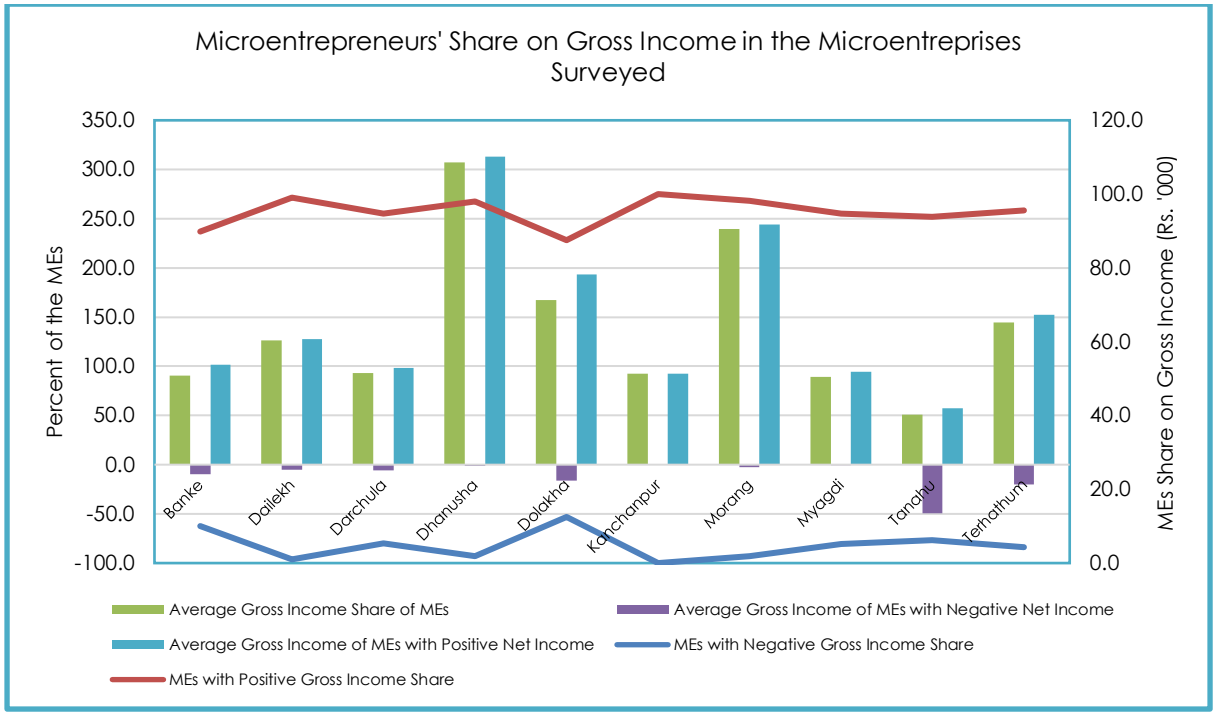
Overall situation: Average net operating income of the microentrepreneurs was Rs. 65.5 thousand, ranging across study districts at 9.0 thousand in Tanahu and Rs. 150.0 thousand in Dhanusha district.

Analysis of Micro-Entrepreneurs' Share in Gross Income

The net revenue presented above include imputed cost of wage laborers of micro-entrepreneurs and their HH members on assumption that who would have earned wage labor had they worked elsewhere as wage laborers. Proportion of hired labor used is very low. Under this assumption, analysis of micro-entrepreneur's share on enterprise income adding cost of indirect and direct labour on net income has been undertaken.

Microenterprises with Negative Surplus on Gross Income: Analysis of micro-entrepreneurs share in gross income revealed that 6% of the microenterprises are operating in losses. Across districts surveyed, proportion of microenterprise operating in losses in gross income ranged between 0% in Kanchanpur and 13% in Dolakha district. Average annual losses on gross income of these

microenterprises were Rs. 11.3 thousand, ranging across study districts at 0 thousand in Kanchanpur and Rs. 49.5 thousand in Tanahu district.



Microenterprises with positive surplus on gross income: Analysis of micro-entrepreneurs in gross income revealed that 94% of them operating in profit. Across districts surveyed, proportion of microenterprise operating in profit ranged between 88% in Dolakha and 100% in Kanchanpur district. Average annual profit of these microenterprises were Rs. 163.0 thousand, ranging across study districts at 57.4 thousand in Tanahu and Rs. 313.0 thousand in Dhanusha district.

Overall situation: Average share of the micro-entrepreneurs in gross income was Rs. 153.4 thousand, ranging across study districts at 50.7 thousand in Tanahu and Rs. 306.9 thousand in Dhanusha district.

5.4 **Financial Analysis of the Microenterprise across Categories of Microenterprise**

5.4.1 **Microenterprise Establishment, Formalization, and Institution Development**

MEDEP/MEDPA had worked to identify potential entrepreneurs, and assisted to starting, existing, and growing entrepreneurs over the last 18 years. Aspects of the microenterprises surveyed under this study covering types. their age, formalization process and institution development are discussed hereunder.

Types of Microenterprises

According to the information obtained from MEDEP in April, 2018, there are 137,404 number of micro-entrepreneurs developed under the project. They can be grouped into eight as classified by the Industrial Enterprise Act as: agriculture and forestry based, production based, service based, tourism based, construction based, ICT based, energy based and other. Types of microenterprises surveyed under this study represents six out of eight categories of the microenterprises and includes (i) agriculture and forestry based (59.8%), production based (9.1%). Service based (28.0%), tourism based (2.05), ICT based (0.8%) and other (0.3%). There was no microentrepreneurs' surveyed representing from construction based and energy-based categories.

Age of the Microenterprises

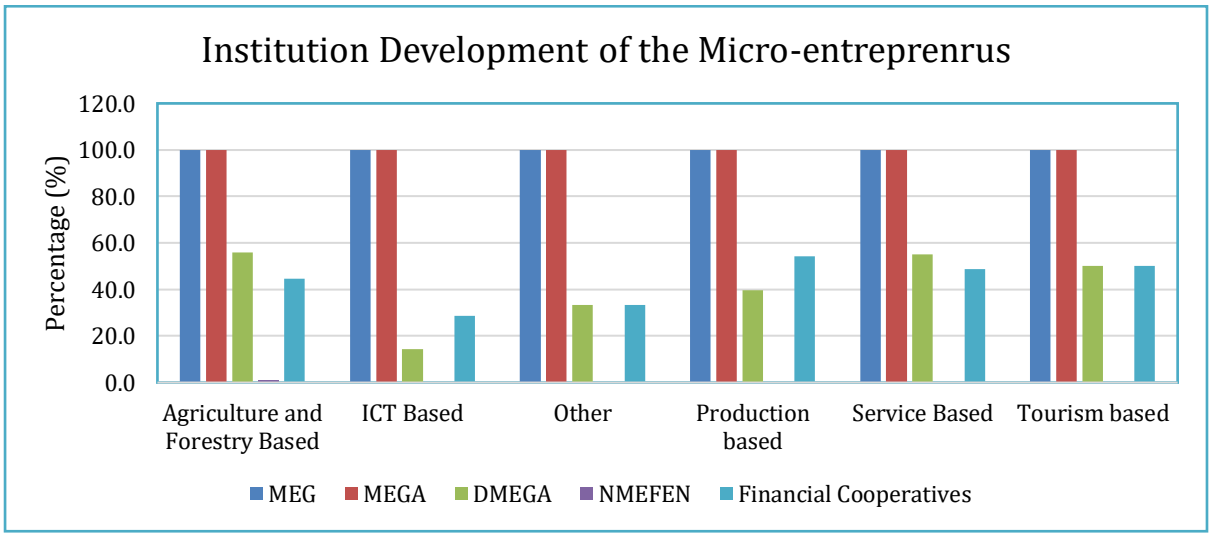
Number of years of the micro-entrepreneurs surveyed ranges between 1 years and 18 years with an average of 6.1 years. Across the enterprise categories, average enterprise age ranged between 2.5 for others, and 6.5 for service-based enterprises.

Institutional Development of Microenterprises

Institutional development of the microentrepreneurs through social mobilization process was an integral part of the MED model for enterprise development. MEG, MEGA, DMEGA, NMEFEN and transformation of the MEG into cooperatives (savings and credit or multipurpose) are the different types of the institutions promoted under MEDEP/MEDPA.

Micro-Entrepreneurs' Group: All the microentrepreneurs surveyed have joined into MEG. They have worked as a local level financial intermediary for their members.

Micro-Entrepreneurs Groups Association: All MEGs formed at the settlement level of a particular rural market centre are federated into MEGA, as their informal association. All the MEGA are operating at mixed success.



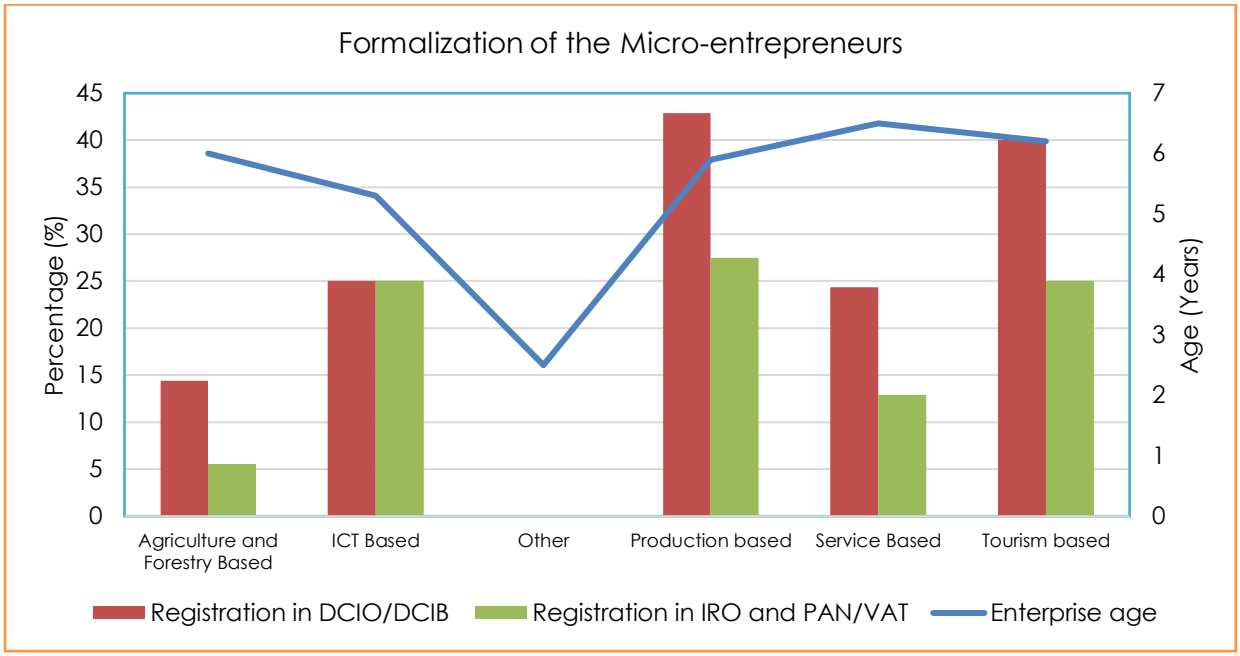
District Micro-Entrepreneurs Group Association: All the MEGAs within a district are federated into DMEGA, as an informal association of MEGAs but are operating at mixed success. Though all the DMEGA are currently working actively, most of them failed to bring all MEGA members into its ambit. About 45.5% surveyed micro-entrepreneurs were also D-MEGA members. Across surveyed microentrepreneurs category, proportion of microentrepreneurs being members of D-MEGA ranged between 12.5% in ICT based and 48.2% in Agriculture and Forestry based enterprises. In recent structure of federal government, there is no district level institution, so this institution needs to be restructuring at Municipality Level Micro Entrepreneurs Group Association.

National Micro-Entrepreneurs Federation Nepal: In general, all D-MEGAs in MEDEP/MEDPA districts are federated into NMEFEN. NMEFEN is working actively, but it failed to bring all micro-entrepreneurs under its ambit. Only 1.1% of the micro-entrepreneurs surveyed were members of NMEFEN. Across the surveyed microenterprise surveyed, only agriculture and forestry based micro-entrepreneurs are the members of NMEFEN.

Financial Cooperatives: Some of the micro-entrepreneurs surveyed under this study were also the shareholders of the financial cooperatives developed under the technical and financial support of MEDEP/MEDPA. About 39.5% of the micro-entrepreneurs surveyed were the shareholders of financial cooperatives. Across surveyed microenterprise categories, proportion of microentrepreneurs being the members of financial cooperative ranged between 25.0% in Tourism based and other microenterprises and 49.5% in production based.

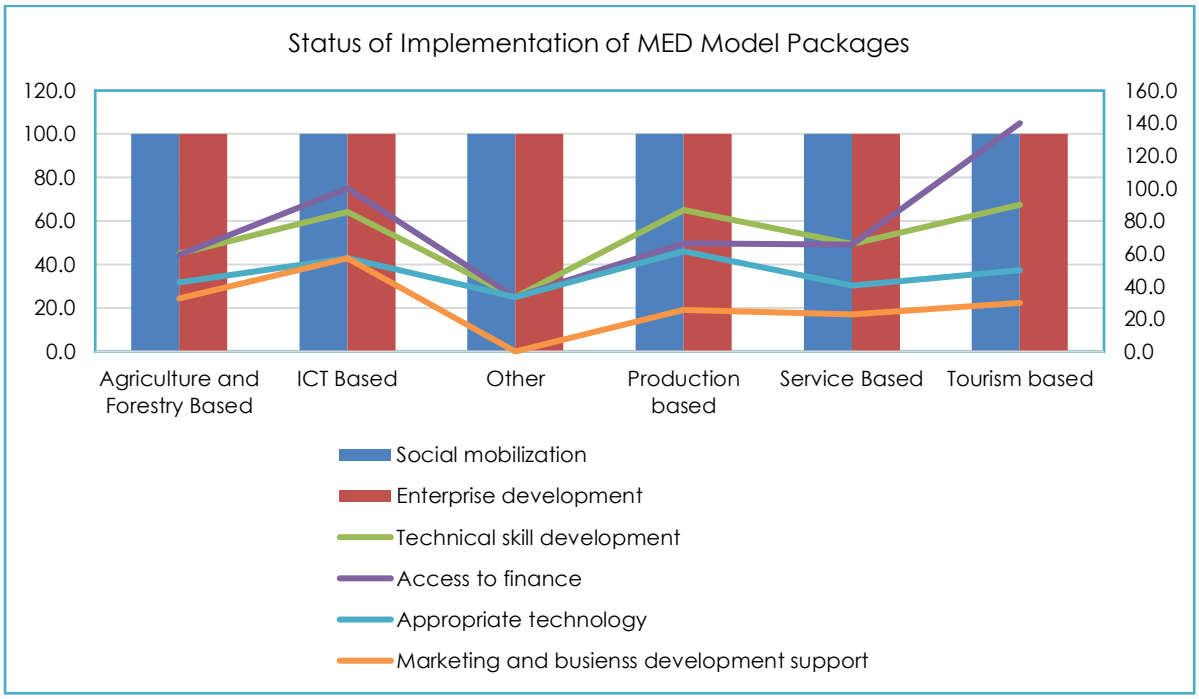
Formalization of the Micro-entrepreneurs

Microenterprises surveyed under this study are moving towards formalization. About 20.4% of the microenterprises surveyed were registered in District Cottage Industry Office (DCIO) and District Cottage Industry Board (DCIB), and about 10.1% were registered in concerned Inland Revenue Office (IRO) and received permanent account number (PAN) or Value Added Tax (VAT) certificate. Some of them also started the process to update their transaction in IRD. ICT, production and tourism based microenterprises are quite ahead on formalization process compared to agriculture and forestry based, service and other enterprises.



5.4.2 **Assistance from MEDEP/MEDPA**

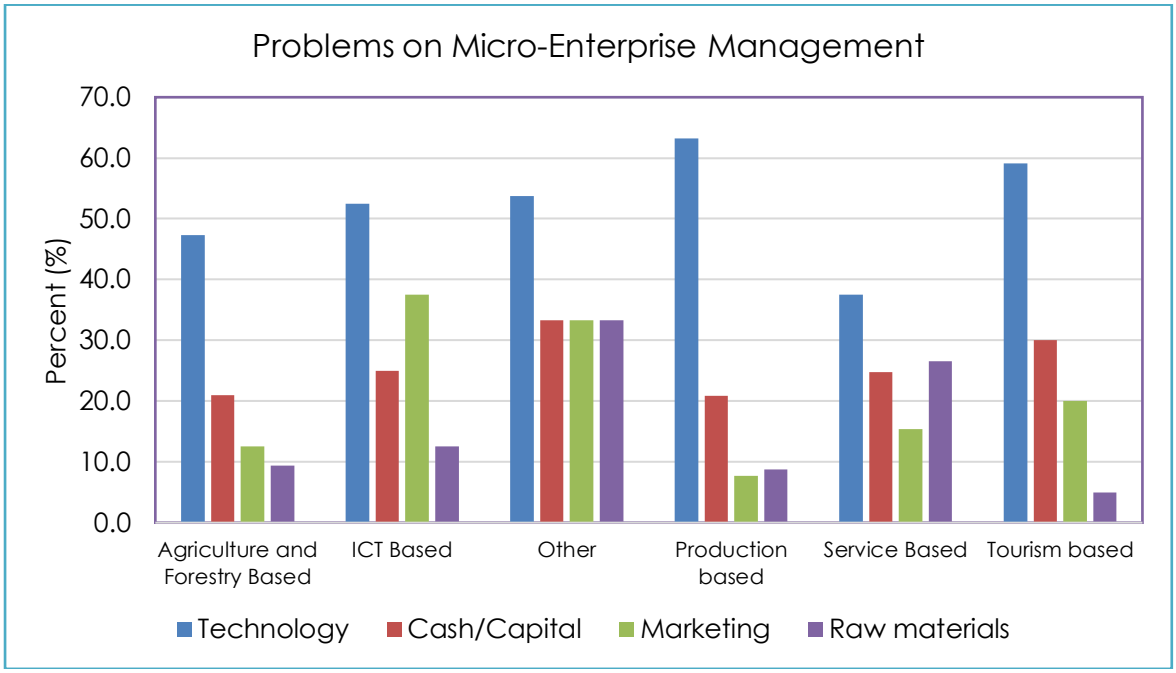
MEDEP/MEDPA has supported microenterprises surveyed through packages comprising of social mobilization, enterprise development, and technical skill development, access to finance, appropriate technology support and marketing and business development support. In many cases, some or all of these supports had worked as catalyst to motivate poor, women, dalit and disadvantaged groups in remote rural, emerging market towns, and urban areas to establish and operate the microenterprises.



There are both individual and group enterprises. Group enterprise are activities undertaken by more than one entrepreneurs with common objective such as iron works, mushroom farming, Dhaka weaving, bee keeping, craft works, etc. Most of the group enterprises did not continued long. Usually they terminated after the individual micro-entrepreneurs build their confidence on enterprise management. In most cases, group enterprises had been transformed into individual enterprises after some time. All the microentrepreneurs surveyed have received the social mobilization and enterprise development support. Support on appropriate technology, and marketing and business development had received by relatively lower proportion of the microentrepreneurs surveyed. On the other hand, level of support on access to technology and access to finance in the middle end. This implies that there is a need to ensure balance on implementing different steps of MED model, and considering the management challenged to the microentrepreneurs becomes complicated over time, demand for component such as market linkages and business counseling is likely to be increased thereby demanding renewed focus on sequence of enterprise development service packaging.

5.4.3 Microenterprise Management

The MEDEP/MEDPA focused on enhancing managerial capacity of women, poor and disadvantaged groups on microenterprise management supporting them mainly on managing the technology, finance and raw materials required for their microenterprise, and supporting on marketing of their products/services.



Of the total micro-entrepreneurs surveyed in this study, 52% expressed their problem on technology management, while remaining 25.8%, 21.1% and 15.9% expressed that they encountered with problems such as cash/capital, marketing, and raw materials. Technology problem is quite severe in all six categories of microenterprises, while cash/capital problems as not that severe among all the enterprise surveyed.

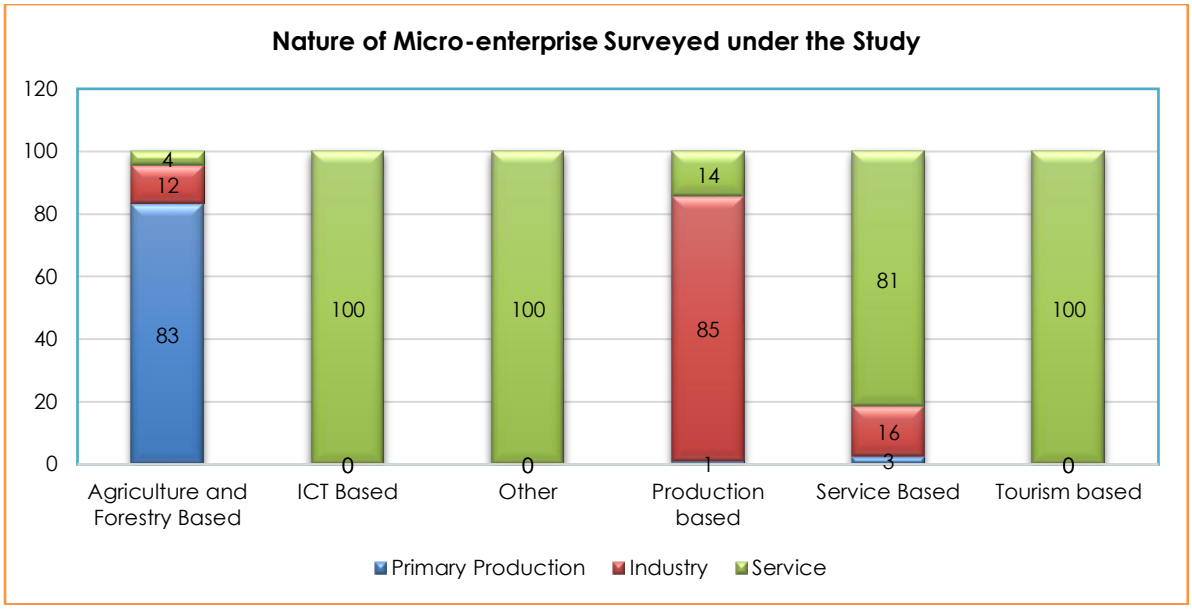
5.4.4 Nature and Type of Microenterprises

During field studies, nature and type of microenterprise was analyzed based on the following: (i) nature of the microenterprises, (ii) microenterprise mortality versus enterprise shifting/transformation and (iii) overall operational status / capacity utilization.

Nature of the microenterprises

Different categories of the microenterprises promoted under MEDEP/MEDPA can be classified into

three based on their nature of process involved on transforming production inputs (labor, capital, technology, raw materials) into outputs.



These are primary production based, manufacturing industry based, and service based. Of the total microenterprise surveyed, 50% were primary production based, 20% were industry based, and 30% were service based.

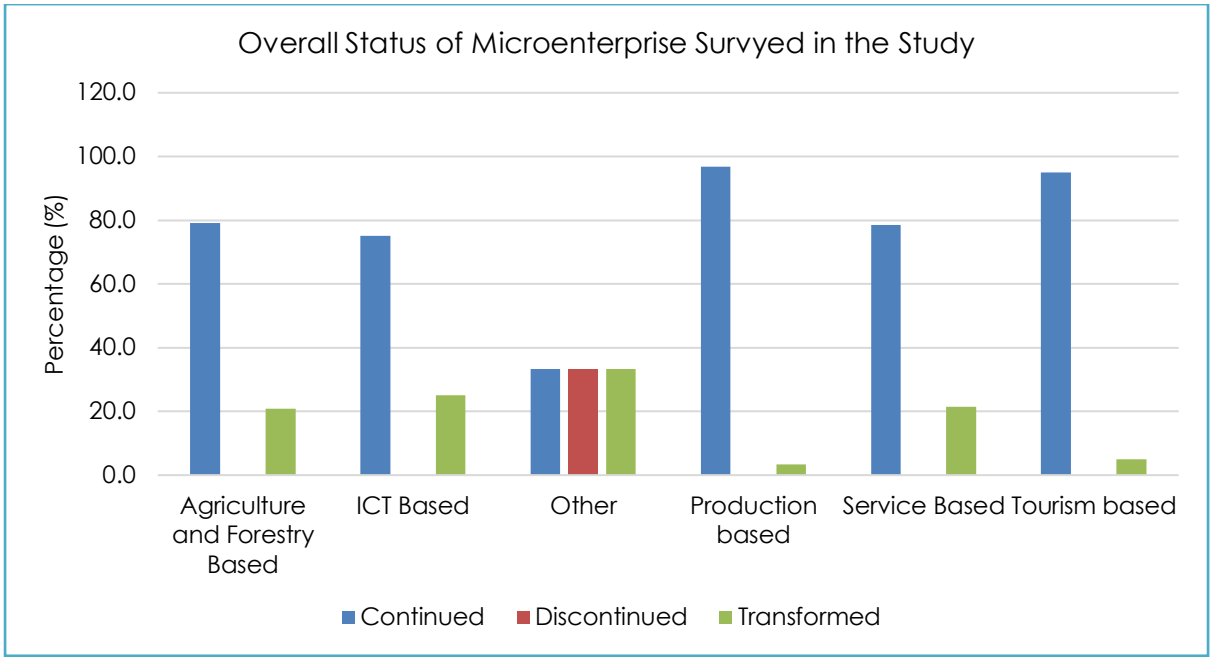
Agriculture and forestry based microenterprises were mainly primary production based, with negligible section on industry and service based, while all the tourism, ICT and other categories based microenterprises were service based. The production-based enterprises were mainly industry based with a small fraction of service orientation, and the context and situation was just opposite in case of service based microenterprises.

Mortality versus Shifting/Transformation of Microenterprises

In all the six categories of the microenterprises surveyed under this study, they are either the continuation of the original business or outcome of shifting/transformation. Incidence of shifting/diversification/shifting was found high among ICT based, tourism and service based microenterprise compared to the agricultural based enterprise.

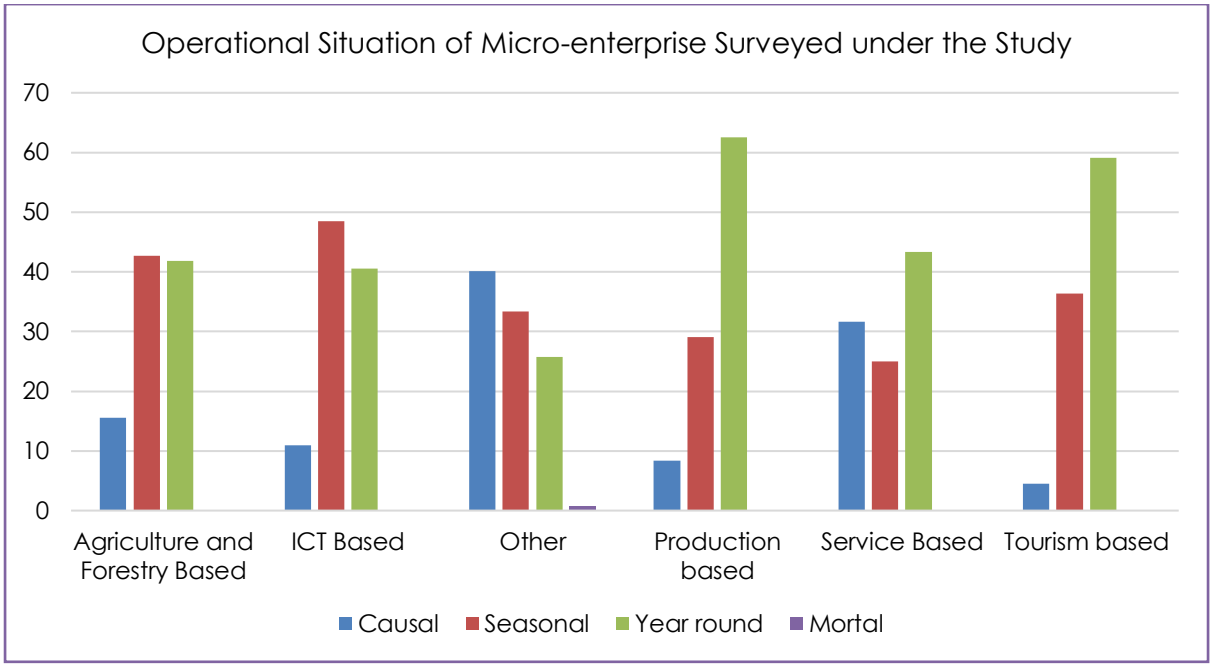
Enterprise shifting/transformation is quite common among group enterprise and/or enterprise depending on imported raw materials as primary production or depending on export for sell (facing competitiveness). Microenterprise using the imported raw materials operated for 1-2 years with great enthusiasm, but eventually could not continue due to lack of competitiveness and low profitability status of the enterprise. Enterprise shifting and transformation prevails among agricultural and forestry based, ICT based, and service-based microenterprises compared to production based and tourism based microenterprises.

Proportion of micro-entrepreneurs diversifying their enterprises is relatively higher among those seeing the feasibility to adopt enterprise using imported raw materials. Of those entrepreneurs with diversified enterprises, most of them have discontinued or closed the earlier enterprise and started the new enterprise. Both the individual and group enterprises have diversified enterprises, but the mode of diversification of group-based enterprise had been change from group ownership into individual ownership.



Capacity Utilization and Operation

On the basis of the capacity utilization and operation, microenterprises surveyed in this study were: year-round, seasonal and casual. In general, individual enterprise operates year-round business and employs them, whereas group business is seasonal and workers get seasonal or causal employment. Even some of individual enterprises were seasonal or causal in terms of operation.

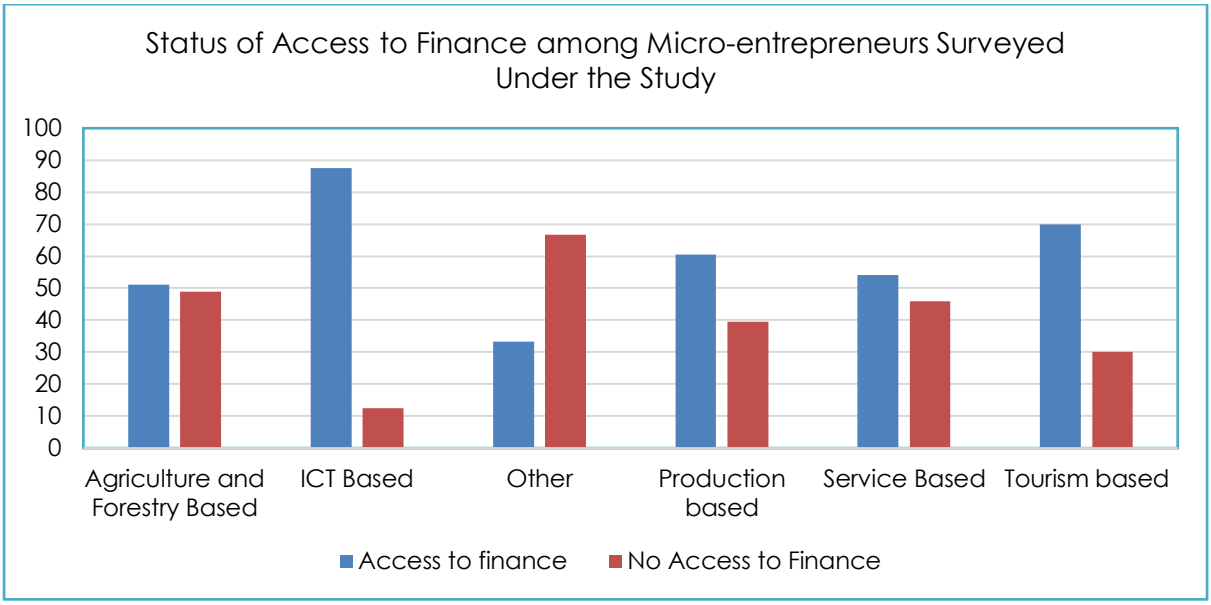


Of the total microenterprise surveyed, 21.3% are providing causal employment, 30.6% providing seasonal employment and remaining 40% are providing year-round employment. Across the microenterprise categories surveyed, proportion of microentrepreneurs providing causal employment range between 9.9% in production-based enterprises and 33.33% in other microenterprises. Proportion of microentrepreneurs providing seasonal employment ranged between 5% in Tourism and 36.2% in agriculture and forestry enterprises. On the other hand, proportion of microentrepreneurs

providing year-round employment ranges between 37.4% in agriculture and forestry enterprises and 100% in ICT based.

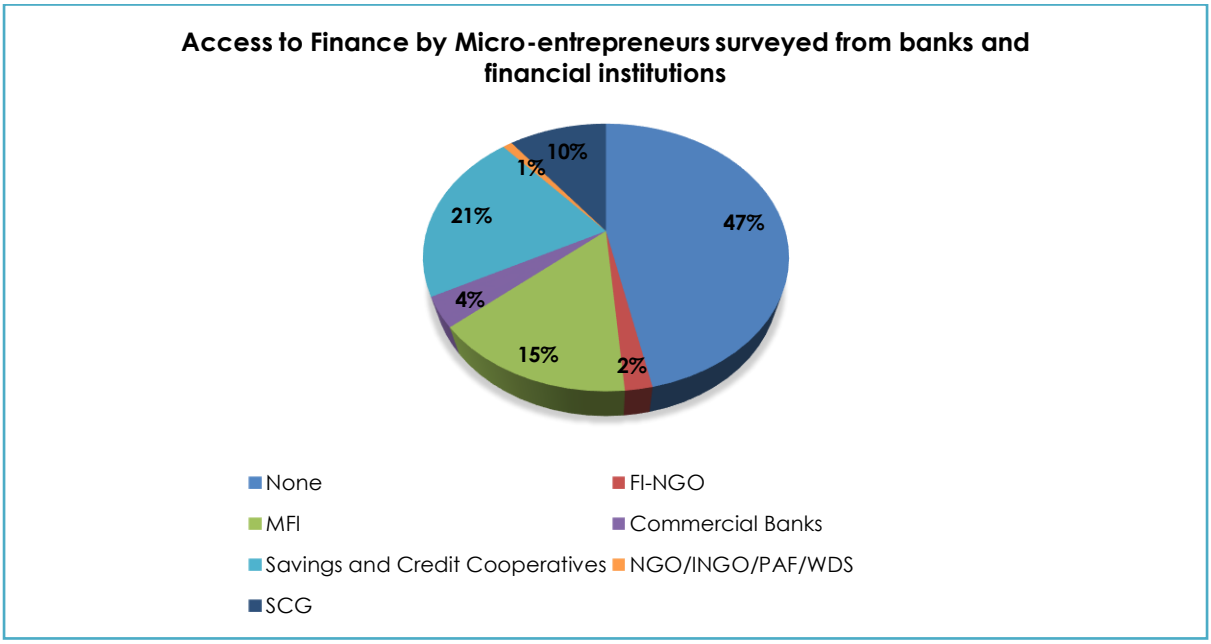
5.4.5 Access to Finance

Micro-entrepreneurs surveyed have received financial services from sources viz. financial cooperatives, microfinance institutions, commercial banks, financial intermediary NGOs, and informal lenders. Field survey information revealed that 53% clients surveyed had access to finance from different financial service providers active in their vicinity. More proportion of ICT, tourism, production, and service based microenterprises has relatively more access to finance compared to agriculture and forestry, and other types of microenterprises.



Sources of Access to Financial Services

Entrepreneurs surveyed have received access to finance from different sources such as financial cooperatives, microfinance institutions, commercial banks, financial intermediary NGOs, informal lenders, NGOs, INGOs and Poverty Alleviation Fund (PAF).



About 10% micro-entrepreneurs surveyed have borrowed from savings and credit groups. Remaining surveyed micro-entrepreneurs have borrowed from commercial banks (4%), FI-NGOs (2%), and NGOs/INGOs/PAF/WDS (1%). Especially those micro-entrepreneurs living in terai and accessible hills have better access to finance from formal sector compared to those living in inaccessible hills and mountains.

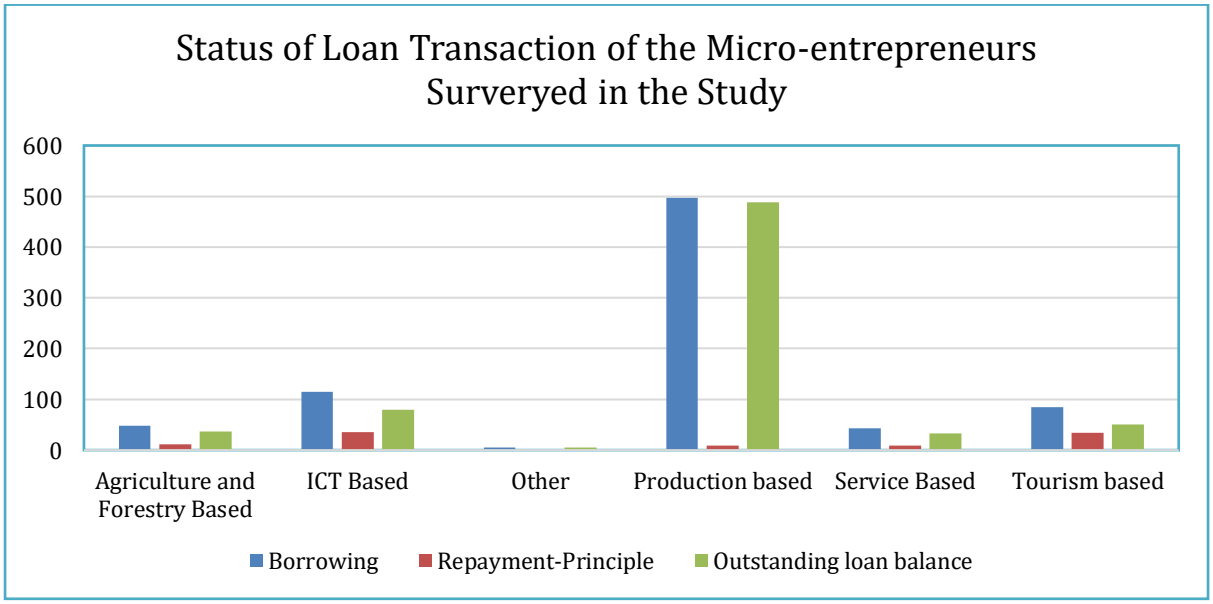
Table 2: Categories of Microenterprises Developed under MEDEP/MEDPA

Name of the FSPs	Agriculture and Forestry Based	ICT Based	Mortal	Other	Production Based	Service Based	Tourism Based	Total	% of total
None	292	1	1	1	36	128	6	465	46.6
MFI	66	5	0	0	13	56	10	150	15.0
SACCOS	122	1	0	1	20	62	4	210	21.1
SCG	68	0	0	0	11	25	0	104	10.4
FI-NGO	18	0	0	0	2	0	0	20	2.0
ADBL/RBB/NBL/SB/SRB	24	1	0	0	5	6	0	36	3.6
INGO/NGO/PAF/WDS/SFCL	6	0	0	0	4	2	0	12	1.2
	596	8	1	2	91	279	20	997	100.0

Source: Field Survey

Status of Loan Transaction

As discussed already about 53% of the micro-entrepreneurs surveyed have borrowed from different types of the financial service providers in their vicinity, and average amount of borrowing was Rs. 88.4 thousand. Loan transaction was more with production based microenterprise followed by ICT based and tourism based microenterprises.



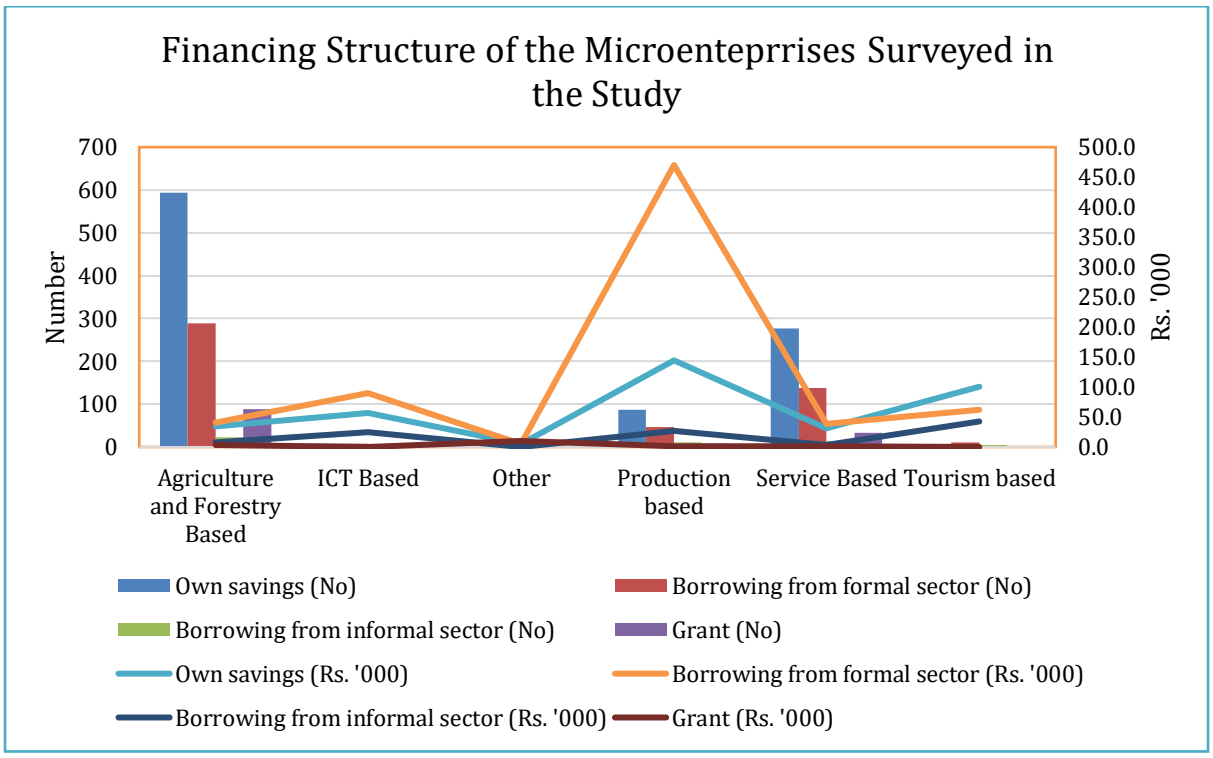
5.4.6 Financial Dimensions of Microenterprise

During field studies, financial analysis of the microenterprise was done through an estimation of current level of (i) financing structure, (ii) fixed investment, (iii) annual operating fixed cost, (iv) annual variable cost, (v) gross revenue and (vi) net income. Gross income and expenditure details provided by micro-entrepreneurs surveyed were analyzed to estimate profit or net income by enterprises over the last one year (2016-17). Profit analysis was carried out for 996 microenterprises operated by individual entrepreneurs. Since a large majority of respondents did not keep business details and accounts, data used for financial analysis was based on interviews with respondents, tentative calculation through mutual discussion and observation of enterprise operation and management.

Estimation of Financing Structure

A typical MEDEP/MEDPA promoted micro-entrepreneurs had managed financing required for their microenterprises from (i) using own savings, (ii) borrowing from formal sector, (iii) borrowing from informal sector, and (iv) use of grant money from MEDEP/MEDPA or any other agencies.

Use of Own Savings: Of the total micro-entrepreneurs surveyed, 98.9% have used their own savings to set-up their microenterprise. Across the enterprise categories, proportion of micro-entrepreneurs surveyed investing own savings to set-up the microenterprise ranged between 33.3% for others and 100% in ICT and Tourism based microenterprises. Average amount of own savings invested by the micro-entrepreneurs surveyed was Rs. 44.7 thousand. Across the districts surveyed, amount of owned savings invested by the micro-entrepreneurs to set-up microenterprises ranged between Rs. 5.0 thousand in other microenterprises and Rs. 144.4 thousand in production-based microenterprises.

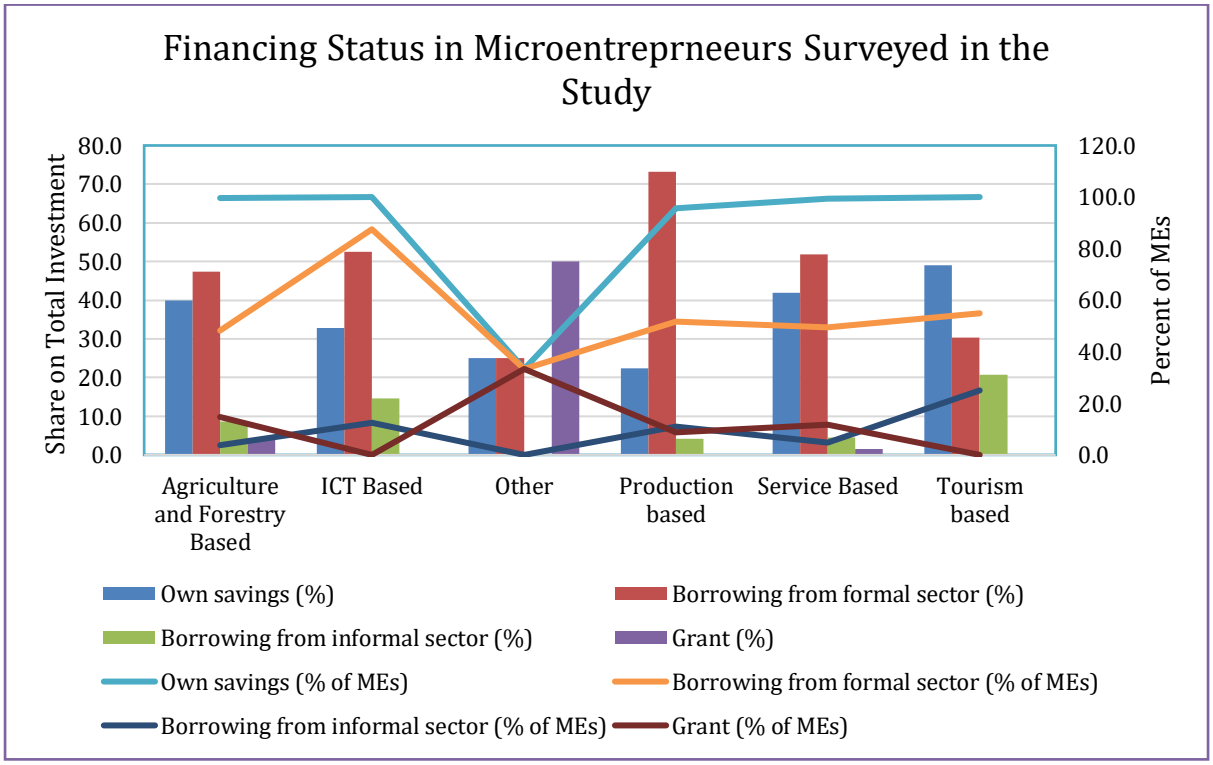


Borrowing from Formal Sector: Of the total micro-entrepreneurs surveyed, 49.3% have used money borrowed from formal sector (financial cooperatives, MFIs, FI-NGOs, and Commercial Banks) to set-up their microenterprise. Across the microenterprise types surveyed, proportion of micro-entrepreneurs using borrowed fund from formal sector to set-up microenterprise ranged between 33.3% in other microenterprises, and 87.5% in ICT based microenterprises. Average amount of borrowed money invested by micro-entrepreneurs was Rs. 79.8 thousand. Across the districts surveyed, amount of borrowed money used by the micro-entrepreneurs to set-up microenterprises ranged between Rs. 5.0 thousand in other microenterprises and Rs. 470.1 thousand in production based microenterprises. Loan sizes of micro-entrepreneurs borrowing from commercial banks, MFI, FI-NGOs were significantly higher than those borrowing from financial cooperatives.

Borrowing from Informal Sector: Of the total micro-entrepreneurs surveyed, 5.1% have used money borrowed from informal sector (money lenders, savings and credit groups, etc.) to set-up their microenterprise. Across the districts surveyed, proportion of micro-entrepreneurs using borrowed fund from informal sector to set-up microenterprise ranged between 0% in other enterprises and 25.0% in Tourism based microenterprises. Average amount money borrowed from informal sector by micro-entrepreneurs was Rs. 8.8 thousand. Across the districts surveyed, amount of money borrowed by micro-entrepreneurs from informal sector to set-up microenterprises ranged between Rs. 0.0 thousand in other microenterprises and Rs. 42.2 thousand in tourism based microenterprises.

Use of Grant Money: Of the total micro-entrepreneurs surveyed, 13.0% have received grant (cash and/or in-kind) from MEDEP/MEDPA to set-up their microenterprise. Across the microenterprise surveyed, proportion of micro-entrepreneurs receiving grant to set-up microenterprise ranged between 0% in ICT and Tourism based microenterprises, and 33.3 in other microenterprises. Average amount grant used by the micro-entrepreneurs was Rs. 2.6 thousand. Across the microenterprise surveyed, amount of grant used by the micro-entrepreneurs ranged between Rs. 0.0 thousand in ICT and Tourism based microenterprises and Rs. 10.0 thousand in other microenterprises.

Total amount of financing: All the micro-entrepreneurs surveyed had financed to set up their microenterprises. Average amount of financing was Rs. 135.9 thousand. This includes both for fixed investment and working capital finance. Across the microenterprise surveyed, total amount of financing by the microentrepreneurs to set-up microenterprises ranged between Rs. 20. Thousand in other microenterprises and Rs. 642.9 thousand in production based microenterprises.

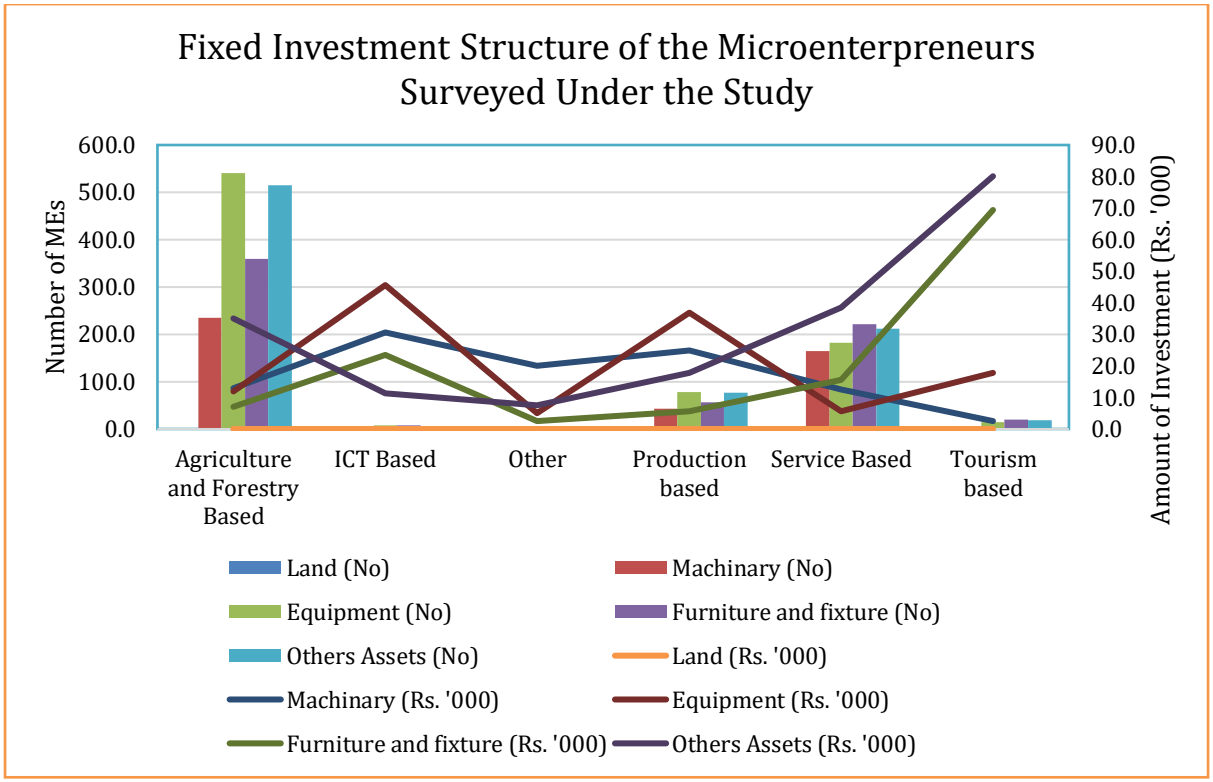


The financing structure is location specific and varies greatly across the scale and type of microenterprises. In general, insufficient sources of internal financing and inaccessibility of external financing at required amount was acknowledged by most of microentrepreneurs to be crucial constraints on new investment for growing microenterprises.

Fixed Investment Structure Analysis

Microenterprises surveyed in this study were started with small fixed investment structure. They established enterprise on their own land or in rented premises, but none have invested in fixed asset like land and buildings. Less than 10% microenterprises surveyed had constructed shed such as warehouse, cattle and buffalo, mushroom, etc. in their own land or rented premises. Typical investment activities include land, building, machineries, equipment, and other accessories.

About 51.1% microentrepreneurs surveyed have invested in machineries and across microenterprise surveyed, proportion of microentrepreneurs investing in machineries to set-up the microenterprises ranged between 15% (tourism based) and 91% in agriculture and forestry based microenterprises. Average of amount of investment on machineries was Rs. 13.9 thousand, with average amount of investment ranging between Rs. 2.5 thousand in tourism based microenterprises and Rs. 30.6 thousand in ICT based microenterprises.

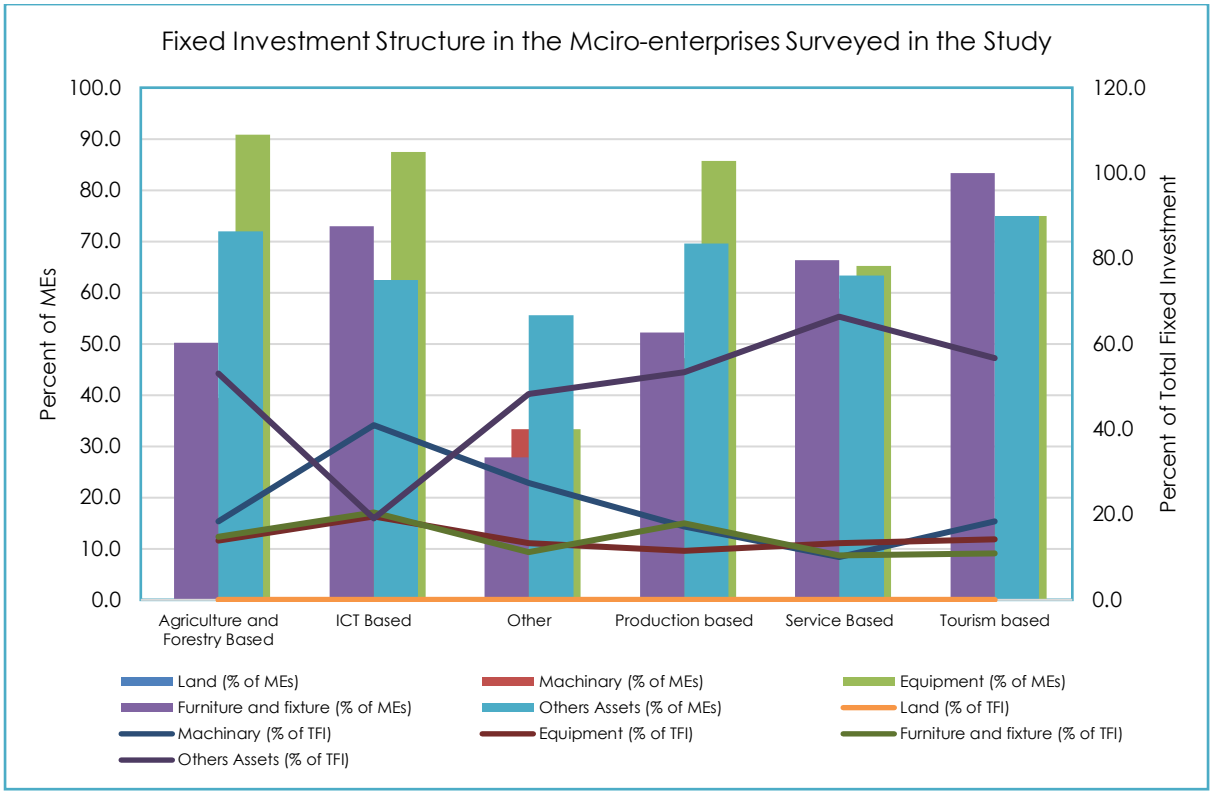


Investment on equipment: Survey findings revealed that about 82.6% microentrepreneurs surveyed have invested in equipment and across microenterprise surveyed, proportion of microentrepreneurs investing in equipment to set-up microenterprises ranged between 33% in other microenterprises and 63% in ICT based microenterprise. Average of amount of investment on equipment was Rs. 12.8 thousand, with average amount of investment in equipment ranging between Rs. 5.0 thousand in other type of microenterprises, and Rs. 45.6 thousand in ICT based microenterprises.

Investment on furniture and fixtures: About 66.8% microentrepreneurs surveyed have invested in furniture and fixtures and across districts surveyed proportion of microentrepreneurs investing in furniture and fixtures ranged between 33% in other microenterprises and 100% in tourism based microenterprises. Average of amount of investment on furniture and fixtures was Rs. 12.4 thousand, with average investment on furniture and fixture ranging between Rs. 2.5 thousand in other microenterprises and Rs. 69.4 thousand in tourism based microenterprises.

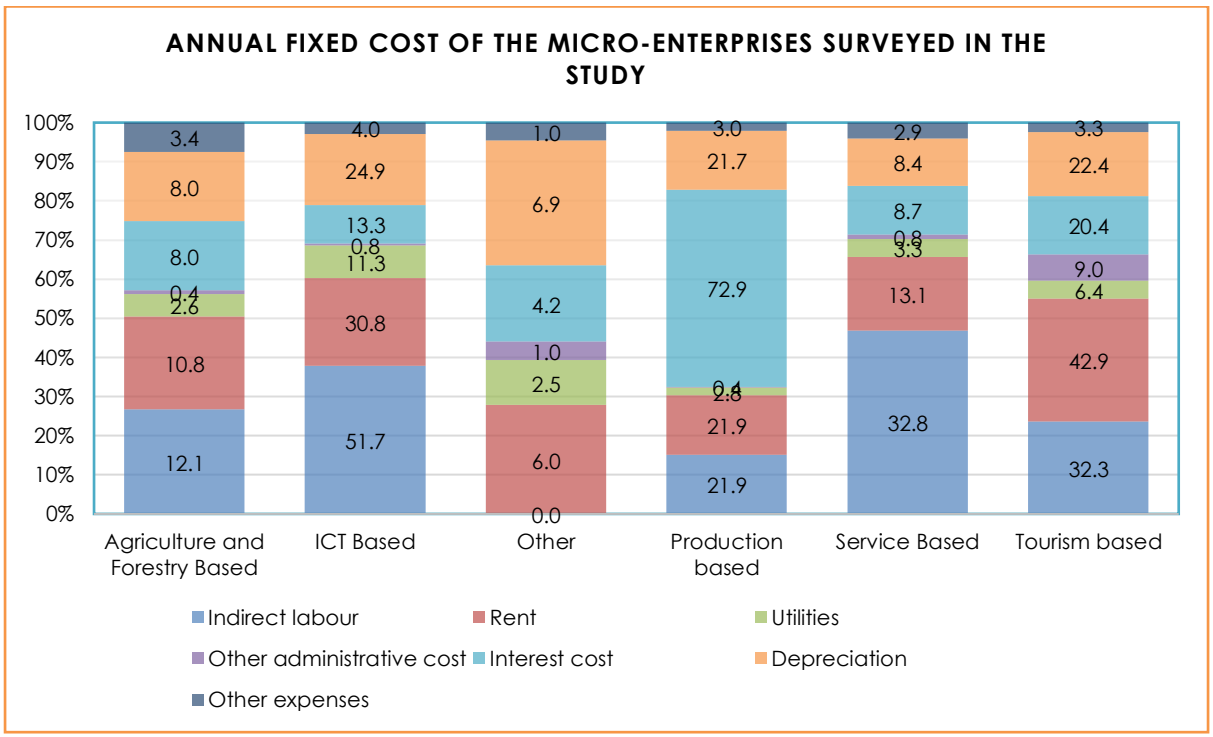
Investment on building and other productive assets: Survey findings revealed that about 83% microentrepreneurs surveyed have invested on temporary infrastructure and other productive assets and across microenterprise surveyed proportion of microentrepreneurs investing on building and other productive assets ranged between 67% in other microenterprises and 100% in Banke district. Average of amount of investment on building and other productive assets was Rs. 80.9 thousand, with average amount of investment ranging between Rs. 7.5 thousand in other microenterprises and Rs. 212 thousand in service based microenterprises.

Total Amount of Fixed Investment: All the microentrepreneurs surveyed had financed for fixed investment to set up their microenterprises. Average amount of fixed investment finance were Rs. 120.0 thousand. Across the microenterprise surveyed, total amount of fixed investment finance by the microentrepreneurs to set-up microenterprises ranged between Rs. 35.0 thousand in other microenterprises and Rs. 169.8 thousand in tourism based microenterprises.



Annual Operating Fixed Cost Analysis

All the microenterprises surveyed in this study has incurred annual operating fixed cost such as salary for the indirect labor, rent payment, utilities, other administrative cost, interest cost, depreciation, and other expenses. Current state of annual operating fixed costs is discussed below.



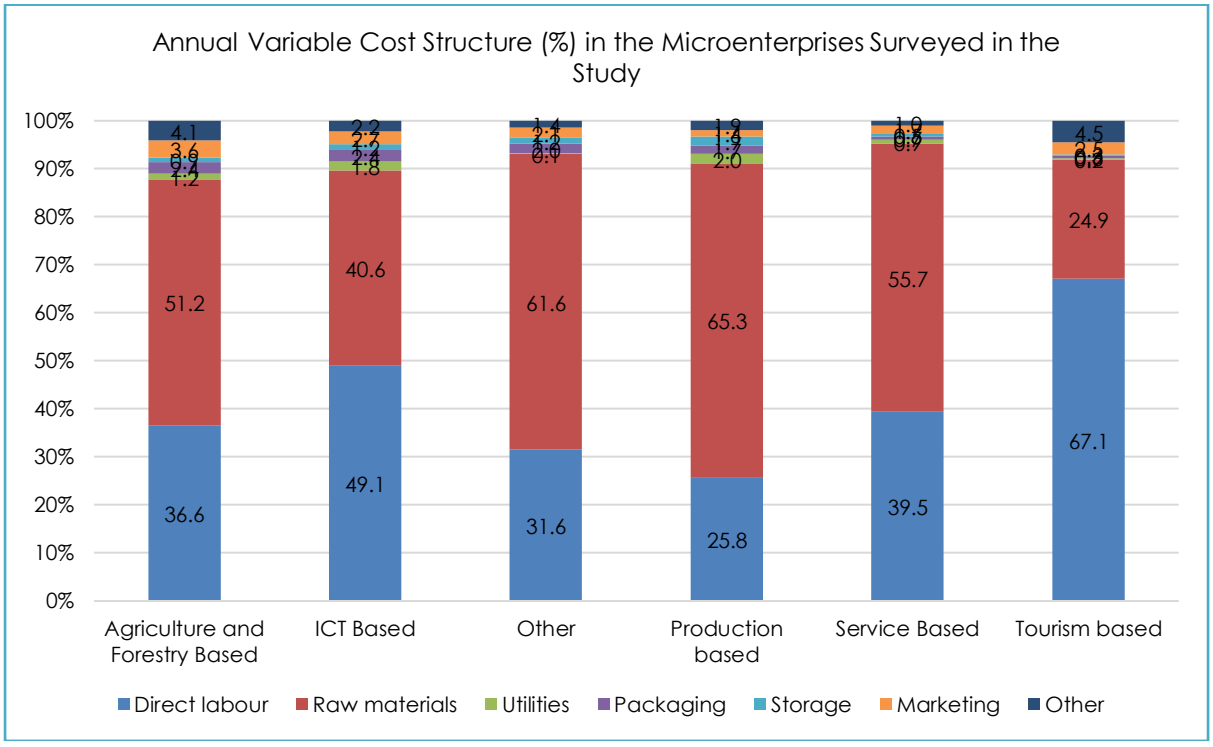
Salary of indirect labor: About 25% microentrepreneurs surveyed had incurred annual fixed cost on indirect labor. Across microenterprise surveyed, proportion of microentrepreneurs incurring salary cost for indirect labour to operate their microenterprises ranged between 0% in other microenterprises and 75% in ICT based microenterprises. Average salary cost for indirect labour was Rs. 19.5

thousand, with average amount of indirect labour cost ranging between Rs. 0 thousand in other microenterprises and Rs. 51.7 thousand in ICT based microenterprises.

Rental cost: Field studies estimated that about 64% microentrepreneurs surveyed had incurred rental cost and across microenterprise surveyed, proportion of microentrepreneurs incurring rental cost ranged between 33% in other types of microenterprises and 100% in ICT based microenterprises. Average rental cost was Rs. 13.4 thousand, with average rental cost ranging between Rs. 6.0 thousand in other microenterprises and Rs. 42.9 thousand in tourism based microenterprises.

Cost for utilities: About 66% microentrepreneurs surveyed had incurred annual fixed cost on utilities and across the microenterprise surveyed, proportion of microentrepreneurs incurring cost for utilities ranged between 33% in other microenterprises and 88% in ICT based microenterprises. Average cost for utilities was Rs. 3.0 thousand, with average cost for utilities ranging between Rs. 2.5 thousand in other microenterprises and Rs. 11.3 thousand in ICT based microenterprises.

Cost for other administrative activities: Field studies estimated that about 12% microentrepreneurs surveyed had incurred annual fixed cost on other administrative activities and across he microenterprise surveyed, proportion of microentrepreneurs incurring cost for other administrative activities ranged between 10% in Tourism microenterprises and 33.3% in other microenterprises. Average cost for other administrative activities was Rs. 0.5 thousand, with average cost for other administrative activities ranging between Rs. 0.4 thousand in agriculture and forestry based and production based microenterprises and Rs. 9.0 thousand in tourism based microenterprises.



Interest cost: Since all the micro-entrepreneurs have invested few thousands to few hundred thousand rupees to set up their microenterprises, they have foregone opportunity cost of capital or had paid interest for the amount borrowed depending on the source of financing of the fixed investment amount. Average interest cost was Rs. 14.4 thousand, with average interest cost ranging between Rs. 4.2 thousand in other microenterprises and Rs. 72.9 thousand in production-based enterprises.

Depreciation cost: About 83% microentrepreneurs surveyed had incurred depreciation cost and across microenterprise surveyed, proportion of microentrepreneurs incurring cost for depreciation ranged between 33% in other microenterprises and 100% in Tourism based microenterprises. Average depreciation cost was Rs. 9.8 thousand, with an average depreciation cost ranging between Rs. 6.9thousand in other microenterprises, and Rs. 22.4 thousand in tourism based microenterprises

across microenterprises type.

Other expenses: About 99.3% microentrepreneurs surveyed had also incurred other expenses and cross microenterprise surveyed, proportion of microentrepreneurs incurring other cost to operate their microenterprises ranged between 66.7% in other microenterprises and 100% in ICT and tourism-based microenterprises. Average amount of other cost was Rs. 3.2 thousands; with average other cost ranging between Rs. 1.0 thousand in other microenterprises, and Rs. 4.0 thousand in ICT based microenterprises.

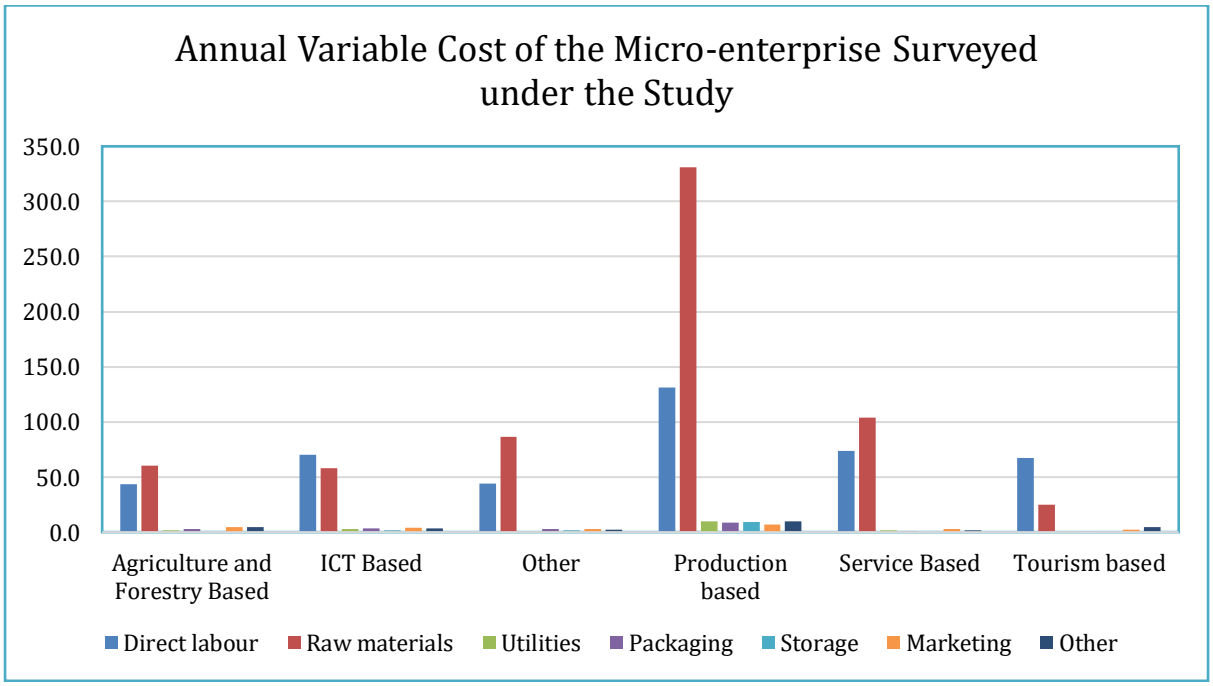
Total Annual Operating Fixed Cost: All the micro-entrepreneurs surveyed had incurred annual operating fixed cost to operate their microenterprises. Average amount of annual operating fixed cost was Rs. 63.8 thousand. Across the microenterprise surveyed, total amount of annual operating fixed cost ranged between Rs. 21.6 thousand in other microenterprises, and Rs. 144.7 thousand in production based microenterprises. The total annual operating fixed cost structure is location specific and varies greatly across microenterprise surveyed. Since most of the microentrepreneurs surveyed lack proper books of account, annual operating fixed cost was imputed based on the observation of current state of operation of microenterprise and interview with microentrepreneurs.

Annual Operating Variable Cost Analysis
Though all the microenterprises surveyed had incurred annual operating variable costs such as salary for direct labour, cost for raw materials, utilities, packaging, storage, marketing, and other expenses to operate properly, direct labor cost and cost for raw materials are their major cost.

Wages of the direct labor: About 99.3% of the microentrepreneurs surveyed have incurred direct labour cost. This includes either family labour or hired labor; either skilled or semi-skilled labour suitable for their microenterprises.Average cost for wages of direct labour was Rs. 68.4 thousand.

Cost for raw materials: About 91% microentrepreneurs surveyed had cost for the raw materials, and average cost for raw materials was Rs. 128.1 thousand.

Cost for utilities: Very few (27.6%) of micro-entrepreneurs have incurred cost for utilities, and average cost for the utilities was Rs. 2.3 thousand.



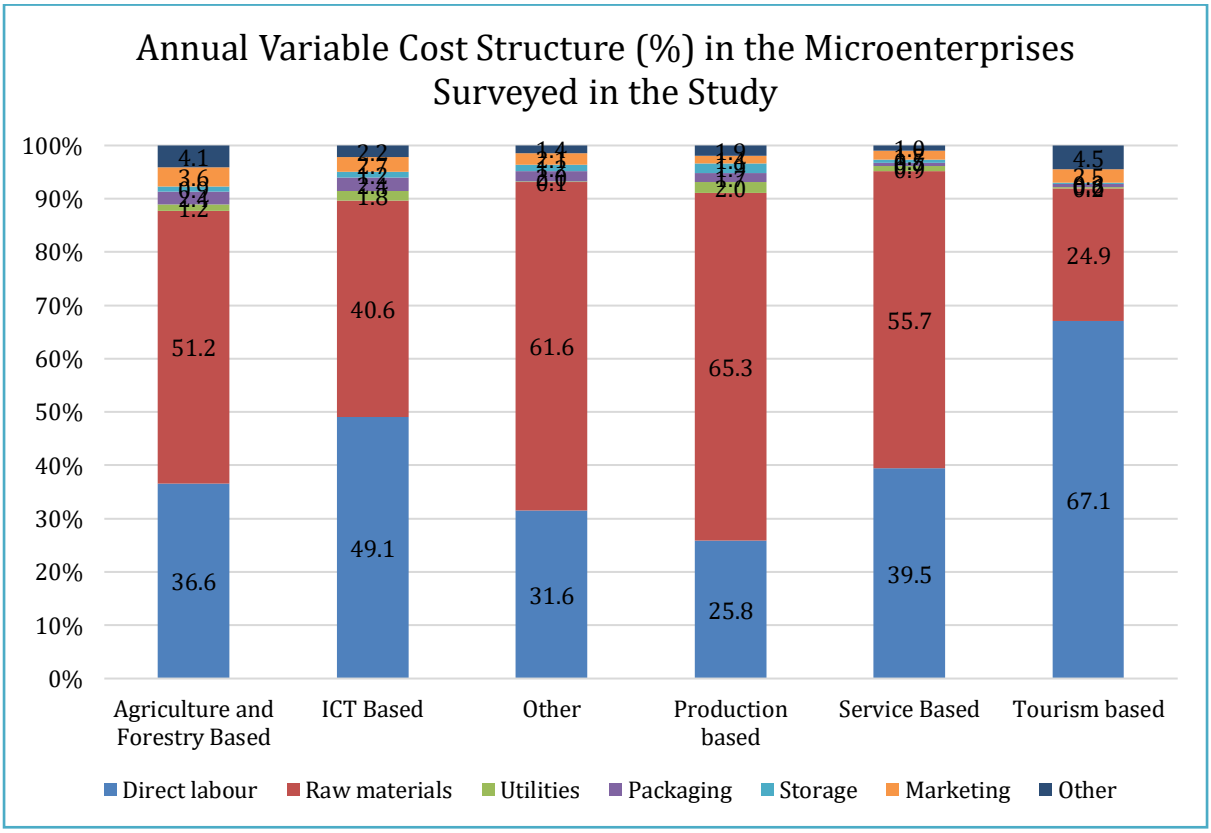
Packaging cost: Cost for packaging for the finished products are incurred by some microenterprise dealing with grocery store, honey, meat, eggs, incense stick, vegetable and fruit trade, soap making, etc. About 43% microentrepreneurs surveyed had incurred cost for packaging for their operation, and

average packaging cost was Rs. 4.3 thousand.

Storage cost: There are estimated 24% microenterprises producing non-perishable goods such as grocery, honey, incense stick, soap making, agricultural implements, farm equipment, furniture, bamboo products, mudha, etc. and average storage cost was Rs. 3.6 thousand.

Marketing cost: Different products produced by the microenterprises surveyed are marketed in local market, district market, regional market, national market, and international market. About 52% micro-entrepreneurs surveyed had incurred marketing cost for their product, and average marketing cost was Rs. 4.8 thousand.

Other cost: About 56% of the microenterprises surveyed have incurred other cost in the form of obtaining market information and average other cost was incurred was Rs. 4.8 thousand.



Total Annual Operating Variable Cost: All the microentrepreneurs surveyed had incurred annual operating variable cost to operate their microenterprises. Average amount of total annual operating variable cost was Rs. 216.3 thousand. Across the enterprise categories, total amount of annual operating variable cost by microentrepreneurs ranged between Rs. 98.0 thousand in other enterprise and Rs. 325.5 thousand for production-based enterprises.

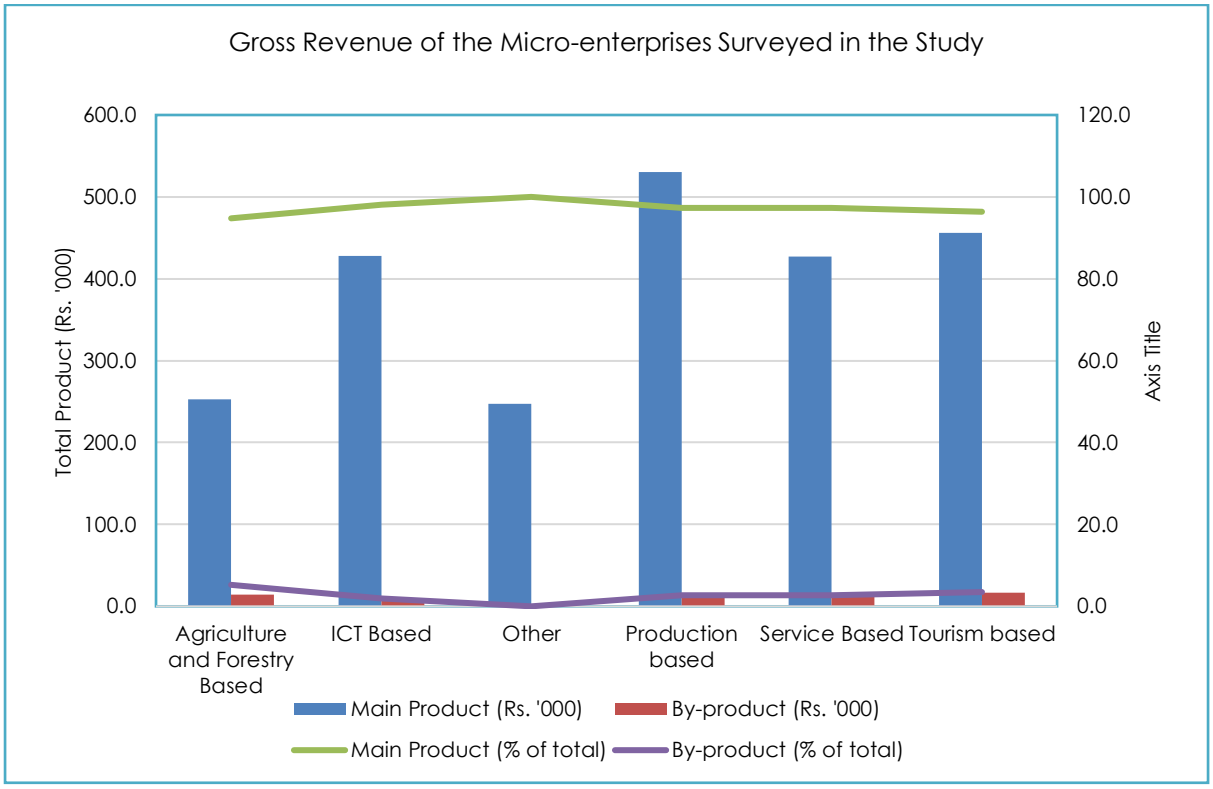
Of the total annual operating variable cost, share of raw materials was 59%, and that of direct labour 32%, utilities 1%, packaging cost 2%, storage cost 2%, marketing 2% and other cost 2%. The total annual operating variable cost structure is enterprise specific and varies greatly across study districts. Most o of the microentrepreneurs surveyed lack proper books of account, and annual operating variable cost presented in this section was imputed based on observation of their current state of microenterprise operation and interview with the microentrepreneurs.

Gross Revenue Analysis

All the microenterprises surveyed in this study has earned through main products and by-products

they produced from the operation and management of their microenterprises.

Revenue from main products: All the enterprises surveyed have produced main products and these products were valued at monetary term by using their actual prices. Most the product produced by these microenterprises are sold from farm gate (case of finished goods) right after harvest or immediately after production, while there are goods/products that had been sold in the district or regional or national or even the international market. In the latter case, they have incurred cost for packaging, storage, marketing and other cost. All the microentrepreneurs surveyed have earned revenue from the sale of the main products, and value of the main products was estimated at Rs. 332.2 thousand. Across microenterprises categories, value of revenue from main products ranged between Rs. 247.0 in other based microenterprises and Rs. 530.3 thousand in production-based enterprises.



Revenue from by-products: Microenterprises also earn from by products such as manure, bee hive, scraps of iron works, crop residue, intercrops, and left cloths of finish Dhaka cloths, cut left in tailoring works, etc. Over 80% of microenterprises surveyed have produced by-products and average value of by-products was estimated at Rs. 13.4 thousand, ranging Rs. 0 in other microenterprises and Rs, 16.8 thousand in tourism based microenterprises.

Total gross revenue: Gross revenue refers to sum of main products and by-products of microenterprises managed by micro-entrepreneurs. Average value of gross revenue was estimated at Rs. 345.6 thousand. Across districts surveyed, value of gross revenue ranged between Rs. 247.0 thousand in other microenterprises and Rs, 544.9 thousand in production based microenterprises. Of the total gross income, revenue from main products constitutes 96.1% and that of the by-product constitutes 3.9%.

Net Revenue Analysis

Net return of microenterprise was analyzed by subtracting annual fixed cost and annual variable cost from gross revenue. Average net operating income of the micro-entrepreneurs was Rs. 65.6 thousand, ranging across study districts at 43.5 thousand in ICT based microenterprises and Rs. 127.4 in other type of microenterprises. It should be noted that all the microenterprises surveyed in this study have incurred positive net revenue; some are operating at profit while other are operating at losses. About 20% of the microenterprises surveyed were found to operate in losses.

Analysis of Micro-Entrepreneurs' Share in Gross Income

Net revenue presented above include imputed cost of wage laborers of micro-entrepreneurs and their HH members on assumption that they would have earned wage labor had they worked elsewhere as wage laborers. Proportion of hired labor used is very low. Under this assumption, analysis of micro-entrepreneur's share on enterprise income was done adding cost of indirect and direct labour on net income. Average share of micro-entrepreneurs in gross income was Rs. 153.4 thousand, ranging across study districts at 117.2 thousand in Agriculture and forestry based microenterprises, and Rs. 225.0 thousand in Service based microenterprises.

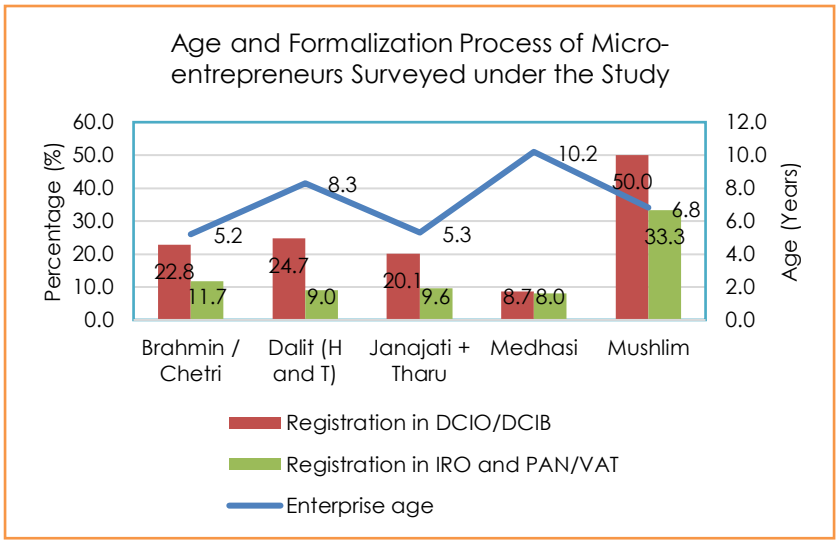
5.5 **Financial Analysis of the Microenterprise across Social Inclusion**

5.5.1 **Microenterprise Establishment, Formalization, and Institution Development**

MEDEP/MEDPA had worked to identify potential entrepreneurs, and assisted to starting, existing, and growing entrepreneurs over the last 18 years. Aspects of the microenterprises surveyed under this study covering type, their age, and formalization process and institution development are discussed hereunder.

Type of Microenterprises

A total of 137,404 MEDEP/MEDPA promoted microenterprises can be classified into eight such as: agriculture and forestry based, production based, service based, tourism based, construction based, ICT based, energy based and other (Industrial Enterprise Act). Of the 997 microentrepreneurs surveyed in this study, 333 (33%) are Brahmin/Chhetri, 166 (17%) are Dalit, 354 (36%) are Janajati including Tharu, 138 (14%) are Madhese and 6 (06%) are Muslim.



Age of the Microenterprises: Number of years of the micro-entrepreneurs surveyed ranges between 1 years and 18 years with an average of 6.6 years. Across the ethnicity average age of enterprises managed by Brahmin/Chhetri was 5.2 years and that of Madhese was 10.2 years.

Formalization of the Micro-entrepreneurs: Microenterprises surveyed under this study are moving towards formalization. About 20.4% of the microenterprises, ranging at 8.7% in case of Madhese and 50% in case of Muslim managed microenterprises were registered in District Cottage Industry Office (DCIO) and District Cottage Industry Board (DCIB).

About 10.1% microenterprises, ranging 8.0% Madhese and 33.3% Muslim managed microenterprises were registered in concerned Inland Revenue Office (IRO) and received permanent account number (PAN) or Value Added Tax (VAT) certificate. Some of them also started the process to update their transaction in IRD. ICT, production and tourism based microenterprises are quite ahead on formalization process compared to agriculture and forestry based, service and other enterprises.

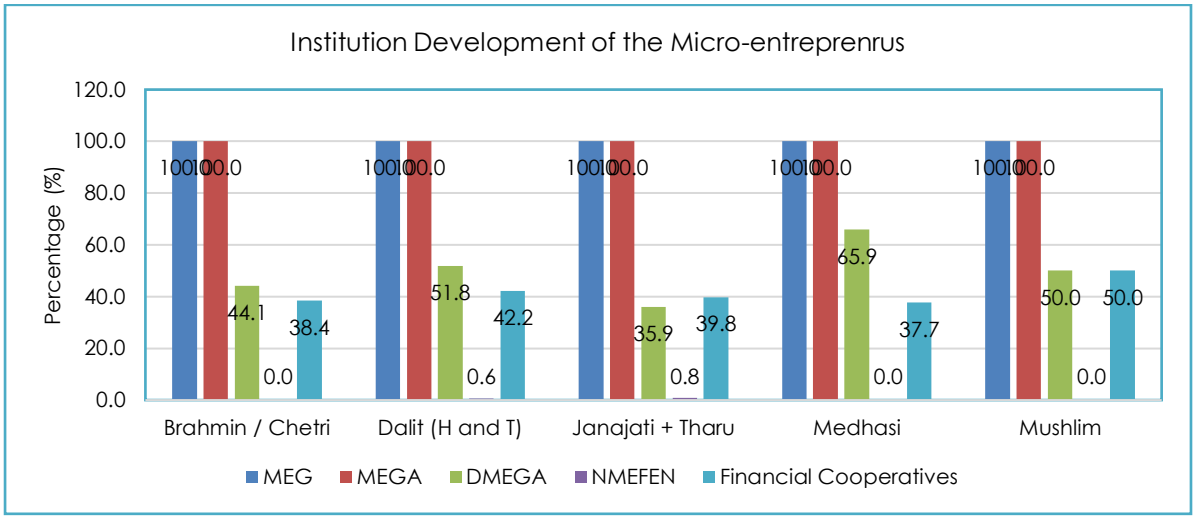
Institutional Development of Microenterprises

Institutional development of the microentrepreneurs through social mobilization process was an integral part of the MED model for enterprise development. MEG, MEGA, DMEGA, NMEFEN and

transformation of the MEG into cooperatives (savings and credit or multipurpose) are the different types of the institutions promoted under MEDEP/MEDPA.

Micro-Entrepreneurs' Group: All the microentrepreneurs surveyed, irrespective of ethnicity, have joined into MEG. They have worked as a local level financial intermediary for their members.

Micro-Entrepreneurs Groups Association: All MEGs formed at the settlement level of a particular rural market centre are federated into MEGA, as their informal association. All the MEGA are operating at mixed success. All the respondents, irrespective of ethnicity, are members of MEGAs.



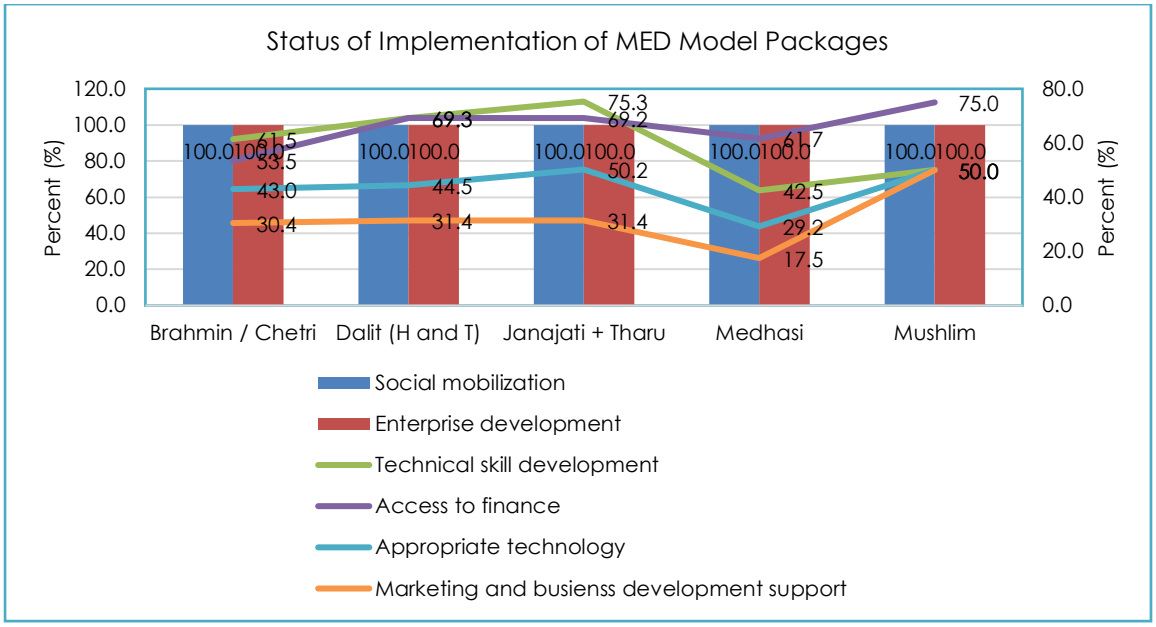
District Micro-Entrepreneurs Group Association: All the MEGAs within a district are federated into DMEGA, as an informal association of MEGAs but are operating at mixed success. Though all the DMEGA are currently working actively, most of them failed to bring all MEGA members into its ambit. About 45.5% surveyed (35.9% Janajaties and 65.9% Madhese) were D-MEGA members. DMEGA has restructured in Municipality level MEGA.

National Micro-Entrepreneurs Federation Nepal: In general, all D-MEGAs in MEDEP/MEDPA districts are federated into NMEFEN. NMEFEN is working actively, but it failed to bring all micro-entrepreneurs under its ambit. Only 0.4% (Dalits and Janajaties) of micro-entrepreneurs surveyed were members of NMEFEN.

Financial Cooperatives: Some of the micro-entrepreneurs surveyed under this study were also the shareholders of the financial cooperatives developed under the technical and financial support of MEDEP/MEDPA. About 39.5% of the micro-entrepreneurs (37.7% Madhese and 50% Muslim) surveyed were the shareholders of financial cooperatives.

5.5.2 **Assistance from MEDEP/MEDPA**

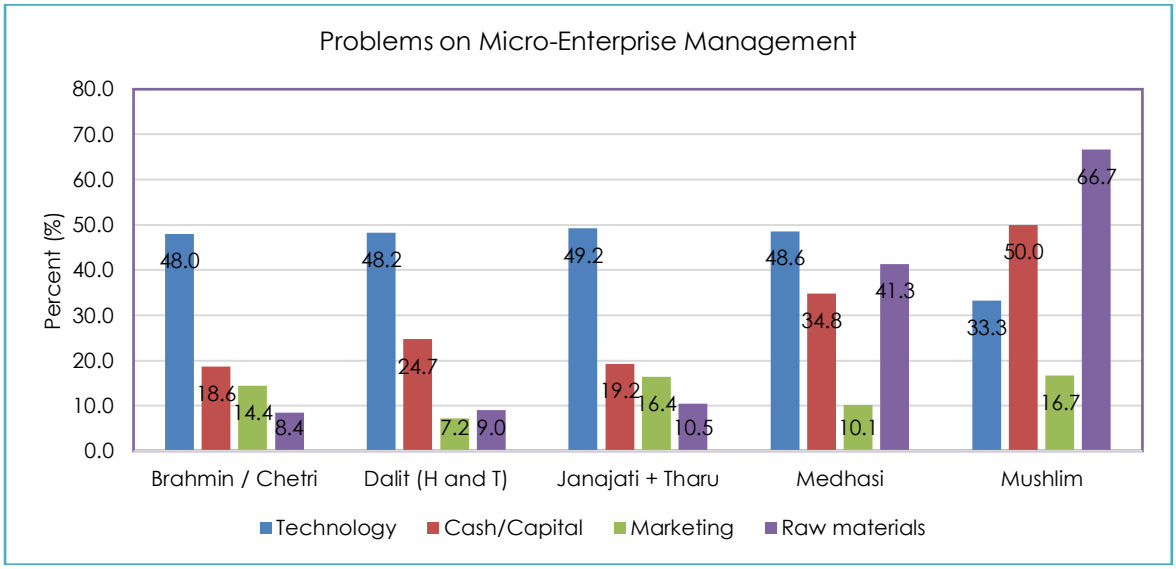
MEDEP/MEDPA has supported microenterprises surveyed through packages comprising of social mobilization, enterprise development, and technical skill development, access to finance, appropriate technology support and marketing and business development support. In many cases, some or all of these supports had worked as catalyst to motivate poor and disadvantaged groups in remote rural, emerging market towns, and urban areas to establish and operate the microenterprises.



All the microentrepreneurs surveyed, across sex, have benefited from social mobilization support and enterprise development training provided under MEDEP/MEDPA. 64.9% (42.5% Madhese and 75.3% Janajaties), have received technical skill training, and about 62.9% (53.5% Brahmin/Chhetri and 75% Muslim) have benefitted from access to finance. Likewise, 43.9% (29.2% Madheseand50.2% Janajaties), and 29.2% (17.5% Madhese and 50% Muslim) microenterprises have received support from appropriate technology and marketing and business development support from MEDEP/MEDPA.

5.5.3 **Microenterprise Management**

The programme has focused on providing packages of services encompassing technology, cash/capital, marketing and raw materials management to microentrepreneurs for their continued and sustainable growth. Technology is the main problems faced by the microentrepreneurs surveyed followed by cash/capital, raw materials and marketing.

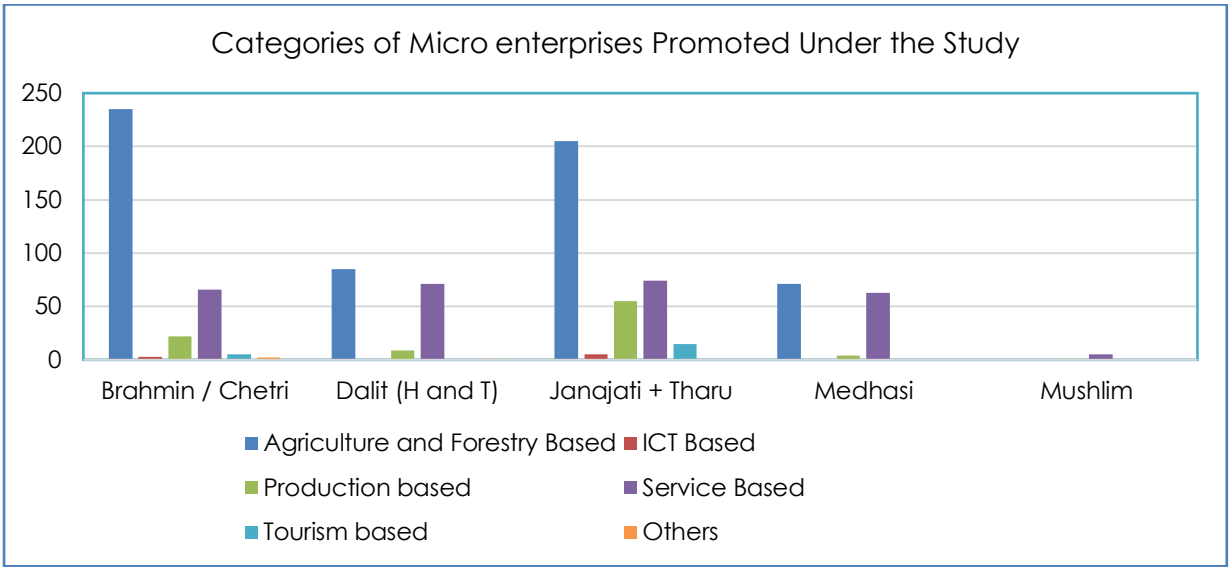


Technology problem is quite severe among the microentrepreneurs irrespective of ethnicity, while market problem was quite low to all types of micro-entrepreneurs by ethnicity. More proportion of Muslim and Madhese microentrepreneurs had faced problem on cash and marketing.

5.5.4 **Nature and Type of Microenterprises**

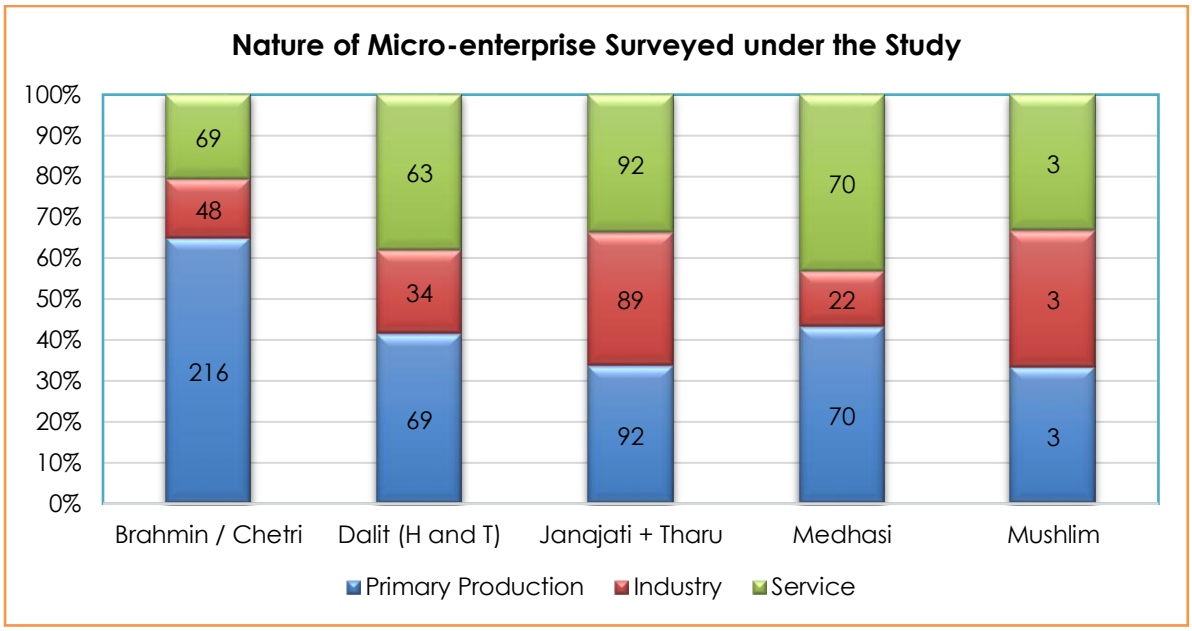
Categories of microenterprises:

Production and service based microenterprises are managed by all the ethnic groups, and all expect Muslim have managed agriculture and forestry based microenterprises.



Nature of the microenterprises

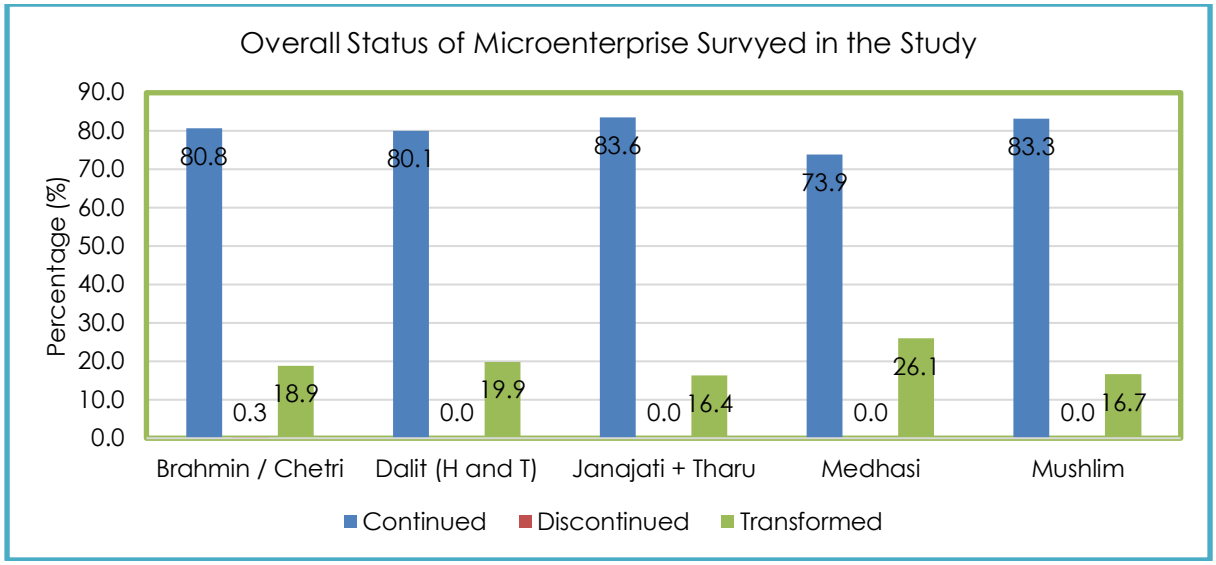
Different categories of the microenterprises promoted under MEDEP/MEDPA are further grouped into three based on nature of process involved on transforming production inputs into outputs namely production based, industry based, and service based. Of the total microenterprise surveyed, 50% were primary production based, 20% were industry based, and 30% were service based.



All the ethnic groups have managed all three categories of the microenterprises. Ethnic participation is almost identical.

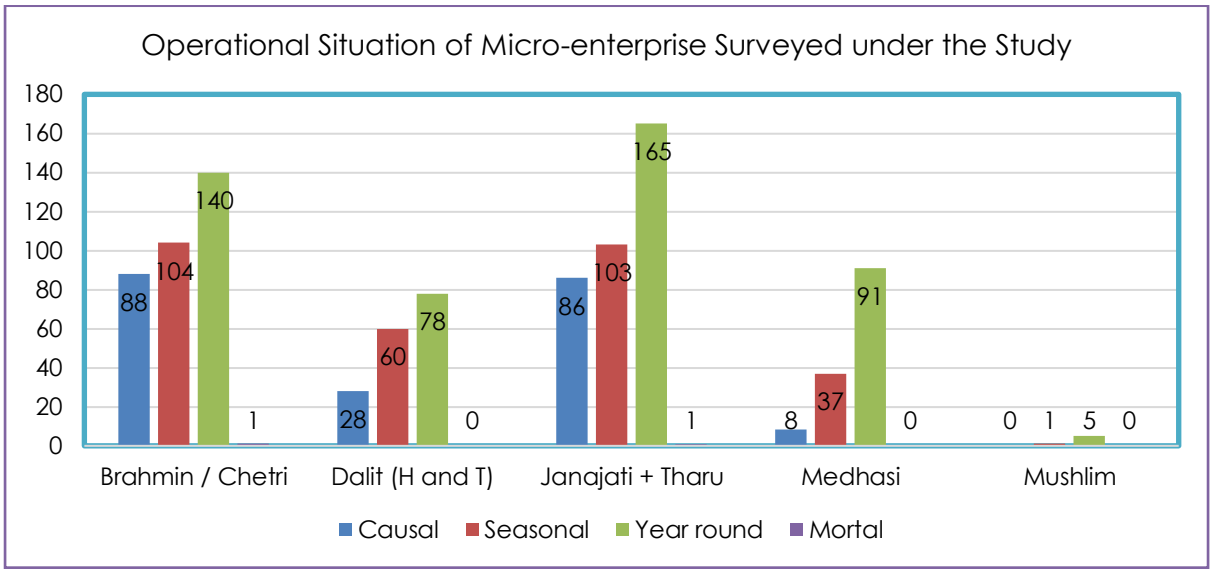
Mortality versus Shifting/Transformation of Microenterprises

Microentrepreneurs of all ethnic groups have continued the original business and/or shifting/transformation but almost all were with business. Incidence of shifting/diversification/shifting was found high among Madhese ethnic group compared to other ethnic groups.



Capacity Utilization and Operation

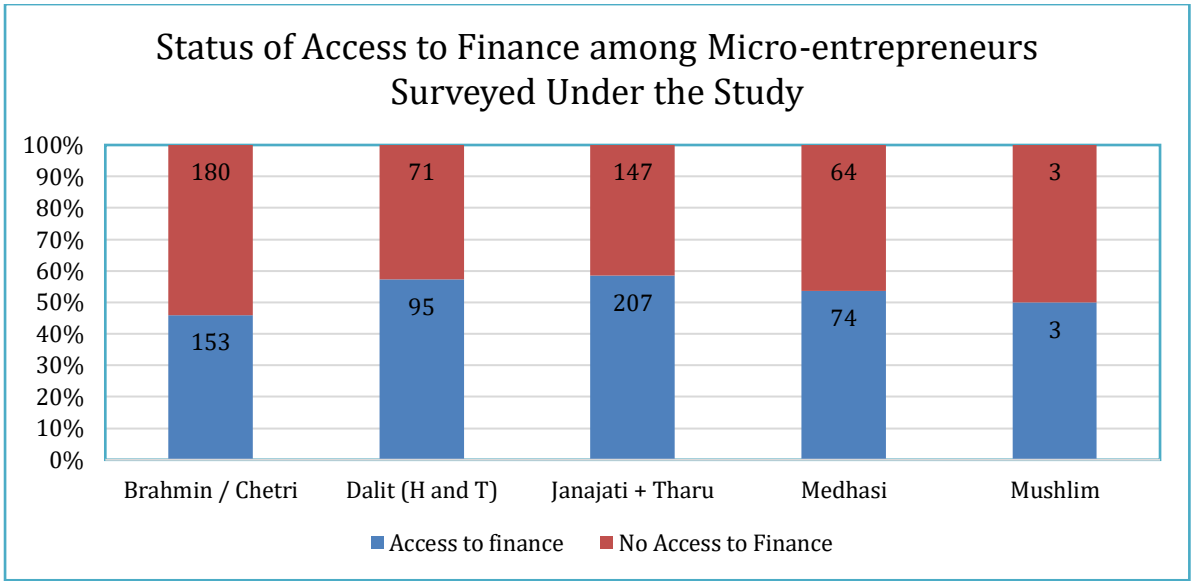
Operational situation of microenterprises surveyed under study have almost identical trend across ethnic groups. There has been gradual trend among the micro-entrepreneurs surveyed to transform to year-round operating microenterprise from causal and seasonal microenterprise across all the five categories of ethnic groups.



More proportion of Janajaties is engaged on enterprise providing year-round employment compared to seasonal and causal employment. No significant differences have been noted on proportion of the micro-entrepreneurs providing seasonal employment across ethnicity.

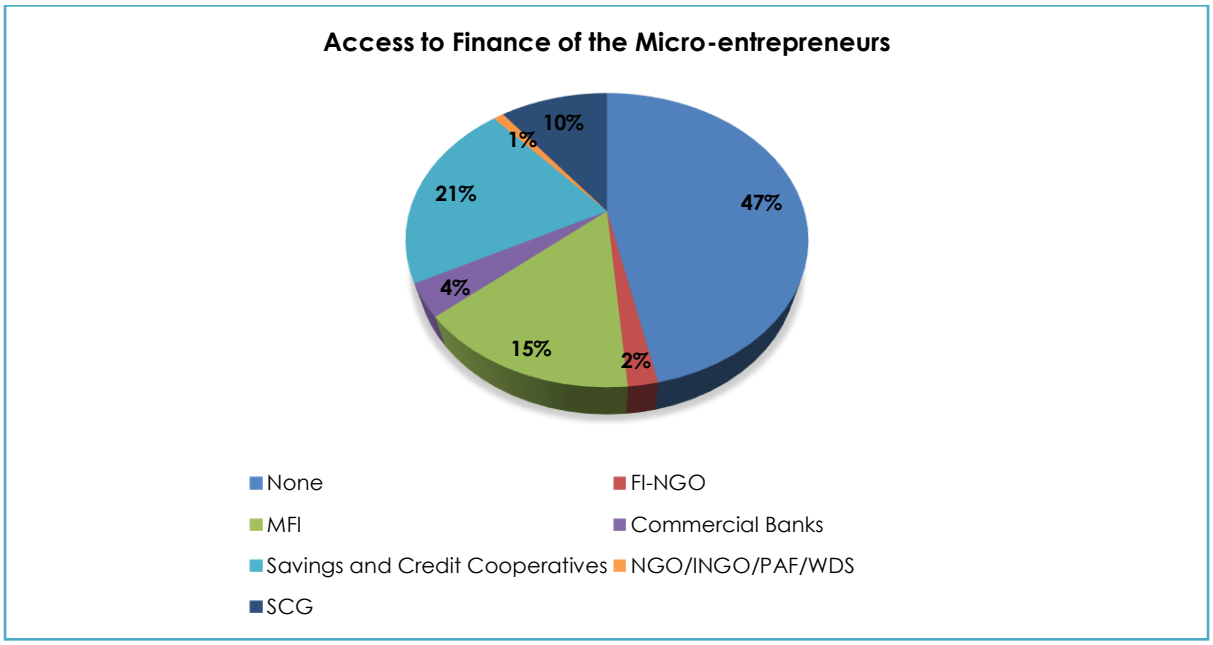
5.5.5 **Access to Finance**

Both female and male micro-entrepreneurs surveyed have received financial services from sources viz. financial cooperatives, microfinance institutions, commercial banks, financial intermediary NGOs, and informal lenders. Field survey information revealed that 53% microentrepreneurs surveyed had access to finance from different financial service providers active in their vicinity. There are no significant differences on access to finance across different ethnic group of microentrepreneurs surveyed in this study.



Sources of Access to Financial Services

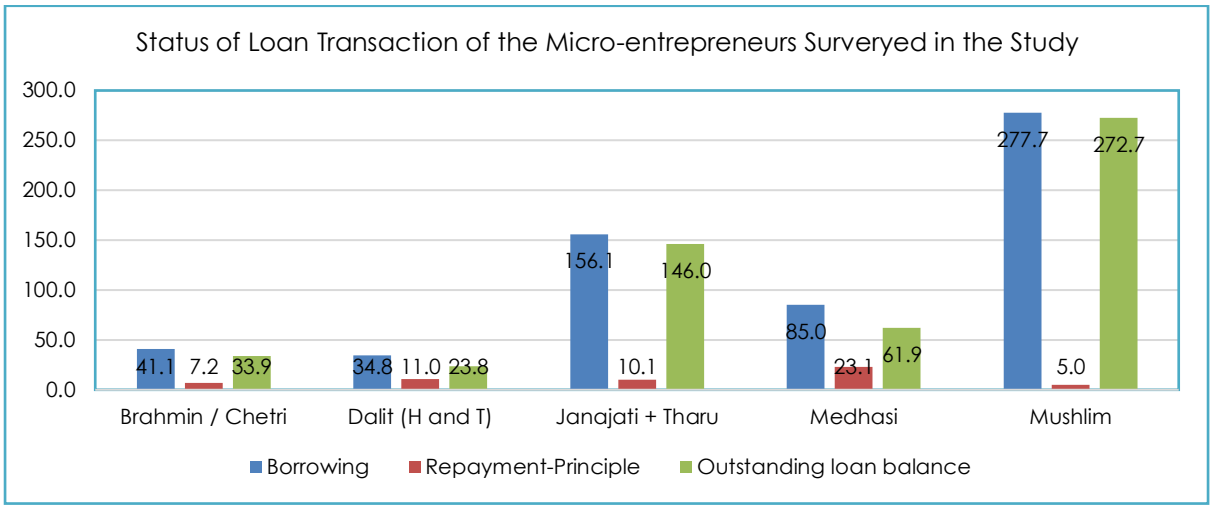
Entrepreneurs surveyed have received access to finance from different sources such as financial cooperatives, microfinance institutions, commercial banks, financial intermediary NGOs, and informal lenders, NGOs, INGOs and Poverty Alleviation Fund (PAF).



It is evident that financial sector is segmented as far as access to finance by ethnic group are concerned. Dalits, Janajaties have borrowed from MFI, FI-BGO and SCCGs while Madhese and some Janajaties, Brahmin and Chhetri have borrowed from commercial banks and savings and credit cooperatives. Especially those micro-entrepreneurs living in terai and accessible hills have better access to finance from formal sector compared to those living in inaccessible hills and mountains.

Status of Loan Transaction

Average borrowing size of the microentrepreneurs surveyed ranges between Rs.41.1 thousand (Brahmin/Chhetri) and Rs. 277.7 thousand in case of Muslim. Average amount of borrowing was Rs. 88.4 thousand. A comparison of the loan transaction across reveals that Brahmin, Dalit, and Madhese have borrowed less compared to Janajaties and Muslim microentrepreneurs. Madhese, Janajaties and Dalits have fairly better repayment performance.



5.5.6 Financial Dimensions of Microenterprise

During field studies, gender disaggregated financial analysis of the microenterprise promoted by female and male microentrepreneurs was done through an estimation of current level of (i) financing structure, (ii) fixed investment, (iii) annual operating fixed cost, (iv) annual variable cost, (v) gross revenue and (vi) net income[16].

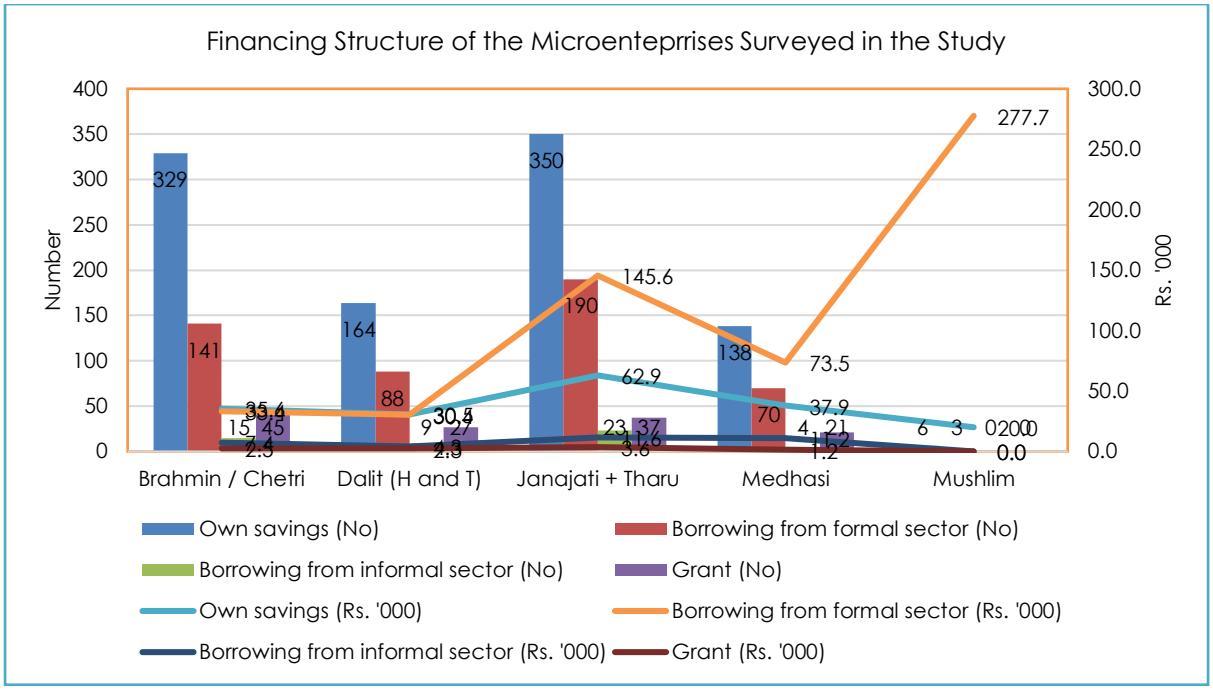
Estimation of Financing Structure

A typical MEDEP/MEDPA promoted micro-entrepreneurs had managed financing required for their microenterprises from (i) using own savings, (ii) borrowing from formal sector, (iii) borrowing from informal sector, and (iv) use of grant money from MEDEP/MEDPA or any other agencies.

All the microentrepreneurs irrespective of ethnic groups have used their own savings to set-up the microenterprises and there is not differences across ethnic group type on sources of finance used for enterprise development and management. The amount of resources managed for to establish and management ranges between Rs. 67.9 thousand among Dalits and Rs. Rs. 297.7 thousand among Muslim with an average of Rs. 297.7 thousand. More amounts were invested by Muslim followed by Janajaties (Tharu) in sample terai districts.

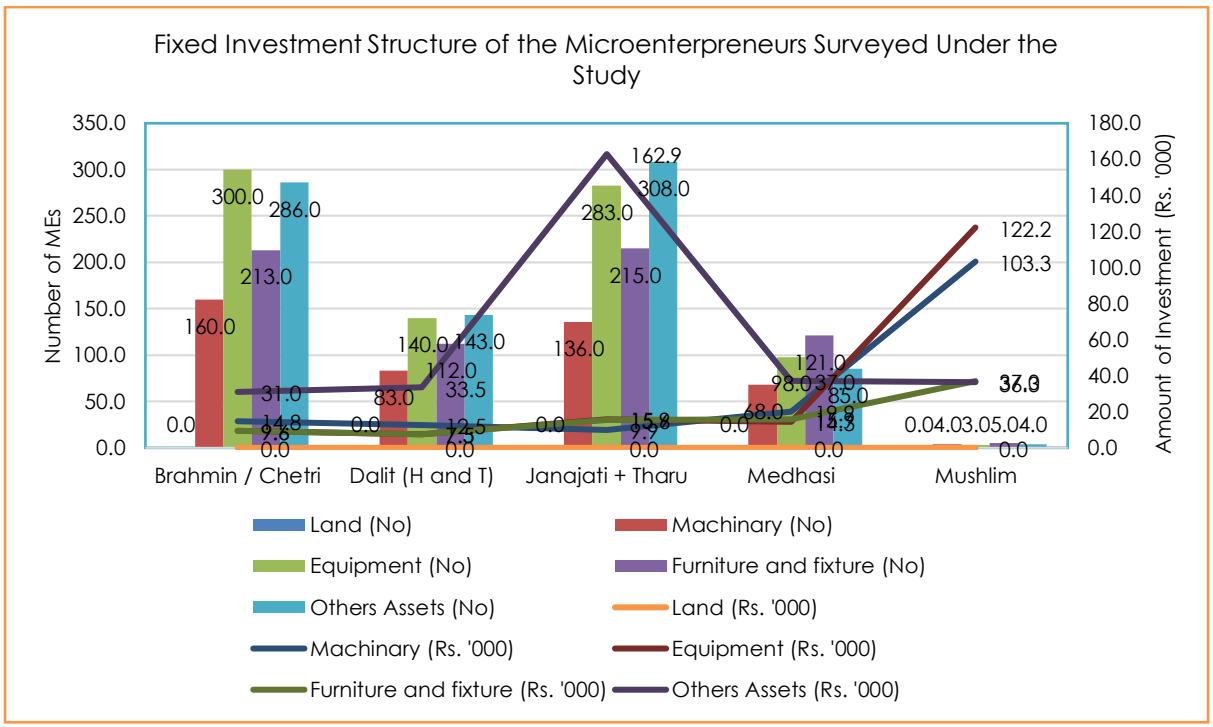
The financing structure is location specific and varies greatly across the scale and type of microenterprises. Janajaties and Muslim have used borrowing from formal sector compared to male Brahmin and Chhetri, followed by Dalits. Most Brahmin, Chhetri, Dalits microentrepreneurs acknowledged insufficient sources of internal financing and inaccessibility of external financing at required amount to be crucial constraints on new investment for growing microenterprises.

[16] Gross income and expenditure details provided by micro-entrepreneurs surveyed were analyzed to estimate profit or net income by enterprises over the last one year (2016-17). Profit analysis was carried out for 996 micro-enterprises operated by individual entrepreneurs. Since a large majority of respondents did not keep business details and accounts, data used for financial analysis was based on interviews with respondents, and observation of enterprise operation and management.



Fixed Investment Structure Analysis

Microenterprises surveyed in this study were started with small fixed investment structure. They established enterprise on their own land or in rented premises, but none have invested in fixed asset like land and buildings. Typical investment activities include land, building, machineries, equipment, and other accessories.



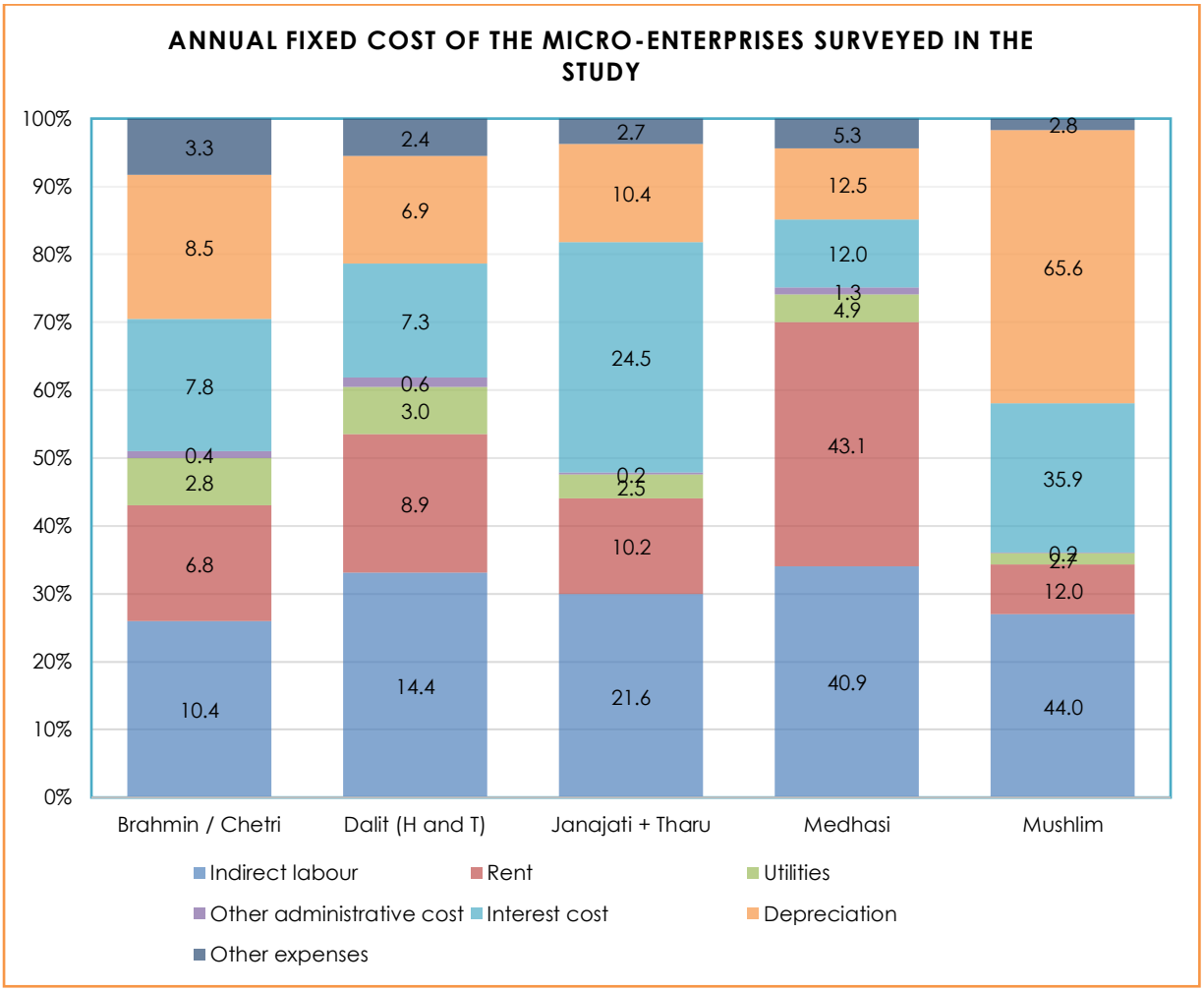
About 45.5% microentrepreneurs surveyed have invested in machineries and compared to other Brahmin/Cheri has and Janajaties have invested more on machineries, and Janajaties have investment more on equipment. Comparatively all have invested in furniture and fixtures and other assets.

Similar to microenterprise financing, Muslim have financed more on fixed investment (Rs. 298.8 thousand), this was followed by Janajaties (Rs. 204.3 million) and Madhese (Rs. 120.0 thousand).

Average amount of fixed investment finance were Rs. 120.1 thousand (Rs.298.8 thousand among Muslim microentrepreneurs, and Rs. 61.0 thousand among Dalit microentrepreneurs).

Annual Operating Fixed Cost Analysis

Irrespective of the ethnic groups, all the micro-entrepreneurs surveyed have incurred annual operating fixed cost such as salary for indirect labor, rent payment, utilities, other administrative cost, interest cost, depreciation, and other expenses.

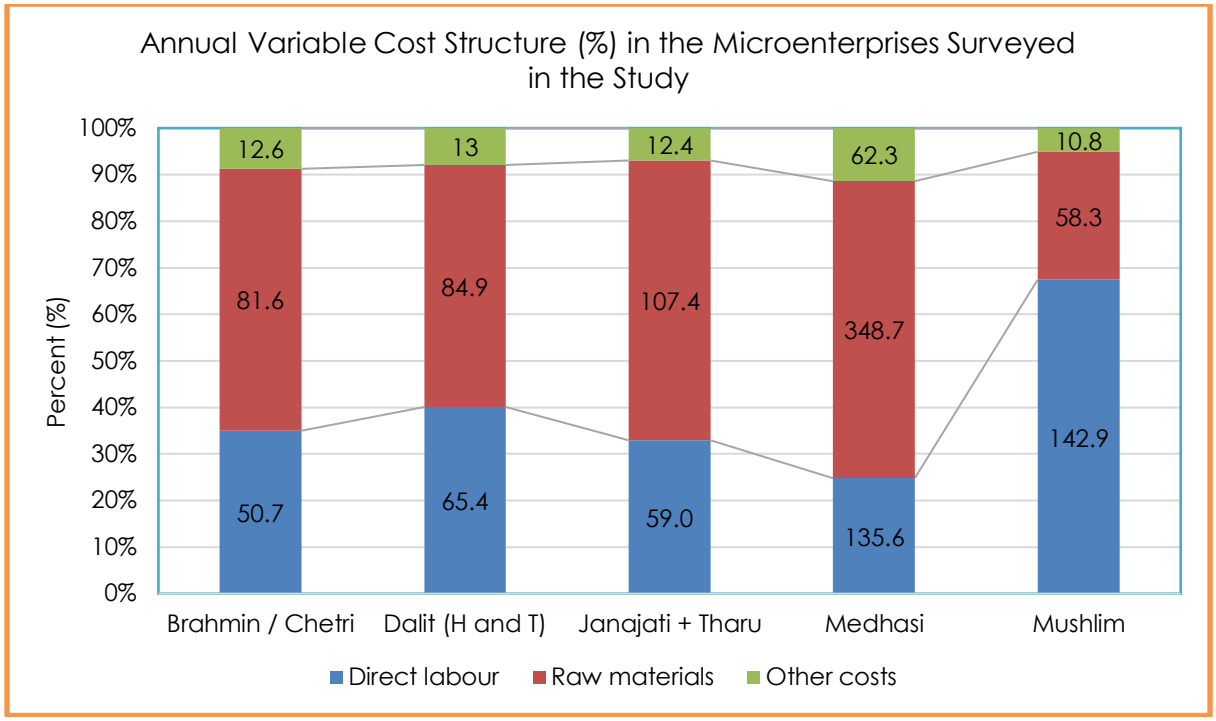


All the micro-entrepreneurs surveyed had incurred annual operating fixed cost to operate their microenterprises. Average amount of annual operating fixed cost ranged between Rs. 53.5 thousand (Dalits) and Rs, 163.2 thousand (Muslim) with an average of Rs. 63.8 thousand. Across cost structure, higher cost on indirect labour (Rs. 19.5 thousand), interest cost (Rs. 14.4 thousand), and Rent (Rs. 13.4 million) and depreciation (Rs. 9.8 thousand). The total annual operating fixed cost structure is location specific and varies greatly across microenterprise surveyed. Most of the microentrepreneurs surveyed lack proper books of account, annual operating fixed cost was imputed based on the observation of current state of operation of microenterprise and interview with micro-entrepreneurs.

Annual Operating Variable Cost Analysis

Though all the microenterprises surveyed had incurred annual operating variable costs such as salary for direct labour, cost for raw materials, utilities, packaging, storage, marketing, and other expenses to operate properly, direct labor cost and cost for raw materials are their major cost. Of the total annual operating variable cost, share of raw materials was 59%, and that of direct labour 32%, utilities 1%, packaging cost 2%, storage cost 2%, marketing 2% and other cost 2%. Average annual operating variable cost incurred by the microentrepreneurs surveyed was Rs. 216.3 thousand. It is highest among the Madhese managed microenterprises (Rs.546.6 thousand), followed by Muslim managed microenterprise (Rs. 212.0 million), and lowest Brahmin and Chhetri managed microenterprises

(145.9 thousand). Thus, there is notable and a significant difference on amount of variable cost across ethnic groups and varies greatly across location.

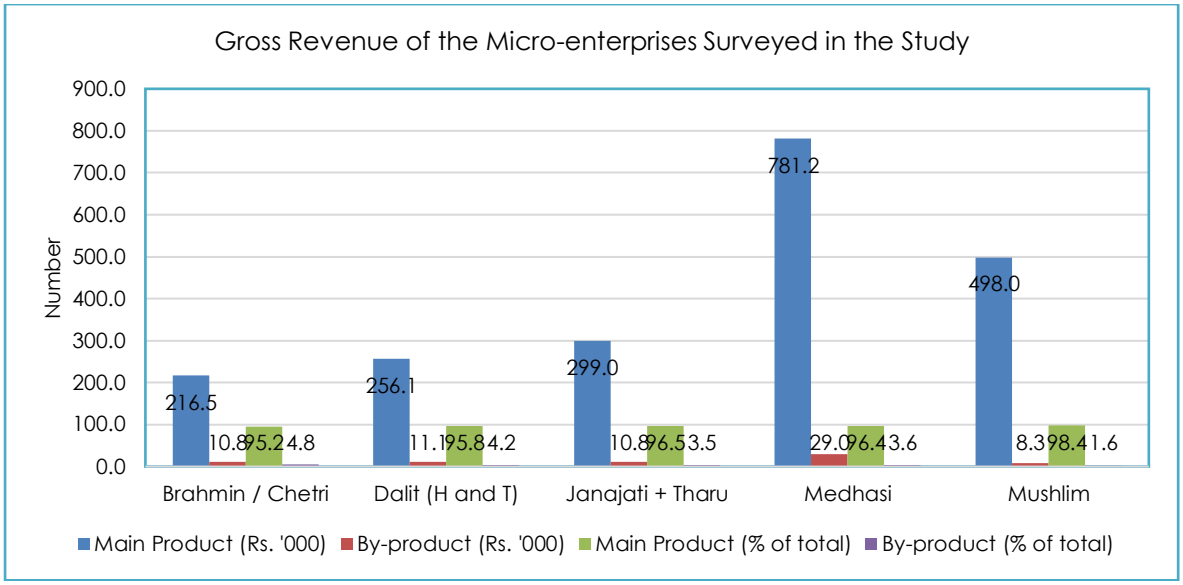


Direct labour and raw materials constitutes major share of the variable cost of the microenterprises managed by the surveyed micro-entrepreneurs. Cost for the direct labour is higher among Muslim managed microenterprises followed by Dalit managed, Brahmin and Chhetri managed microenterprises. It was lowest among the Madhese managed microenterprises. On the other hand, reverse is the case for the raw materials used by the microenterprises.

The total annual operating variable cost structure is enterprise specific and varies greatly across study districts. Most o of the microentrepreneurs surveyed lack proper books of account, and annual operating variable cost presented in this section was imputed based on observation of their current state of microenterprise operation and interview with the micro-entrepreneurs.

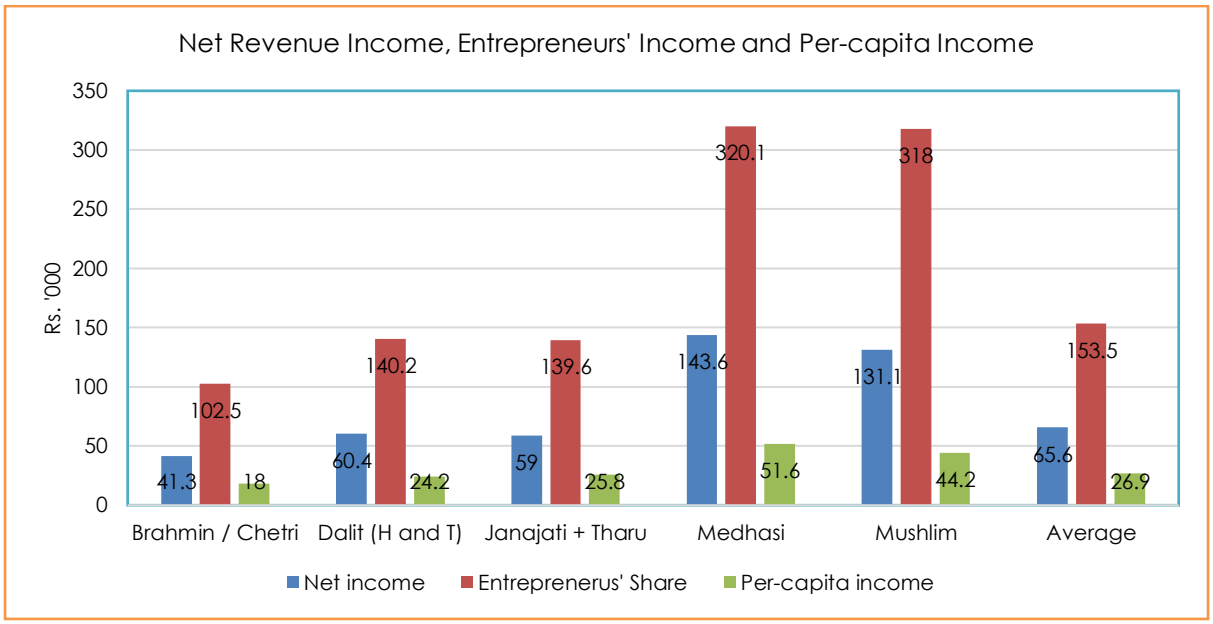
Gross Revenue Analysis

All the microenterprises surveyed in this study has earned through main products and by-products they produced from the operation and management of their microenterprises. On an average the microentrepreneurs surveyed have earned Rs. 345.6 thousand. It is highest among Madhese (Rs, 810.2 thousand), followed by Muslim (Rs. 506.3 thousand), Janajaties (Rs. 309.8 thousand) and Dalits (Rs. 267.2 thousand). Gross revenue was lowest among Brahmin/Chhetri managed microenterprises (Rs. 227.3 thousand).



Net Revenue Income, Entrepreneurs' Income and Per-capita Income

Net return of microenterprise surveyed under this study was estimated at Rs. 65.6 thousand. It was height among Madhese at Rs. 143.6 million, followed by Muslim (Rs. 131.1 thousand), Rs. 60.4 thousand in Dalit managed enterprises, and Rs. 59.0 thousand in Janajati managed microenterprises. It was lowest in Brahmin / Chhetri managed microenterprises at Rs. 41.3 thousand. The survey findings reveal that there are significant differences on net revenue earned by the microenterprise managed by ethnic groups.



Net revenue presented above include imputed cost of wage laborers of micro-entrepreneurs and their HH members on assumption that they would have earned wage labor had they worked elsewhere as wage laborers. Proportion of microentrepreneurs using hired labor for enterprise management was lower. Under this assumption, analysis of micro-entrepreneur's share on enterprise income was done adding cost of indirect and direct labour on net income. Average share of micro-entrepreneurs in gross income was Rs. 153.5 thousand. It was height among Madhese at Rs. 320.1 million, followed by Muslim (Rs. 318.0 thousand), Rs. 140.2 thousand in Dalit managed enterprises, and Rs. 139.6 thousand in Janajati managed microenterprises. It was lowest in Brahmin / Chhetri managed microenterprises at Rs. 102.5 thousand. The survey findings reveal that there are significant differences on entrepreneurs share on the microenterprise managed by ethnic groups.

Average per capita income was Rs. 26.9 thousand, highest Rs. 51.6 thousand among Madhese entrepreneurs' family, and lowest at Rs. 18.0 thousand among the enterprises managed by Brahmin and Chhetri.

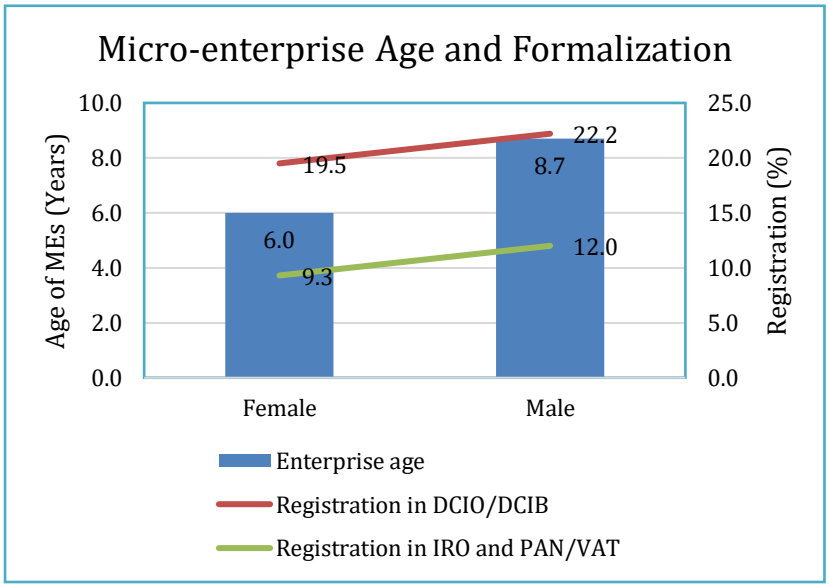
5.6 Financial Analysis of the Microenterprise across Gender

5.6.1 Microenterprise Establishment, Formalization, and Institution Development

MEDEP/MEDPA had worked to identify potential entrepreneurs, and assisted to starting, existing, and growing entrepreneurs over the last 18 years. Aspects of the microenterprises surveyed under this study covering type, their age, and formalization process and institution development are discussed hereunder.

Type of Microenterprises

A total of 137,404 MEDEP/MEDPA promoted microenterprises can be classified into eight such as: agriculture and forestry based, production based, service based, tourism based, construction based, ICT based, energy based and other (Industrial Enterprise Act). Of the 997 microentrepreneurs surveyed in this study, 681 *68.3%) are female and 316 *31.7%) are male.



Age of the Microenterprises: Number of years of the micro-entrepreneurs surveyed ranges between 1 years and 18 years with an average of 6.1 years. Across the gender type average age of enterprises managed by female was 6.0 years and that of make was 8.0 years.

Formalization of the Micro-entrepreneurs: Microenterprises surveyed under this study are moving towards formalization. About 20.4% of the microenterprises (19.5% female managed and 22.2% male managed) were registered in District Cottage Industry Office (DCIO) and District Cottage Industry Board (DCIB).

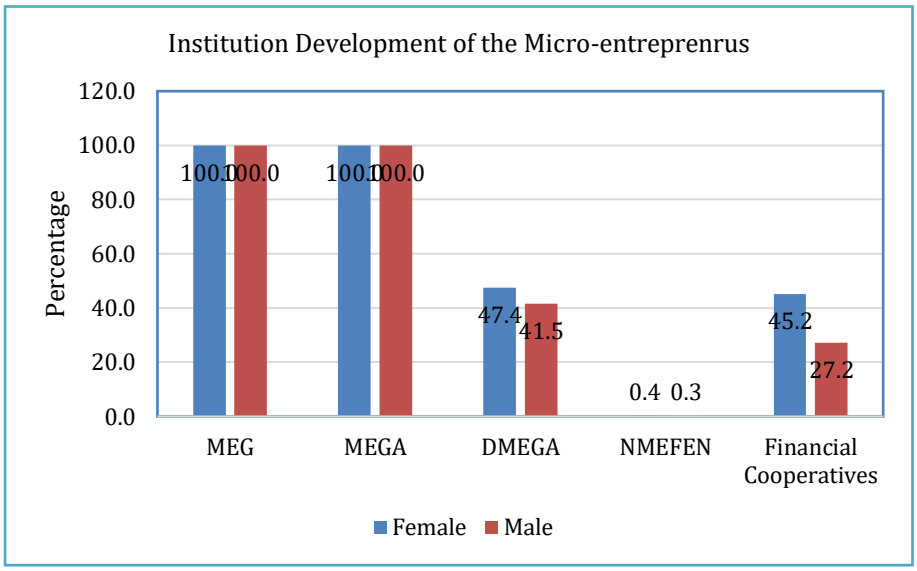
About 10.1% microenterprises (9.3% female managed and 12.0% male managed) surveyed were registered in concerned Inland Revenue Office (IRO) and received permanent account number (PAN) or Value Added Tax (VAT) certificate. Some of them also started the process to update their transaction in IRD. ICT, production and tourism based microenterprises are quite ahead on formalization process compared to agriculture and forestry based, service and other enterprises.

Institutional Development of Microenterprises

Institutional development of the microentrepreneurs through social mobilization process was an integral part of the MED model for enterprise development. MEG, MEGA, DMEGA, NMEFEN and transformation of the MEG into cooperatives (savings and credit or multipurpose) are the different types of the institutions promoted under MEDEP/MEDPA.

Micro-Entrepreneurs' Group: All the micro-entrepreneurs surveyed have joined into MEG. They have worked as a local level financial intermediary for their members.

Micro-Entrepreneurs Groups Association: All MEGs formed at the settlement level of a particular rural market centre are federated into MEGA, as their informal association. All the MEGA are operating at mixed success.



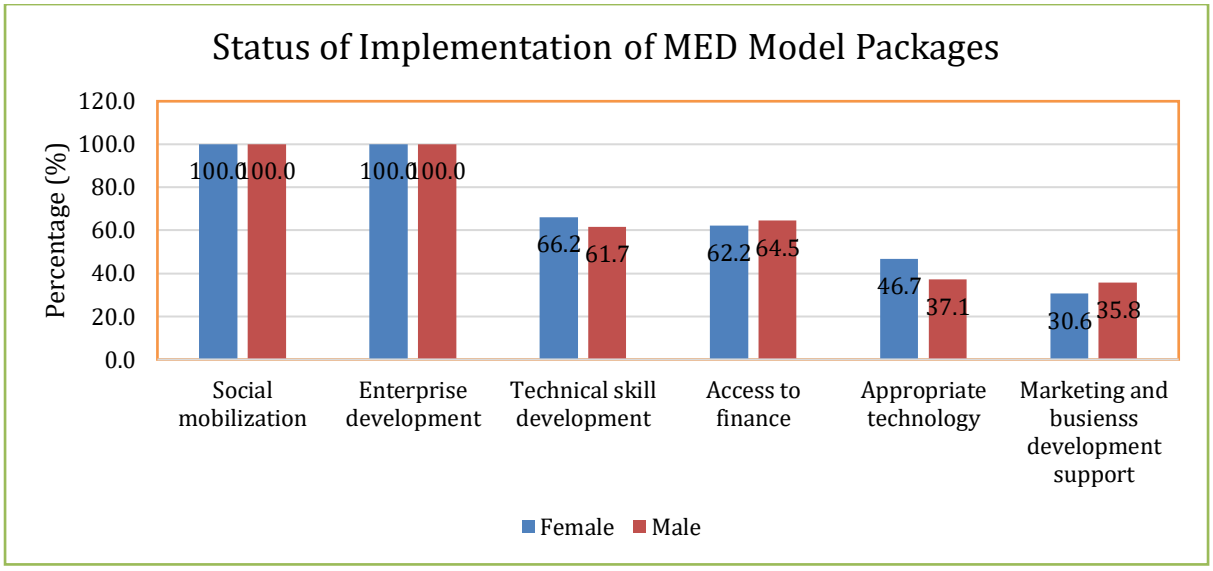
District Micro-Entrepreneurs Group Association: All the MEGAs within a district are federated into DMEGA, as an informal association of MEGAs but are operating at mixed success. Though all the DMEGA are currently working actively, most of them failed to bring all MEGA members into its ambit. About 45.5% surveyed (27.4% female and 41.4% male) are D-MEGA members.

National Micro-Entrepreneurs Federation Nepal: In general, all D-MEGAs in MEDEP/MEDPA districts are federated into NMEFEN. NMEFEN is working actively, but it failed to bring all micro-entrepreneurs under its ambit. Only 0.4% (0.4% female and 0.3% male) of micro-entrepreneurs surveyed were members of NMEFEN.

Financial Cooperatives: Some of the micro-entrepreneurs surveyed under this study were also the shareholders of the financial cooperatives developed under the technical and financial support of MEDEP/MEDPA. About 39.5% of the micro-entrepreneurs (45.2% female and 27.2% male) surveyed were the shareholders of financial cooperatives.

5.6.2 **Assistance from MEDEP/MEDPA**

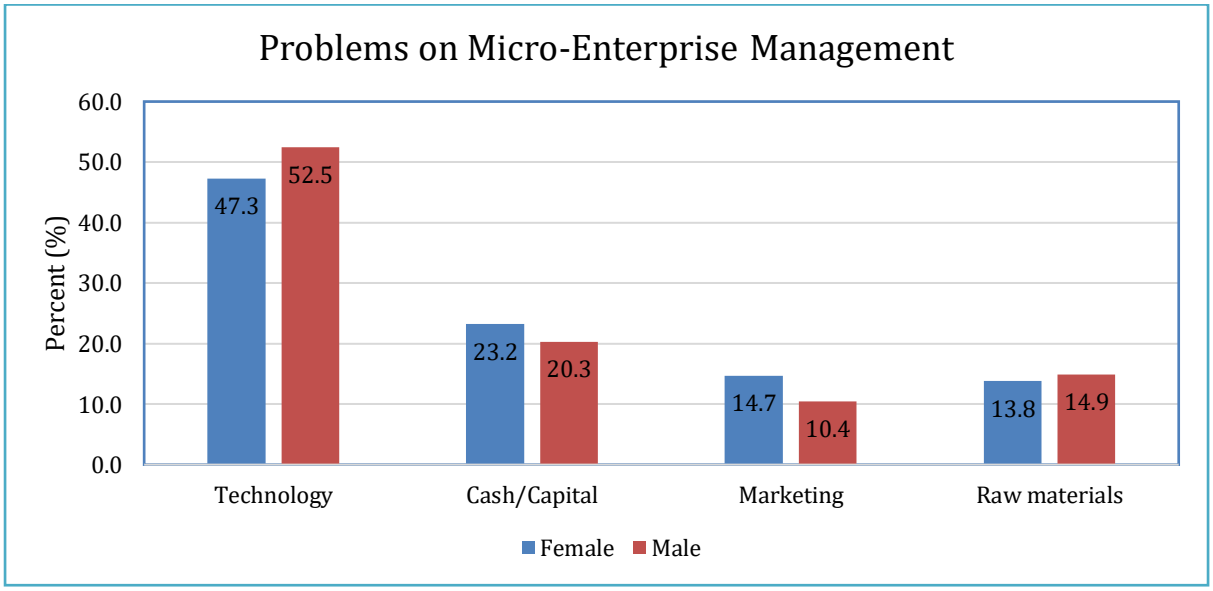
MEDEP/MEDPA has supported microenterprises surveyed through packages comprising of social mobilization, enterprise development, and technical skill development, access to finance, appropriate technology support and marketing and business development support. In many cases, some or all of these supports had worked as catalyst to motivate poor and disadvantaged groups in remote rural, emerging market towns, and urban areas to establish and operate the microenterprises.



All the microentrepreneurs surveyed, across sex, have benefited from social mobilization support and enterprise development training provided under MEDEP/MEDPA. 64.9% (66.2% female and 61.7% male), have received technical skill training, and about 62.9% (62.2% female and 64.5% male) have benefitted from access to finance. Likewise, 43.9% (46.7% female and 37.1%), and 29.2% (30.6% female, and 25.6% male) microenterprises have received support from appropriate technology and marketing and business development support from MEDEP/MEDPA.

5.6.3 **Microenterprise Management**

The programme has focused on providing packages of services encompassing technology, cash/capital, marketing and raw materials management to microentrepreneurs for their continued and sustainable growth. Technology is the main problems faced by the microentrepreneurs surveyed followed by cash/capital, raw materials and marketing.

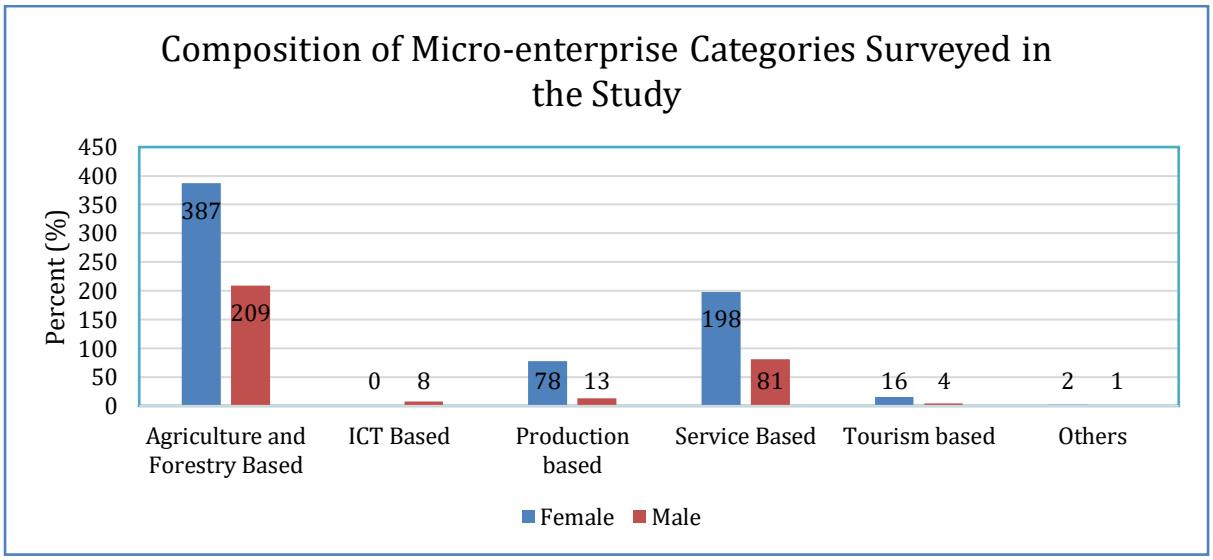


Technology problem is quite severe among the microentrepreneurs irrespective of sex; while market problem was quite milk all types of micro-entrepreneurs by sex. More proportion of female microentrepreneurs have faced problem on cash (47.3%) and marketing (14.7%) while more proportion of male have faced technology (52.5%) and raw materials (14.9) related problems.

5.6.4 **Nature and Type of Microenterprises**

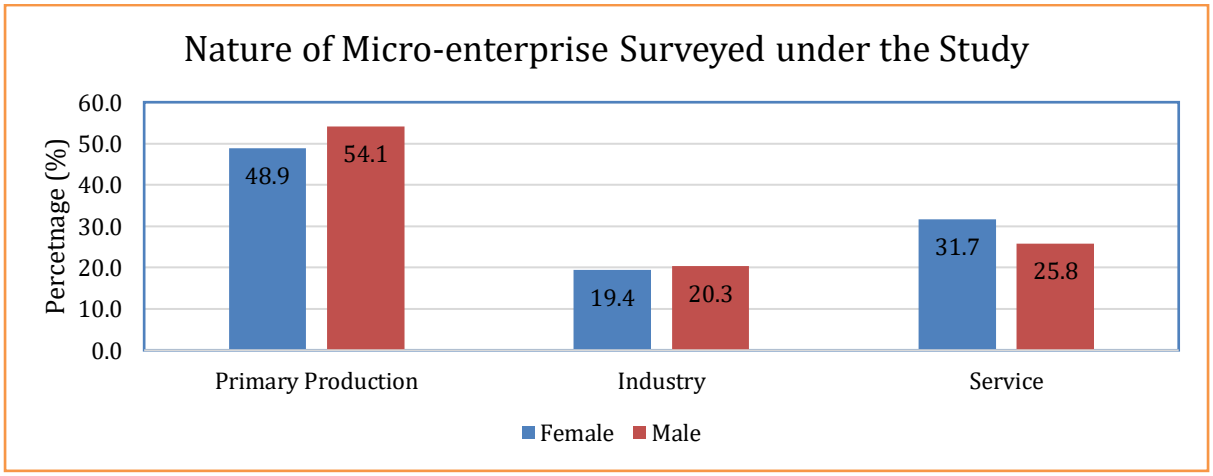
Categories of microenterprises:

All six categories of microenterprise are established, operated and managed by both sex, except ICT based. ICT based enterprise was found to be pro-male, while service-based enterprises was found to be pro-female.



Nature of the microenterprises

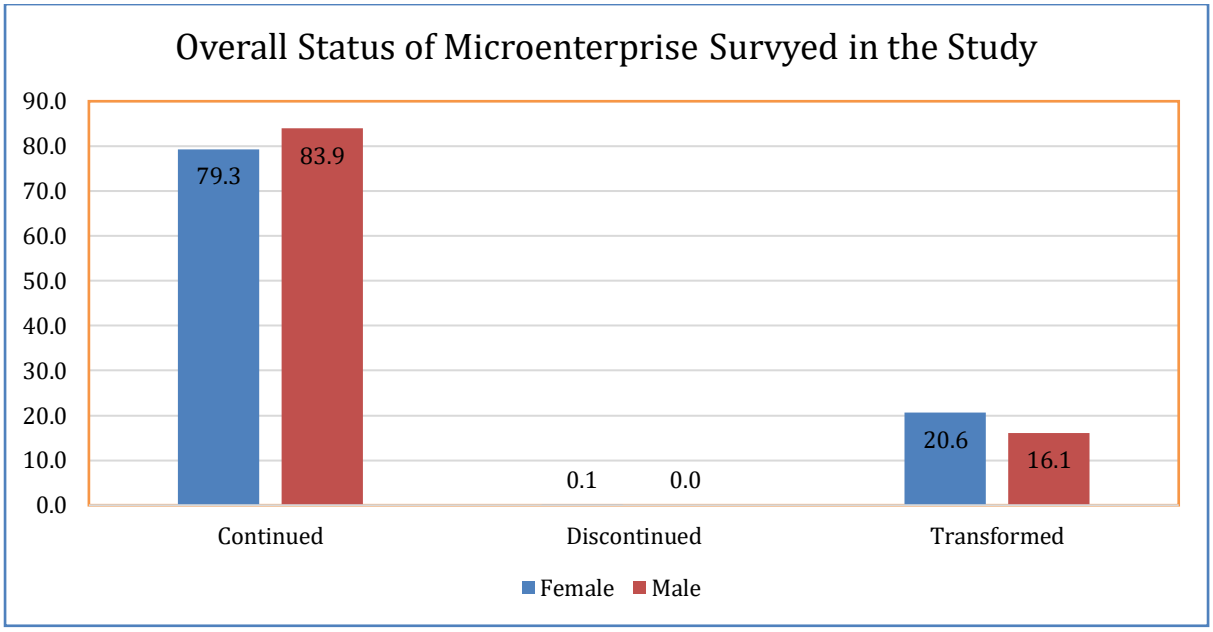
Different categories of the microenterprises promoted under MEDEP/MEDPA are further grouped into three based on nature of process involved on transforming production inputs into outputs namely production based, industry based, and service based. Of the total microenterprise surveyed, 50% were primary production based, 20% were industry based, and 30% were service based.



More proportion of primary production related microentrepreneurs were male while it was female in case of service related microenterprise. Gender participation is almost identical in industry related microenterprises.

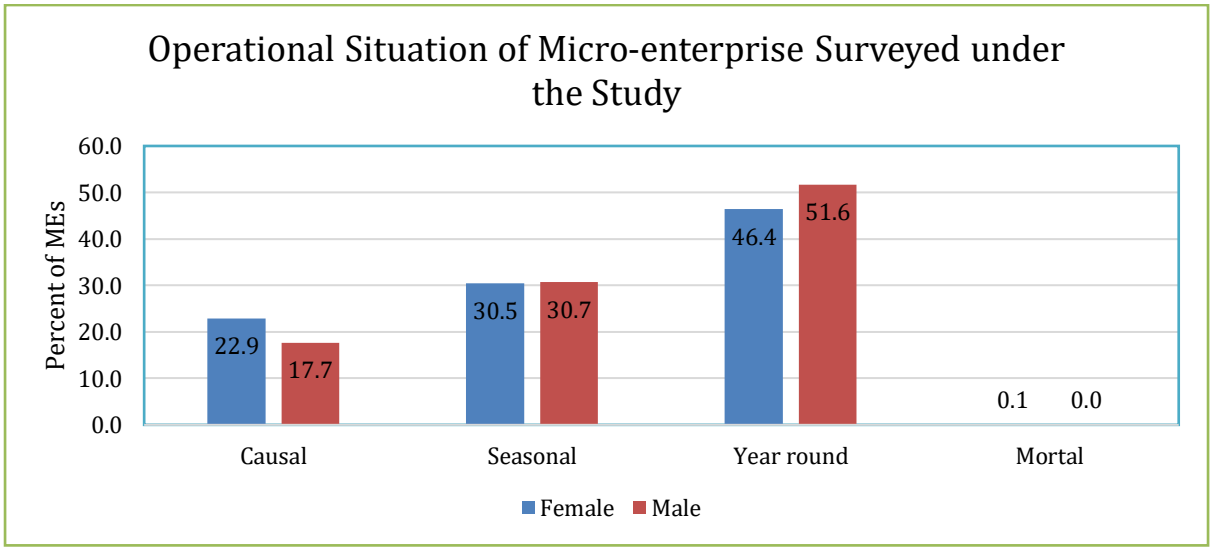
Mortality versus Shifting/Transformation of Microenterprises

Both female and male entrepreneurs surveyed in this study have continued the original business or outcome of shifting/transformation. Incidence of shifting/diversification/shifting was found high among female entrepreneurs compared to male entrepreneurs.



Capacity Utilization and Operation

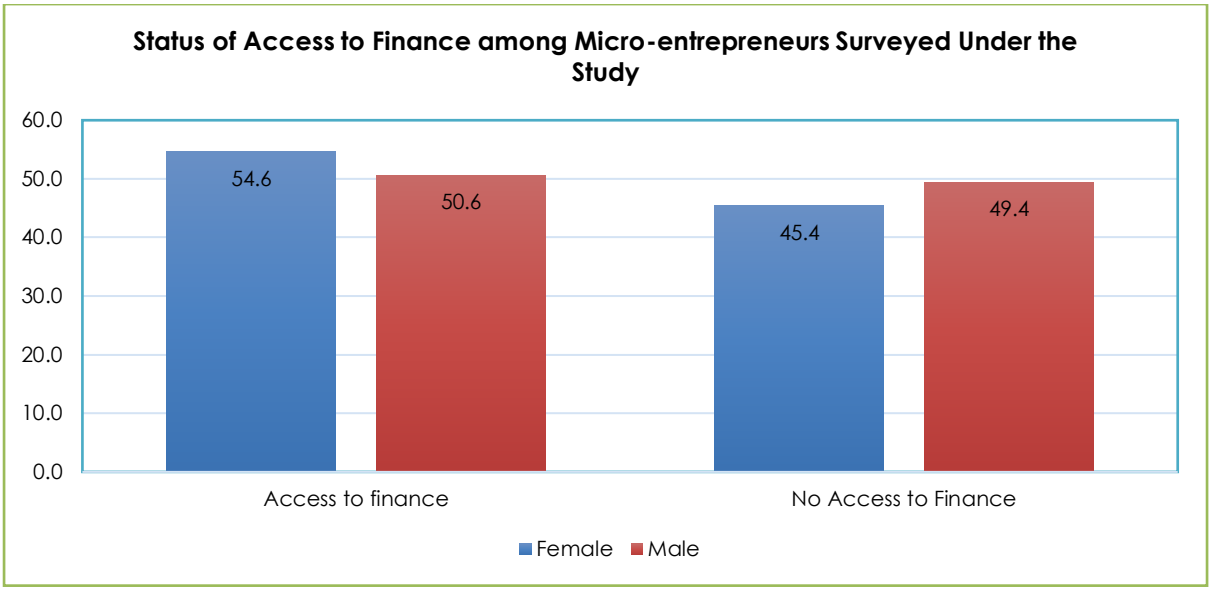
Of the total microenterprise surveyed, 21.3% (22.9% female and 17.7% male) are providing causal employment, 30.6% (30.5% female and 3-.7% male) providing seasonal employment and remaining 48% (46.4% female and 51.6% male) are providing year-round employment.



More proportion of male entrepreneurs are engaged on enterprise providing year-round employment compared to causal employment, while opposite is the case in causal employment. There are no differences on proportion of the micro-entrepreneurs providing seasonal employment across sex.

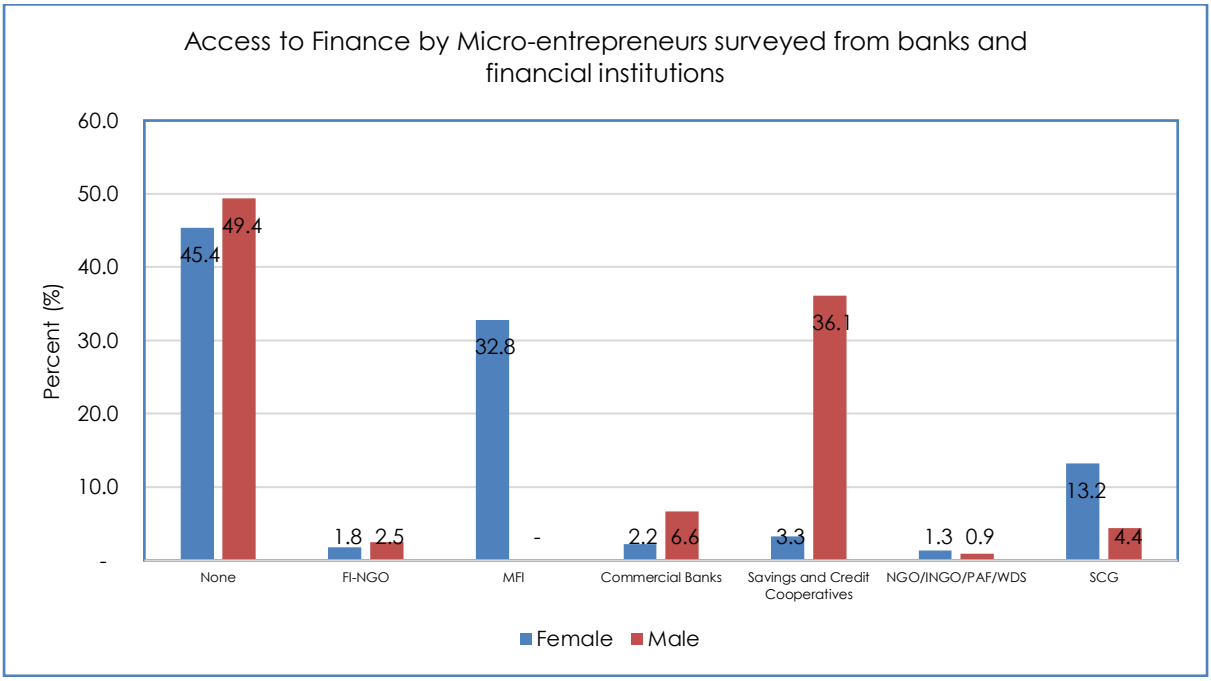
5.6.5 **Access to Finance**

Both female and male micro-entrepreneurs surveyed have received financial services from sources viz. financial cooperatives, microfinance institutions, commercial banks, financial intermediary NGOs, and informal lenders. Field survey information revealed that 53% microentrepreneurs surveyed had access to finance from different financial service providers active in their vicinity. More proportion of female microentrepreneurs (54.6%) has received access to finance compared to male microentrepreneurs (50.6%).



Sources of Access to Financial Services

Entrepreneurs surveyed have received access to finance from different sources such as financial cooperatives, microfinance institutions, commercial banks, financial intermediary NGOs, and informal lenders, NGOs, INGOs and Poverty Alleviation Fund (PAF).

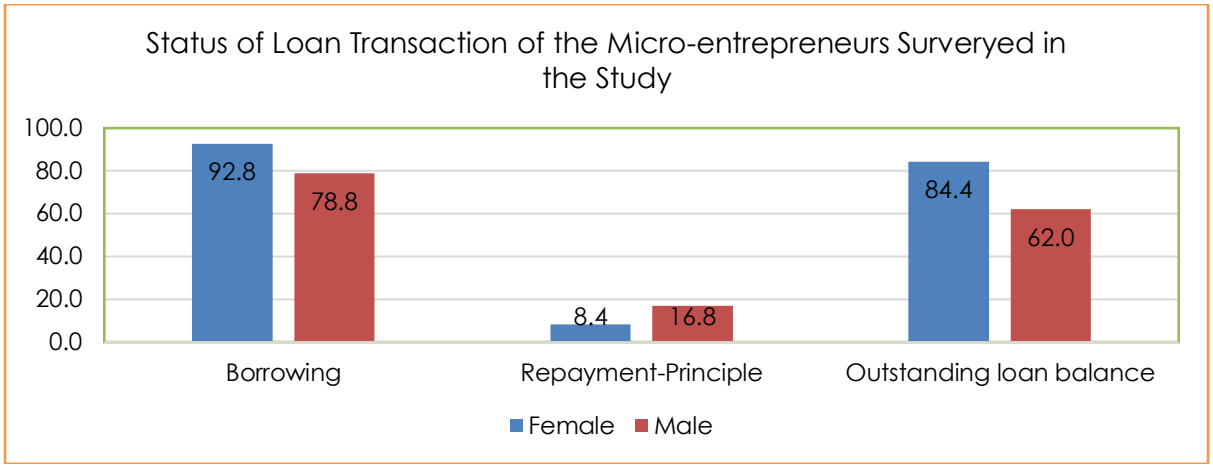


It is evident that financial sector is segmented as far as access to finance by gender is concerned. More female entrepreneurs have borrowed from MFI, FI-BGO and SCCGs while more male entrepreneurs have borrowed from commercial banks and savings and credit cooperatives. Especially those micro-entrepreneurs living in terai and accessible hills have better access to finance from formal sector compared to those living in inaccessible hills and mountains. While more male micro-entrepreneurs surveyed have borrowed from

Status of Loan Transaction

As discussed already about 54.6% of the micro-entrepreneurs surveyed have borrowed from different types of the financial service providers in their vicinity, and average amount of borrowing was Rs. 88.4 thousand. A comparison of the loan transaction across reveals that male microentrepreneurs have

borrowed less, repaid more with lower outstanding loan balance, while opposite trend prevails on status of use of the loan transaction among female micro-entrepreneurs.

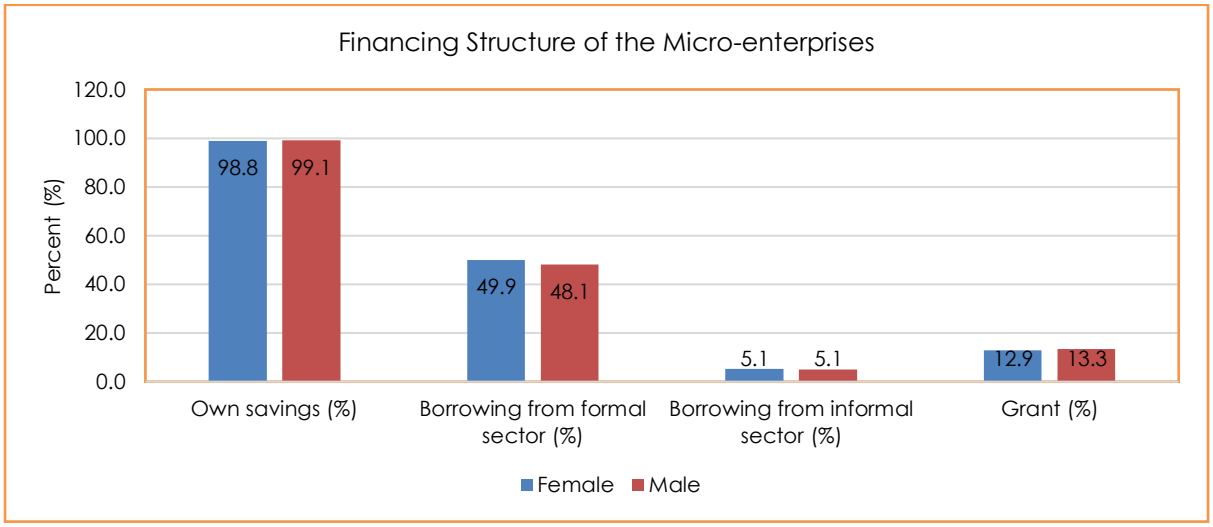


5.6.6 Financial Dimensions of Microenterprise

During field studies, gender disaggregated financial analysis of the microenterprise promoted by female and male microentrepreneurs was done through an estimation of current level of (i) financing structure, (ii) fixed investment, (iii) annual operating fixed cost, (iv) annual variable cost, (v) gross revenue and (vi) net income[17].

Estimation of Financing Structure

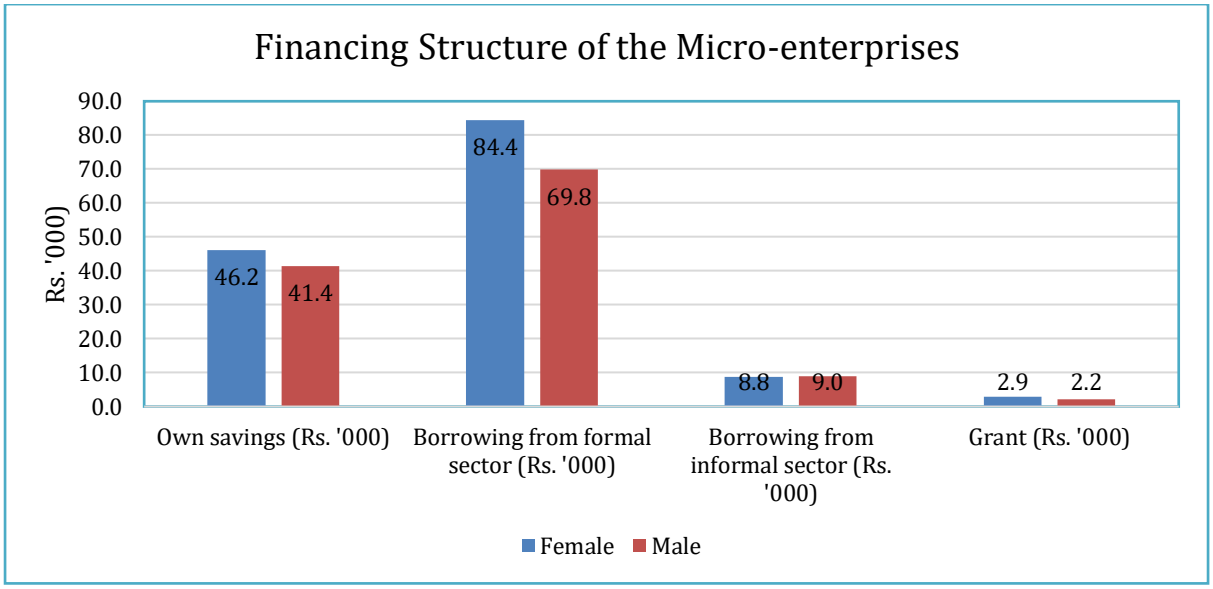
A typical MEDEP/MEDPA promoted micro-entrepreneurs had managed financing required for their microenterprises from (i) using own savings, (ii) borrowing from formal sector, (iii) borrowing from informal sector, and (iv) use of grant money from MEDEP/MEDPA or any other agencies.



Of the total micro-entrepreneurs surveyed, 98.9% (98.8% female and 99.1% male) have used their own savings to set-up their microenterprise, 49.3% (49.9% female and 48.1% male) have used money borrowed from formal sector (financial cooperatives, MFIs, FI-NGOs, and Commercial Banks) to set-up their microenterprise, 5.1% (both male and female) have used money borrowed from informal sector (money lenders, savings and credit groups, etc.) and 13.0% (12.9% female and 13.3% male) have received grant (cash and/or in-kind) from MEDEP/MEDPA to set-up their microenterprise.

[17] Gross income and expenditure details provided by micro-entrepreneurs surveyed were analyzed to estimate profit or net income by enterprises over the last one year (2016-17). Profit analysis was carried out for 996 micro-enterprises operated by individual entrepreneurs. Since a large majority of respondents did not keep business details and accounts, data used for financial analysis was based on interviews with respondents, and observation of enterprise operation and management.

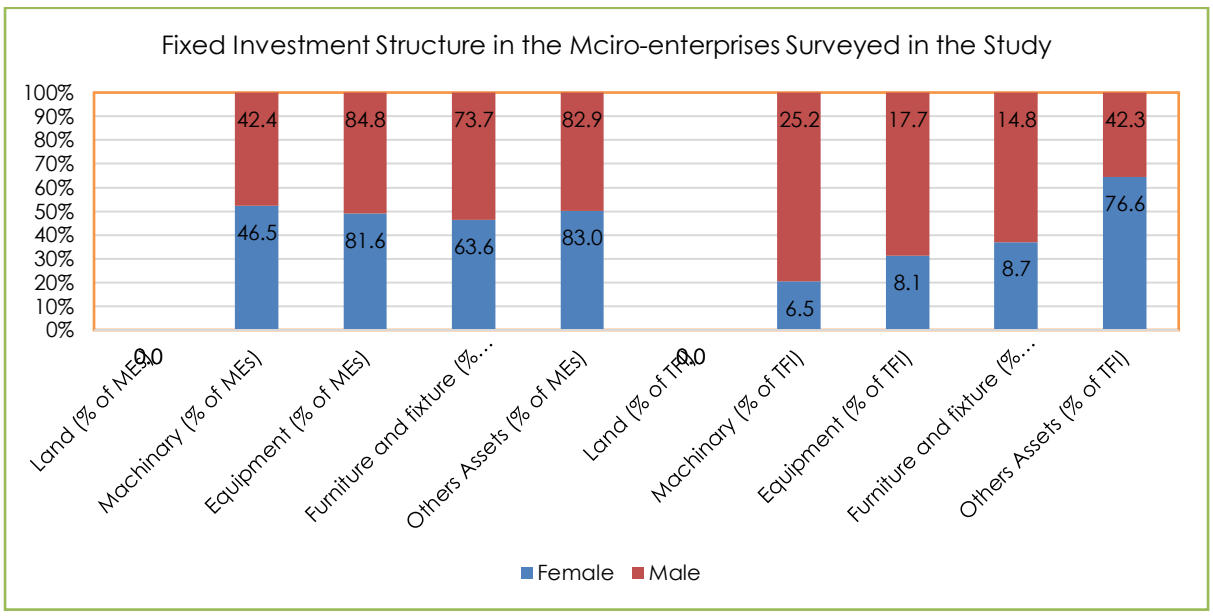
All the micro-entrepreneurs surveyed had financed to set up their microenterprises. Average amount of financing was Rs. 135.9 thousand (Rs. 142.3 thousand female, and Rs122.4 thousand male).



The financing structure is location specific and varies greatly across the scale and type of microenterprises. Female microentrepreneurs have used own savings and borrowing from formal sector compared to male microentrepreneurs who have borrowed from informal sector. Most microentrepreneurs have acknowledged insufficient sources of internal financing and inaccessibility of external financing at required amount to be crucial constraints on new investment for growing microenterprises.

Fixed Investment Structure Analysis

Microenterprises surveyed in this study were started with small fixed investment structure. They establish enterprise on their own land or in rented premises, but none have invested in fixed asset like land and buildings. Typical investment activities include land, building, machineries, equipment, and other accessories.



About 45.5% (46.5 female and 42.4% male) microentrepreneurs surveyed have invested in machineries and average of amount of investment was Rs. 13.9 thousand (8.4 thousand in female and 25.8 in male).

Survey findings revealed that about 82.6% microentrepreneurs (81.6 female and 84.8 male) surveyed

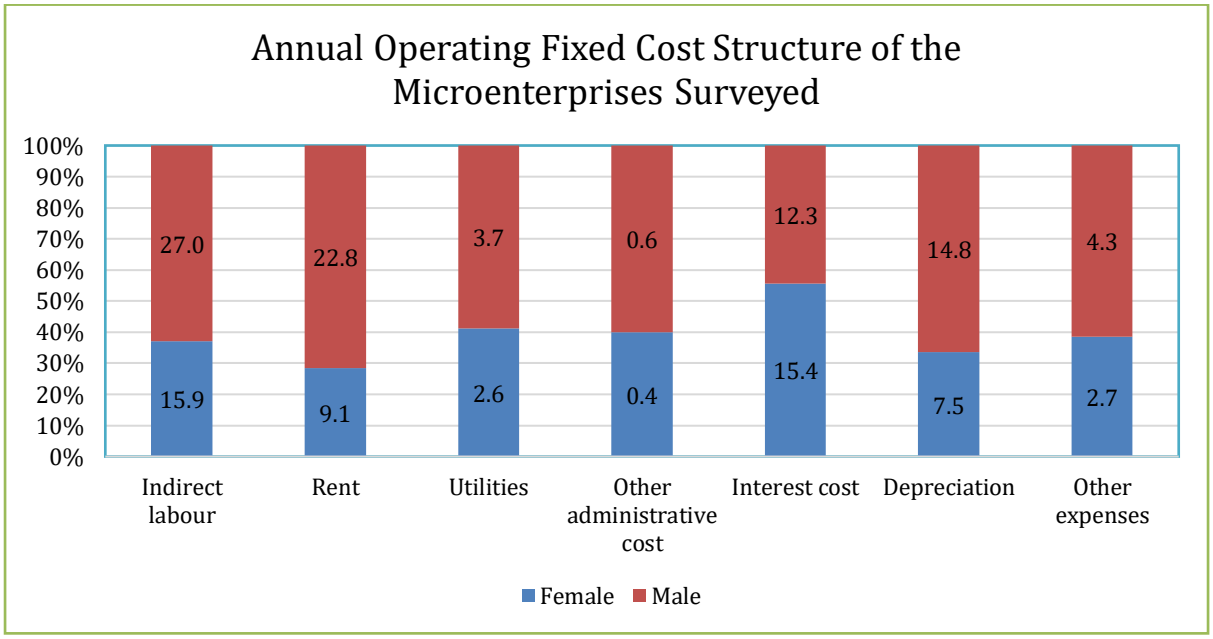
have invested and average amount of investment on equipment was Rs. 12.8 thousand (Rs. 20.4 female and Rs. 18.1 thousand for male).

About 66.8% (63.3% female and 73.7 male) microentrepreneurs surveyed have invested in furniture and fixtures and average of amount of investment on furniture and fixtures was Rs. 12.4 thousand (Rs. 11.2 thousand in female and Rs., 15.1 thousand in male). Further, bout 83% microentrepreneurs (83% female and 82.9% male) have invested on building and other productive assets and across microenterprise surveyed and average of amount of investment on building and other productive assets was Rs. 80.9 thousand (Rs. 98.4 thousand by female and 43.2 thousand by male).

Some notable differences exist on the average total fixed investment across male and female micro-entrepreneurs. Average amount of fixed investment finance were Rs. 120.0 thousand (Rs.128.4 thousand among female microentrepreneurs, and Rs. 102.2 thousand among male microentrepreneurs).

Annual Operating Fixed Cost Analysis

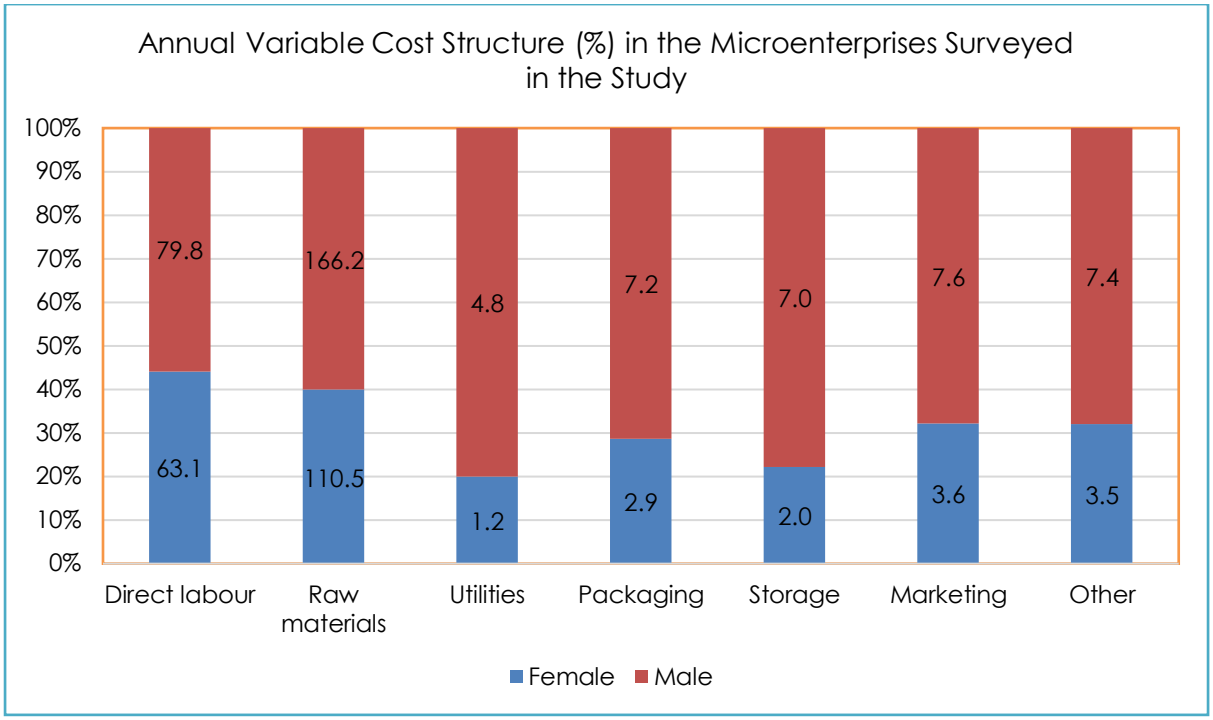
Both female and male micro-entrepreneurs surveyed in this study had incurred annual operating fixed cost such as salary for indirect labor, rent payment, utilities, other administrative cost, interest cost, depreciation, and other expenses.



All the micro-entrepreneurs surveyed had incurred annual operating fixed cost to operate their microenterprises. Average amount of annual operating fixed cost was Rs. 63.8 thousand (Rs. 53.7 thousand in case of female and Rs. 85.4 thousand in case of male). The total annual operating fixed cost structure is location specific and varies greatly across microenterprise surveyed. Since most of the microentrepreneurs surveyed lack proper books of account, annual operating fixed cost was imputed based on the observation of current state of operation of microenterprise and interview with micro-entrepreneurs.

Annual Operating Variable Cost Analysis

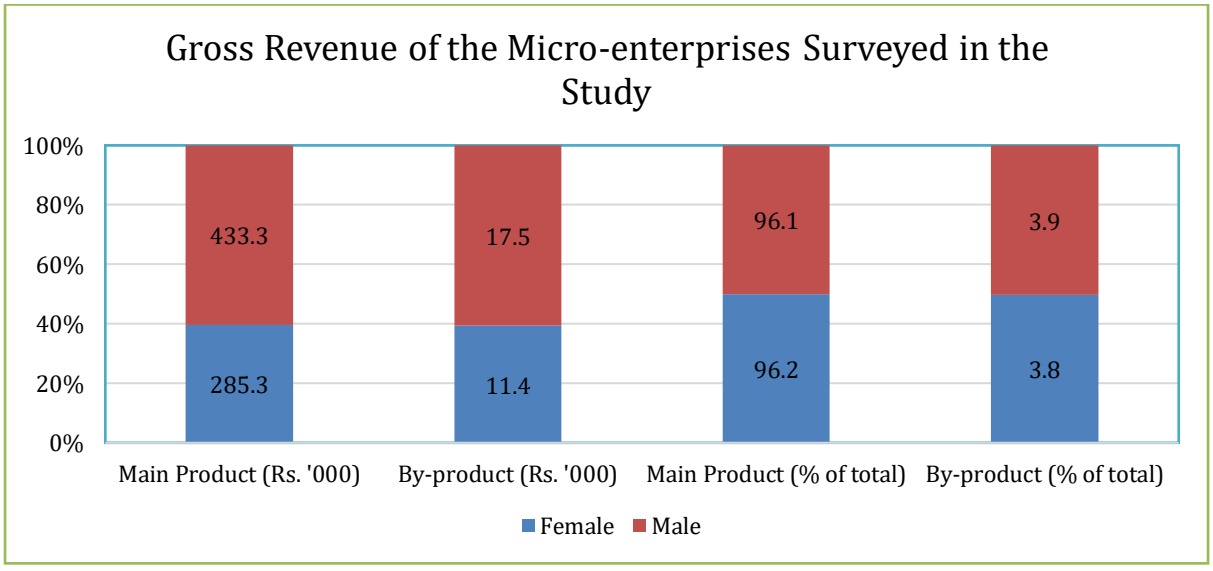
Though all the microenterprises surveyed had incurred annual operating variable costs such as salary for direct labour, cost for raw materials, utilities, packaging, storage, marketing, and other expenses to operate properly, direct labor cost and cost for raw materials are their major cost. Of the total annual operating variable cost, share of raw materials was 59%, and that of direct labour 32%, utilities 1%, packaging cost 2%, storage cost 2%, marketing 2% and other cost 2%. Average annual operating variable cost incurred by the microentrepreneurs surveyed was Rs. 216.3 thousand (Rs.186.8 thousand in females and Rs. 280.0 thousand in males). Thus, there are notable and significant differences on amount of variable cost across gender.



The total annual operating variable cost structure is enterprise specific and varies greatly across study districts. Most o of the microentrepreneurs surveyed lack proper books of account, and annual operating variable cost presented in this section was imputed based on observation of their current state of microenterprise operation and interview with the micro-entrepreneurs.

Gross Revenue Analysis

All the microenterprises surveyed in this study has earned through main products and by-products they produced from the operation and management of their microenterprises. On an average the microentrepreneurs surveyed have earned Rs. 345.6 thousand (Rs. 296.7 for female microentrepreneurs, and Rs. 450.0 thousand for male microentrepreneurs).



Net Revenue Analysis

Net return of microenterprise was analyzed by subtracting annual fixed cost and annual variable cost from gross revenue. Average net operating income of the micro-entrepreneurs was Rs. 65.6 thousand (Rs.56.3 thousand in case female entrepreneurs, and Rs. 85.4 thousand in case of male microentrepreneurs). The survey findings reveal that there are significant differences on net income

earned by the microenterprise managed by female and male microentrepreneurs.

Analysis of Micro-Entrepreneurs' Share in Gross Income

Net revenue presented above include imputed cost of wage laborers of micro-entrepreneurs and their HH members on assumption that they would have earned wage labor had they worked elsewhere as wage laborers. Proportion of hired labor used is very low. Under this assumption, analysis of micro-entrepreneur's share on enterprise income was done adding cost of indirect and direct labour on net income. Average share of micro-entrepreneurs in gross income was Rs. 153.4 thousand (Rs. 135.3 thousand among female managed microenterprises and Rs. 192.2 thousand in case of male managed micro-entrepreneurs.

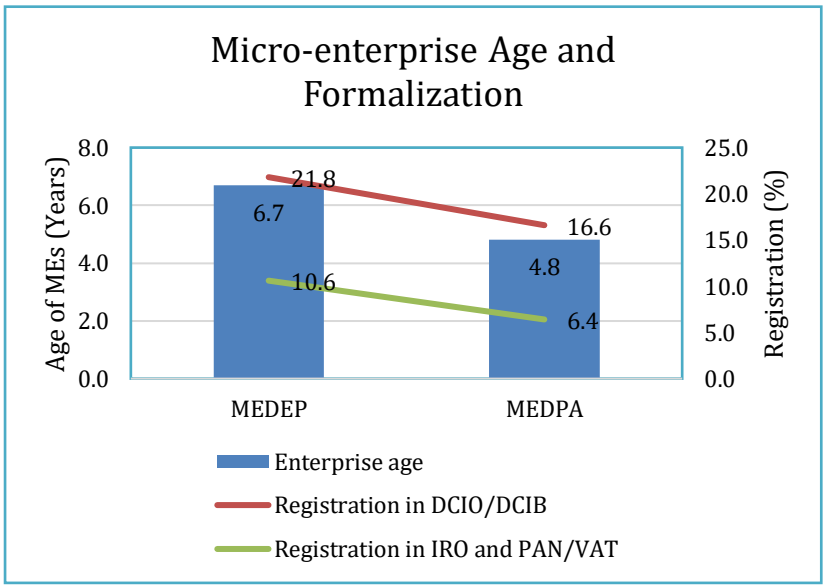
5.7 **Financial Analysis of the Microenterprise across MEDEP and MEDPA**

5.7.1 **Microenterprise Establishment, Formalization, and Institution Development**

MEDEP/MEDPA had worked to identify potential entrepreneurs, and assisted to starting, existing, and growing entrepreneurs over the last 18 years. After enterprise creation, there had been notable formalization and institutional development of the microenterprises over the passage of their age.

Type of Microenterprises

A total of 137,404 MEDEP/MEDPA promoted microenterprises can be classified into eight such as: agriculture and forestry based, production based, service based, tourism based, construction based, ICT based, energy based and other (Industrial Enterprise Act). In this study, a total of 846 micro-entrepreneurs were surveyed, of which 689 (81.4%) were promoted by MEDEP and 157 (18.6%) by MEDPA.



Age of the Microenterprises: Number of years of the micro-entrepreneurs surveyed ranges between 1 years and 18 years with an average of 6.4 years. Across the program type average age of enterprises MEDEP promoted microenterprise was 6.7 years and that of MEDPA was 4.8 years.

Formalization of the Micro-entrepreneurs: Microenterprises surveyed under this study are moving towards formalization. About 20.8% of the microenterprises (21.8% MEDE promotedand16.6% MEDPA promoted) were registered in District Cottage Industry Office (DCIO) and District Cottage Industry Board (DCIB).

About 9.8% microenterprises (10.6MEDEP promoted and 6.4% MEDPA promoted) surveyed were registered in concerned Inland Revenue Office (IRO) and received permanent account number (PAN) or Value Added Tax (VAT) certificate. Some of them also started the process to update their transaction in IRD. ICT, production and tourism based microenterprises are quite ahead on formalization process compared to agriculture and forestry based, service and other enterprises.

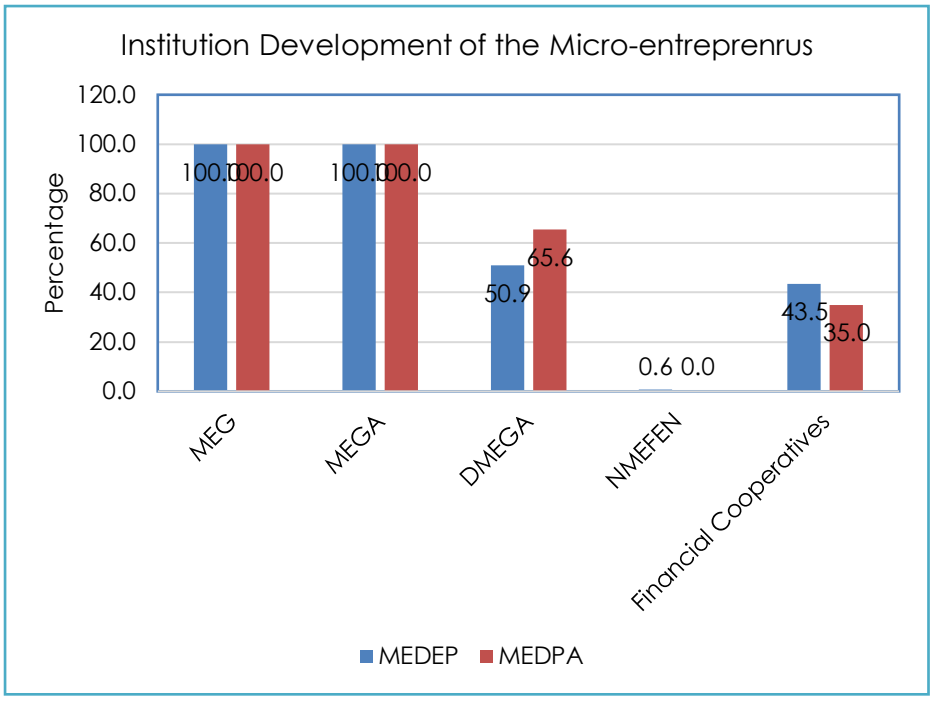
Institutional Development of Microenterprises

Institutional development of the microentrepreneurs through social mobilization process was an integral part of the MED model for enterprise development. MEG, MEGA, DMEGA, NMEFEN and

transformation of the MEG into cooperatives (savings and credit or multipurpose) are the different types of the institutions promoted under MEDEP/MEDPA.

Micro-Entrepreneurs' Group: All the micro-entrepreneurs surveyed have joined into MEG. They have worked as a local level financial intermediary for their members.

Micro-Entrepreneurs Groups Association: All MEGs formed at the settlement level of a particular rural market centre are federated into MEGA, as their informal association. All the MEGA are operating at mixed success.



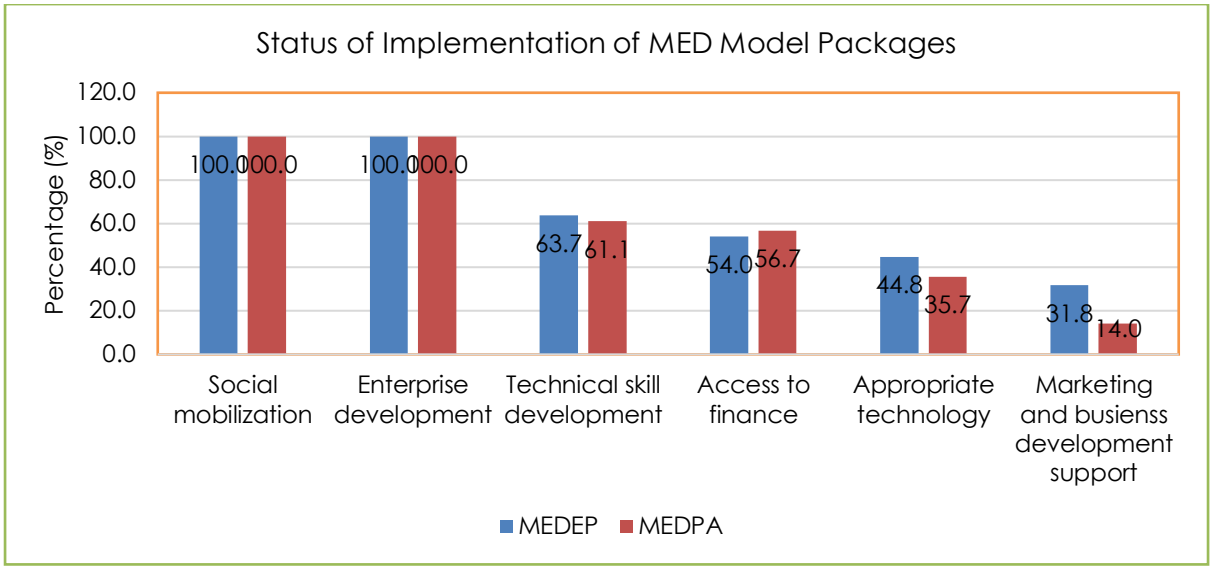
District Microentrepreneurs Group Association: All the MEGAs within a district are federated into DMEGA, as an informal association of MEGAs but are operating at mixed success. Though all the DMEGA are currently working actively, most of them failed to bring all MEGA members into its ambit. About 43.7% surveyed (50.9% MEDEP promoted and 65.6% MEDPA promoted) were D-MEGA members.

National Micro-Entrepreneurs Federation Nepal: In general, all D-MEGAs in MEDEP/MEDPA districts are federated into NMEFEN. NMEFEN is working actively, but it failed to bring all micro-entrepreneurs under its ambit. Only 0.5% (0.6% MEDEP promoted and o MEDPA promoted) of micro-entrepreneurs surveyed were members of NMEFEN.

Financial Cooperatives: Some of the micro-entrepreneurs surveyed under this study were also the shareholders of the financial cooperatives developed under the technical and financial support of MEDEP/MEDPA. About 42% micro-entrepreneurs (43.3 MEDEP promoted and 35.0% MEDPA promoted) surveyed were the shareholders of financial cooperatives.

5.7.2 **Assistance from MEDEP/MEDPA**

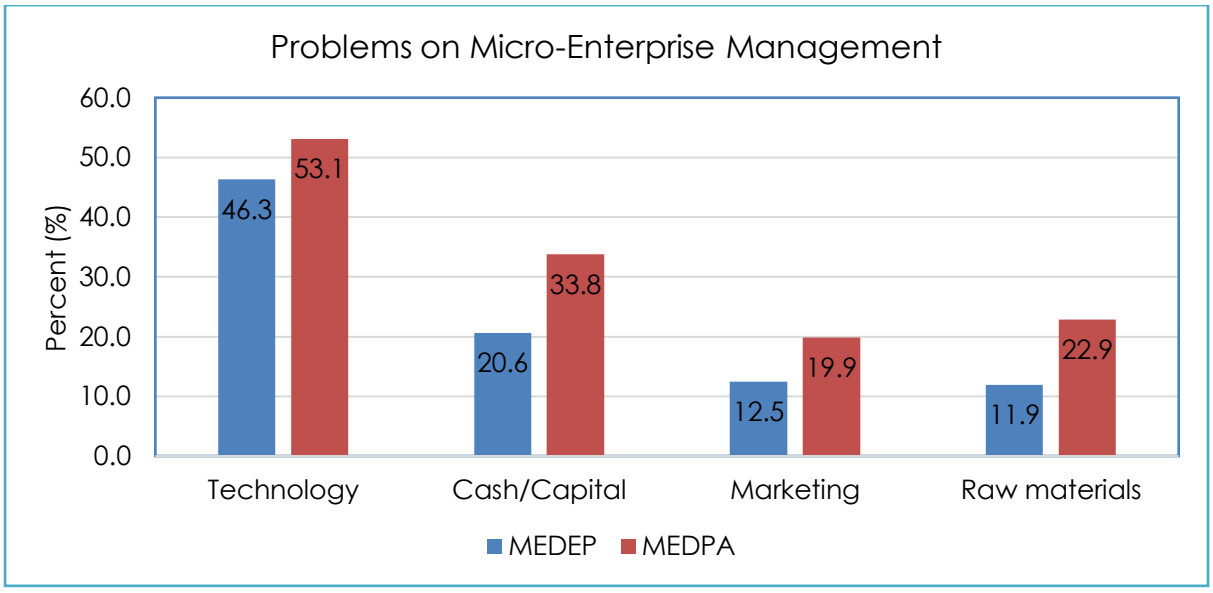
MEDEP/MEDPA has supported microenterprises surveyed through packages comprising of social mobilization, enterprise development, and technical skill development, access to finance, appropriate technology support and marketing and business development support. In many cases, some or all of these supports had worked as catalyst to motivate poor and disadvantaged groups in remote rural, emerging market towns, and urban areas to establish and operate the microenterprises.



All the microentrepreneurs surveyed, across sex, have benefited from social mobilization support and enterprise development training provided under MEDEP/MEDPA. About 63.2 (63.7% MEDEP promoted and 61.1 MEDPA promoted), have received technical skill training, and about 54.5% (54.0% MEDEP promoted and 56.7% MEDPA promoted) have benefitted from access to finance. Likewise, 43.1% (44.8% MEDEP promoted and 35.7% MEDPA promoted), and 28.5% (31.8% MEDEP promoted, and 14.0% MEDPA promoted) microenterprises have received support from appropriate technology and marketing and business development support from MEDEP/MEDPA.

5.7.3 **Microenterprise Management**

The programme has focused on providing packages of services encompassing technology, cash/capital, marketing and raw materials management to microentrepreneurs for their continued and sustainable growth. Technology is the main problems faced by the microentrepreneurs surveyed followed by cash/capital, raw materials and marketing.

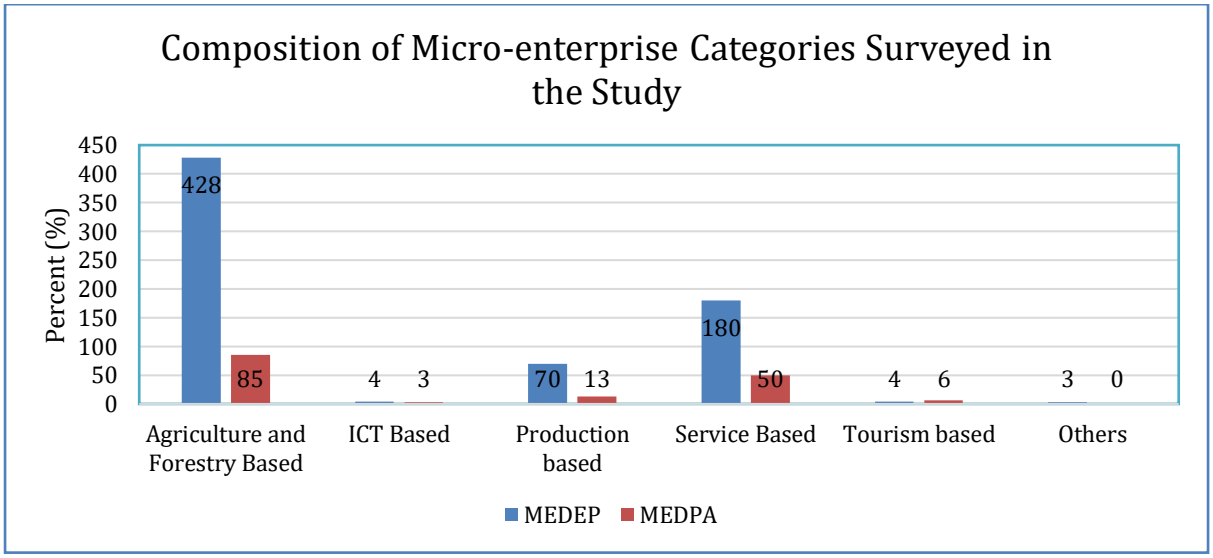


Technology problem is quite severe among the microentrepreneurs irrespective of sex; while market problem was quite milk all types of micro-entrepreneurs by sex. More proportion of MEDPA promoted microentrepreneurs have faced problem on technology (53.1%), cash/capital (33.8%), marketing (19.9%), and raw materials (22.9%) while incidence of problem faced my MEDEP promoted microentrepreneurs are technology (46.3%), cash/capital (20.6%), marketing (12.5%), and raw materials (11.9%) was lower.

5.7.4 **Nature and Type of Microenterprises**

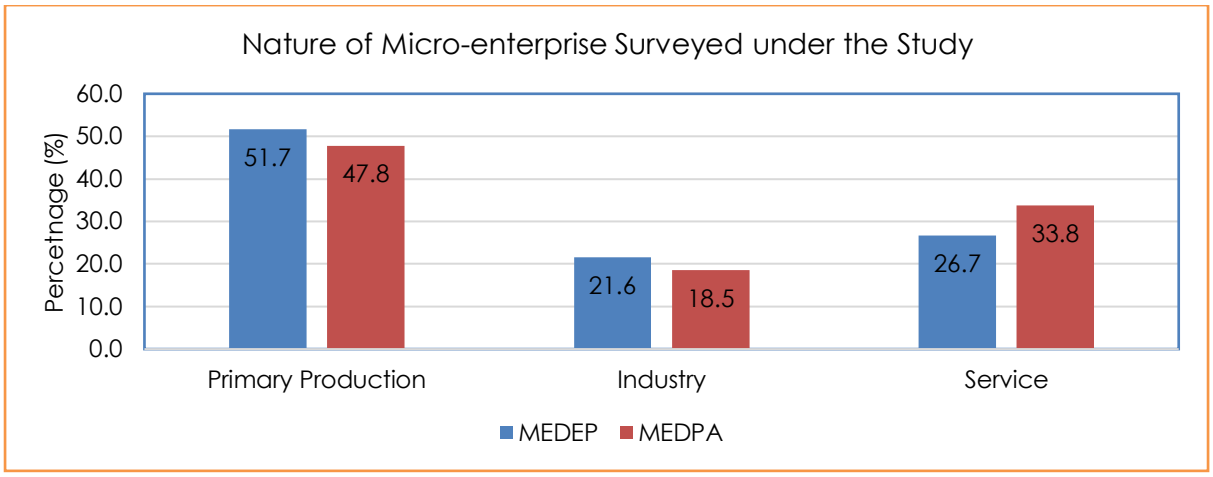
Categories of microenterprises:

All six categories of microenterprise are established, operated and managed by both MEDEP and MEDPA, other enterprises. MEDEP sample have managed more proportion of agriculture and forestry based, production and service-based microenterprises.



Nature of the microenterprises

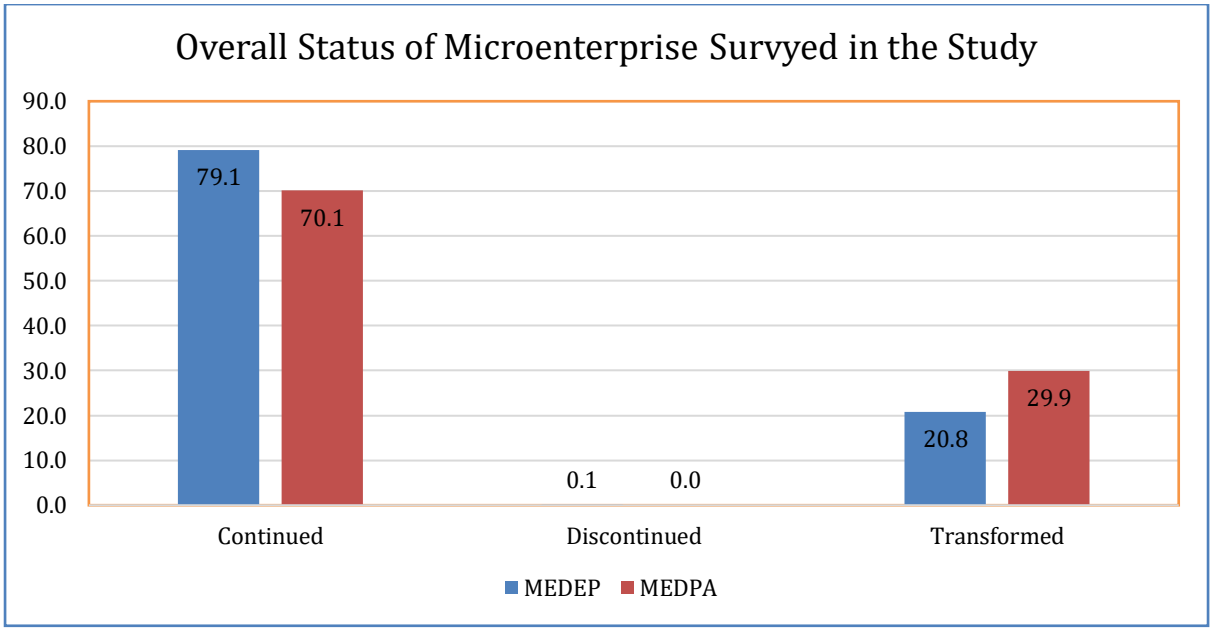
Different categories of the microenterprises promoted under MEDEP/MEDPA are further grouped into three based on nature of process involved on transforming production inputs into outputs namely production based, industry based, and service based. Of the total microenterprise surveyed, 50.9% were primary production based, 21% were industry based, and 28% were service based.



MEDPA sample had promoted more proportion of service oriented microentrepreneurs compared to MEDPA, which are skewed towards service type microenterprises.

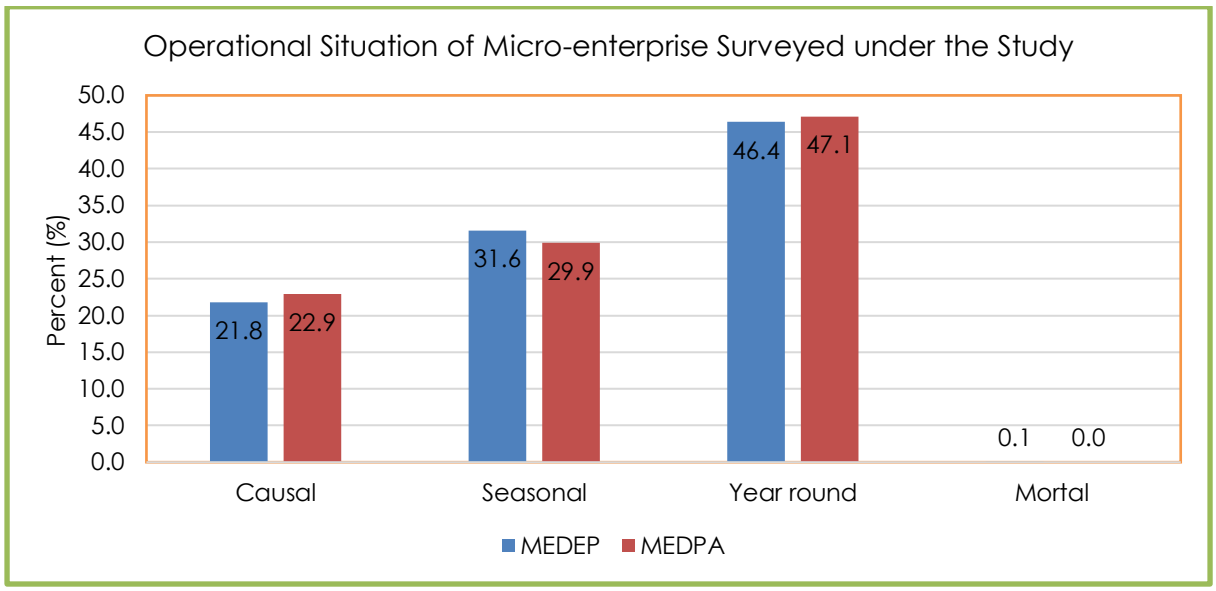
Mortality versus Shifting/Transformation of Microenterprises

Both MEDEP and MEDPA promoted microenterprises surveyed in this have either continued their original business and some of them have gone through a shifting/transformation process. Incidence of shifting/diversification/shifting was found high MEDPA promoted microentrepreneurs compared to MEDEP promoted micro-entrepreneurs.



Capacity Utilization and Operation

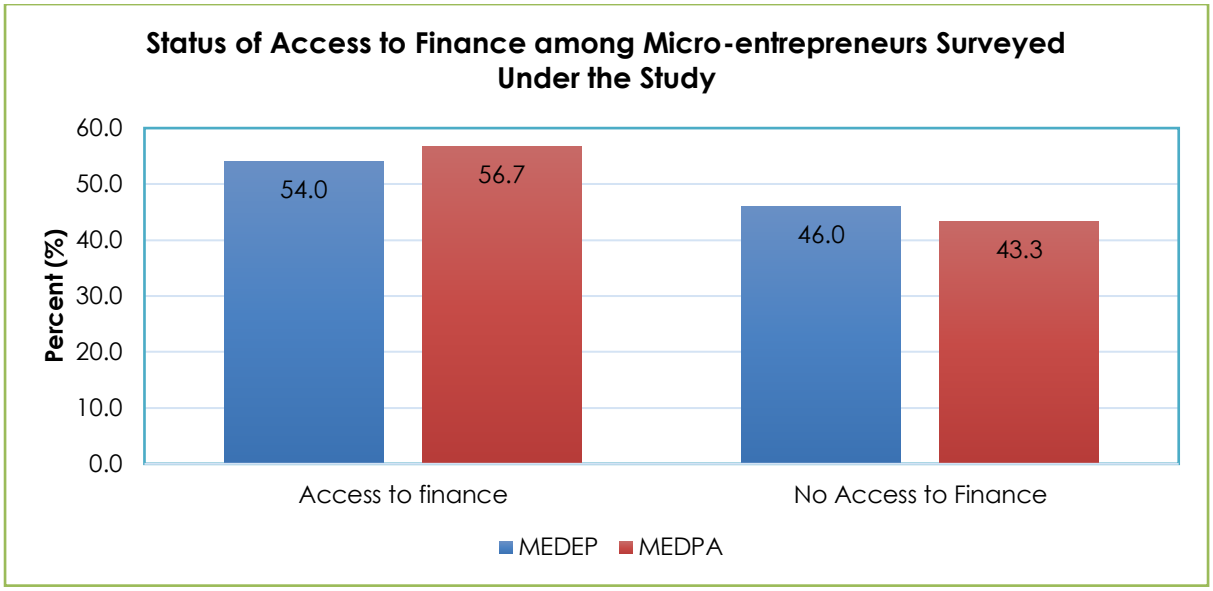
Of the total microenterprise surveyed, 22.0% (21.8% MEDEP promoted and 22.9% MEDPA promoted) are providing causal employment, 31.3% (31.6% MEDEP promoted and 29.9 MEDPA promoted) providing seasonal employment and remaining 46.6% (46.5% MEDEP promoted and 47.1% MEDPA promoted) are providing year-round employment.



There is no significant difference on the capacity utilization and operation of the microenterprises promoted under MEDEP and MEDPA.

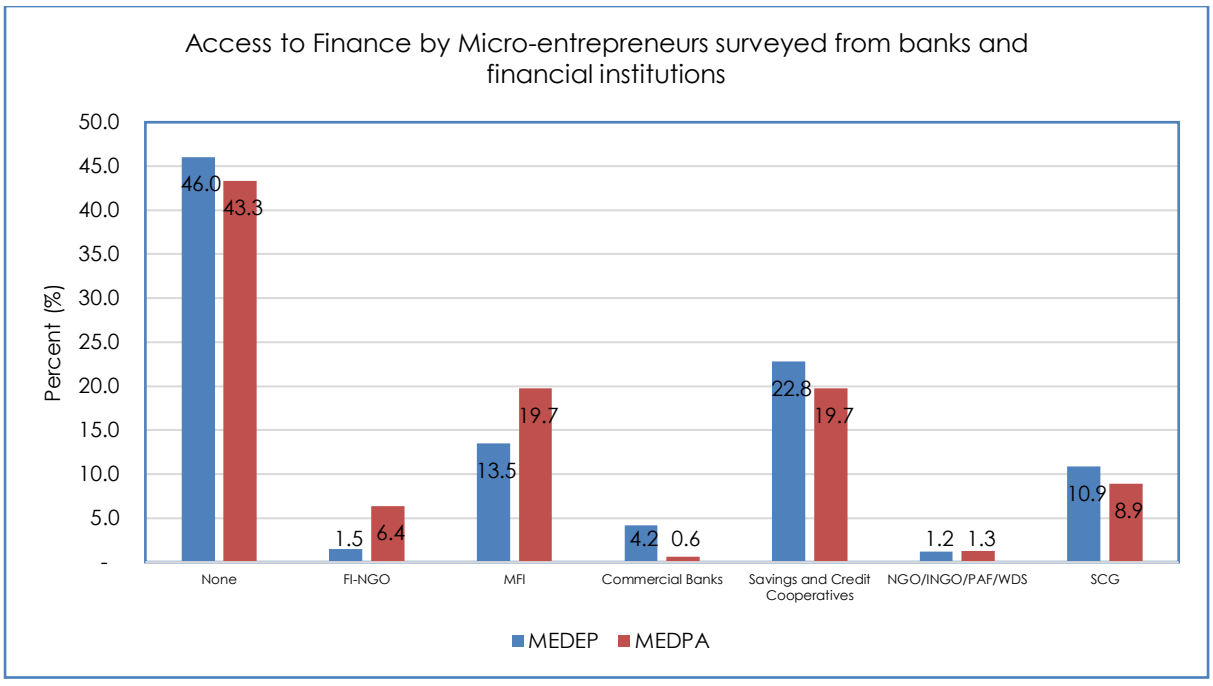
5.7.5 **Access to Finance**

Both MEDEP and MEDPA promoted micro-entrepreneurs surveyed have received financial services from sources viz. financial cooperatives, microfinance institutions, commercial banks, financial intermediary NGOs, and informal lenders. Field survey information revealed that 54.5% microentrepreneurs surveyed had access to finance from different financial service providers active in their vicinity. More proportion of MEDPA promoted microentrepreneurs (56.7%) have received access to finance compared to MEDPA promoted microentrepreneurs (54.0%).



Sources of Access to Financial Services

Both MEDEP and MEDPA promoted micro-entrepreneurs surveyed have received access to finance from different sources such as financial cooperatives, microfinance institutions, commercial banks, financial intermediary NGOs, and informal lenders, NGOs, INGOs and Poverty Alleviation Fund (PAF).

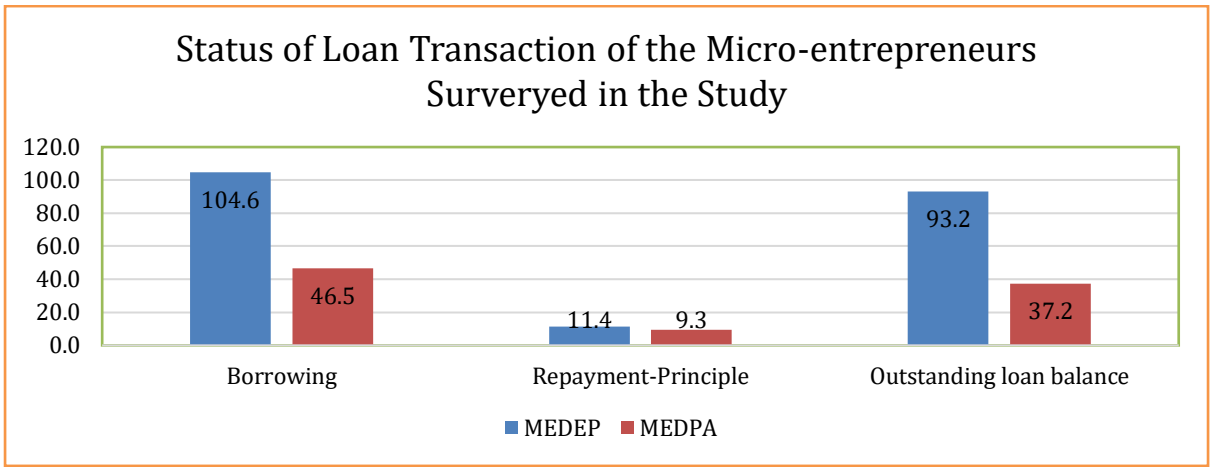


There is not notable and discernable trend on access to finance by microenterprises developed under MEDEP and MEDAP. Savings and credit cooperatives are emerging as an emerging and reliable source for access fine for the microentrepreneurs promoted under MEDEP and MEDPA. Especially those micro-entrepreneurs living in terai and accessible hills have better access to finance from formal sector compared to those living in inaccessible hills and mountains. While more male micro-entrepreneurs surveyed have borrowed from

Status of Loan Transaction

As discussed already about 54.5% of the micro-entrepreneurs surveyed have borrowed from different types of the financial service providers in their vicinity, and average amount of borrowing was Rs. 93.9

thousand (Rs. 104.6 thousand among MEDEP promoted microentrepreneurs, and Rs. 46.5 thousand among MEDPA promoted microentrepreneurs). A comparison of the loan transaction across reveals that MEDPA promoted microentrepreneurs have borrowed less, repaid more or less identical amount, with lower outstanding loan balance of Rs. 83.8 thousand (Rs. 93.2 thousand among MEDEP promoted micro-entrepreneurs and Rs. 37.2 thousand among MEDPA promoted micro-entrepreneurs.

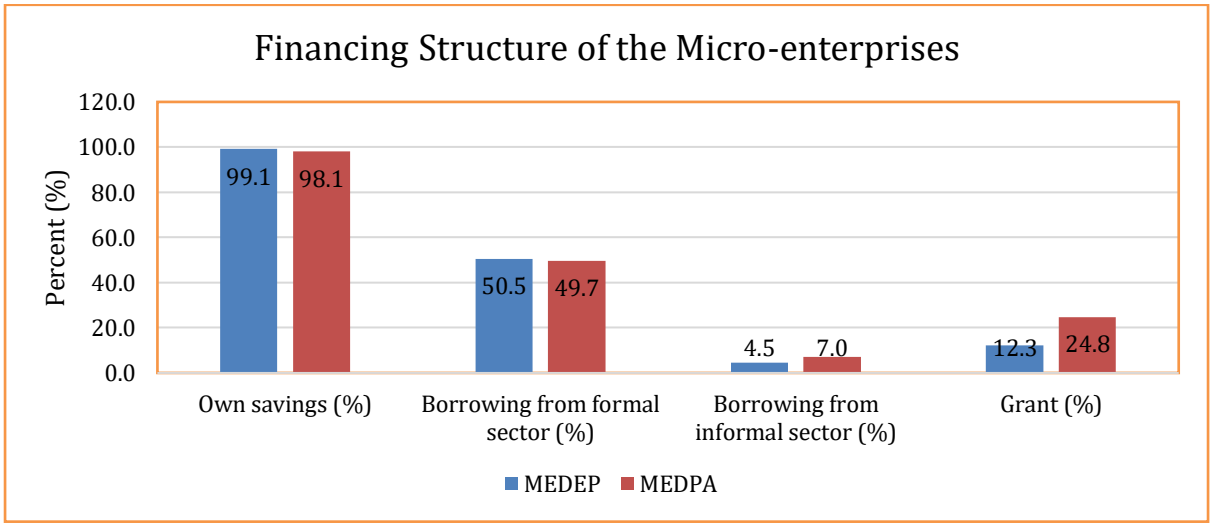


5.7.6 **Financial Dimensions of Microenterprise**

During field studies, gender disaggregated financial analysis of the microenterprise promoted by female and male microentrepreneurs was done through an estimation of current level of (i) financing structure, (ii) fixed investment, (iii) annual operating fixed cost, (iv) annual variable cost, (v) gross revenue and (vi) net income[18].

Estimation of Financing Structure

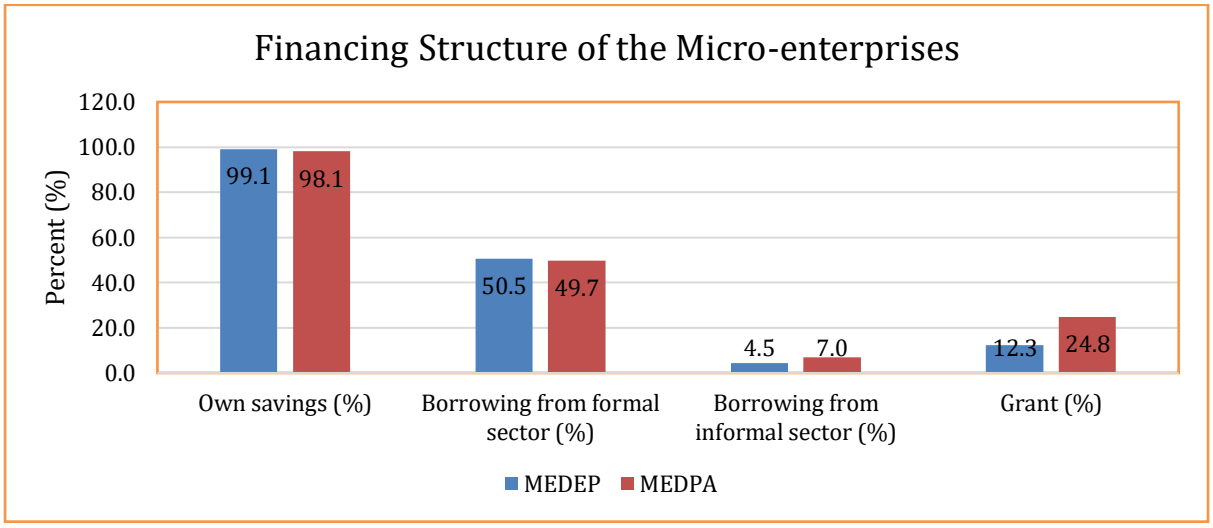
A typical MEDEP/MEDPA promoted micro-entrepreneurs had managed financing required for their microenterprises from (i) using own savings, (ii) borrowing from formal sector, (iii) borrowing from informal sector, and (iv) use of grant money from MEDEP/MEDPA or any other agencies.



Of the total micro-entrepreneurs surveyed, 98.9% (99.1% MEDEP promoted and 98.1% MEDPA promoted) have used their own savings to set-up their microenterprise, 50.4% (50.5% MEDEP promoted and 49.7% MEDPA promoted) have used money borrowed from formal sector (financial cooperatives, MFIs, FI-NGOs, and Commercial Banks) to set-up their microenterprise, 5.0% (4.5

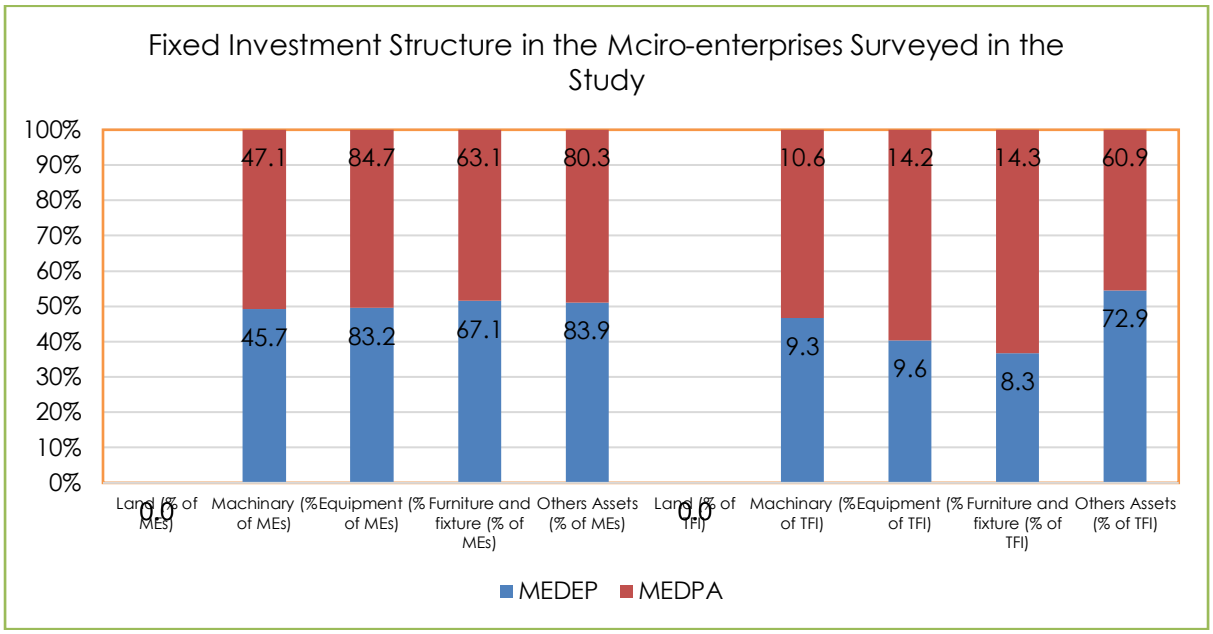
[18] Gross income and expenditure details provided by micro-entrepreneurs surveyed were analyzed to estimate profit or net income by enterprises over the last one year (2016-17). Profit analysis was carried out for 996 micro-enterprises operated by individual entrepreneurs. Since a large majority of respondents did not keep business details and accounts, data used for financial analysis was based on interviews with respondents, and observation of enterprise operation and management.

MEDEP promoted and 7.0% MEDEPA promoted) have used money borrowed from informal sector (money lenders, savings and credit groups, etc.) and 14.7% (12.3% MEDEP promoted and 24.8% MEDPA promoted) have received grant (cash and/or in-kind) from MEDEP/MEDPA to set-up their microenterprise. All the micro-entrepreneurs surveyed had financed to set up their microenterprises. Average amount of financing was Rs. 142.6 thousand (Rs. 157.2 thousand MEDEP promoted, and Rs 78.5 thousand in MEDPA promoted).



Fixed Investment Structure Analysis

Microenterprises surveyed in this study were started with small fixed investment structure. They establish enterprise on their own land or in rented premises, but none have invested in fixed asset like land and buildings. Typical investment activities include land, building, machineries, equipment, and other accessories.



About 46% (45.7MEDEP promoted and 47.1MEDPA promoted) microentrepreneurs surveyed have invested in machineries and average of amount of investment was Rs. 11.8 thousand (13.2 thousand in MEDEP promoted and Rs. 6.0 in MEDPA promoted). On the other hand, about 83.5% microentrepreneurs (83.2MEDEP promoted and 84.7MEDPA promoted) surveyed have invested on equipment and average amount of investment on equipment was Rs. 12.5 thousand (Rs. 13.6in MEDEP promoted and Rs. 8. thousand in MEDPA promoted) among the microentrepreneurs.

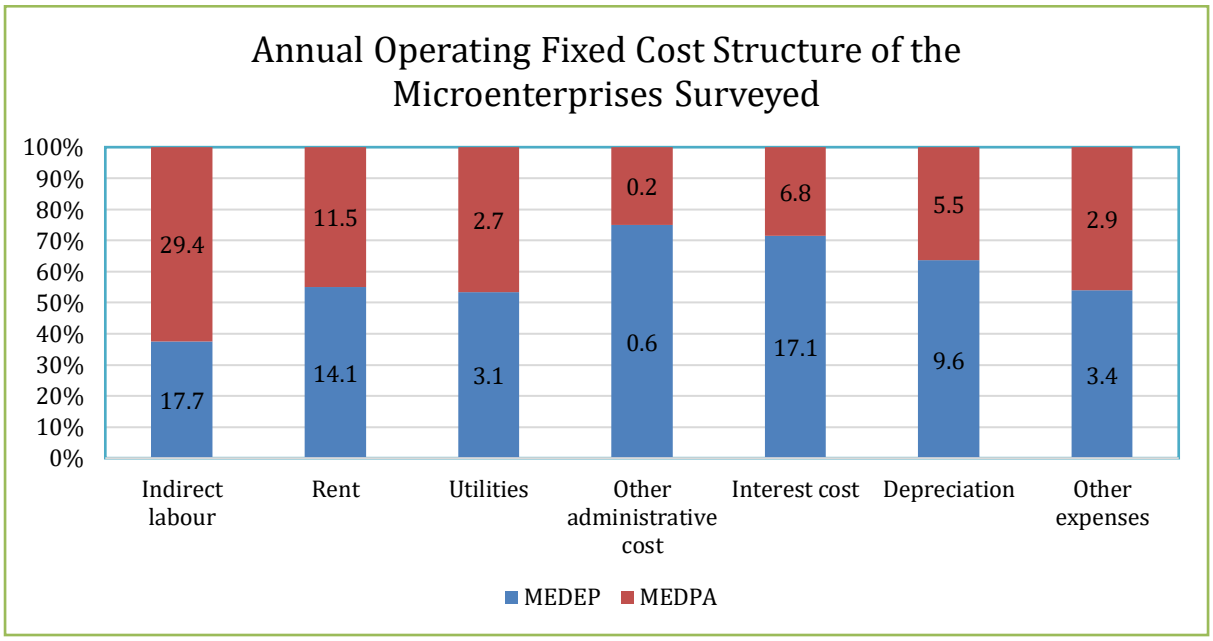
About 66.3% (67.1% MEDEP promoted and 63.1MEDEPA promoted) microentrepreneurs surveyed

have invested in furniture and fixtures and average of amount of investment was Rs. 11.1 thousand (Rs. 11.8thousand in MEDEP promoted and Rs. 8.1 thousand MEDPA promoted) among the microentrepreneurs. Further, bout 83.2% microentrepreneurs (83.9% MEDEP promoted and 80.3% in MEDPA promoted) have invested on building and other productive assets and across microenterprise surveyed and average of amount of investment on building and other productive assets was Rs. 90.9 thousand (Rs. 103.6 thousand by MEDEP promoted and Rs. 34.4 thousand by MEDPA promote) micro-entrepreneurs.

Some notable differences exist on the average total fixed investment across MEDEP and MEDPA promoted micro-entrepreneurs. Average amount of fixed investment finance among MEDPA promoted microentrepreneurs which was Rs. 56.5 thousand was significantly lower than the average amount of fixed investment of Rs. 142.2 among MEDEP promoted micro-entrepreneurs.

Annual Operating Fixed Cost Analysis

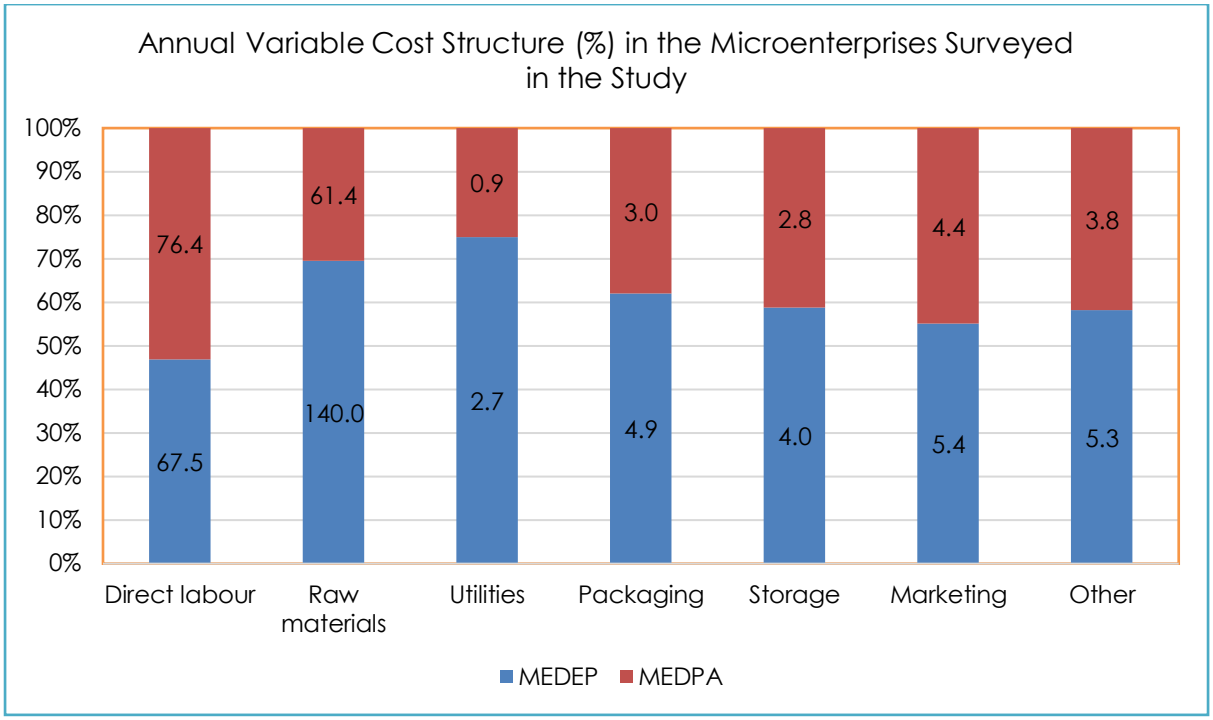
Both female and male micro-entrepreneurs surveyed in this study had incurred annual operating fixed cost such as salary for indirect labor, rent payment, utilities, other administrative cost, interest cost, depreciation, and other expenses.



All the micro-entrepreneurs surveyed had incurred annual operating fixed cost to operate their microenterprises. Average amount of annual operating fixed cost was Rs. 64.4 thousand (Rs. 65.6 thousand in case of MEDEP promoted and Rs. 59.0 thousand among MEDPA promoted) microenterprises. The total annual operating fixed cost structure is location specific and varies greatly across microenterprise surveyed. Since most of the microentrepreneurs surveyed lack proper books of account, annual operating fixed cost was imputed based on the observation of current state of operation of microenterprise and interview with micro-entrepreneurs.

Annual Operating Variable Cost Analysis

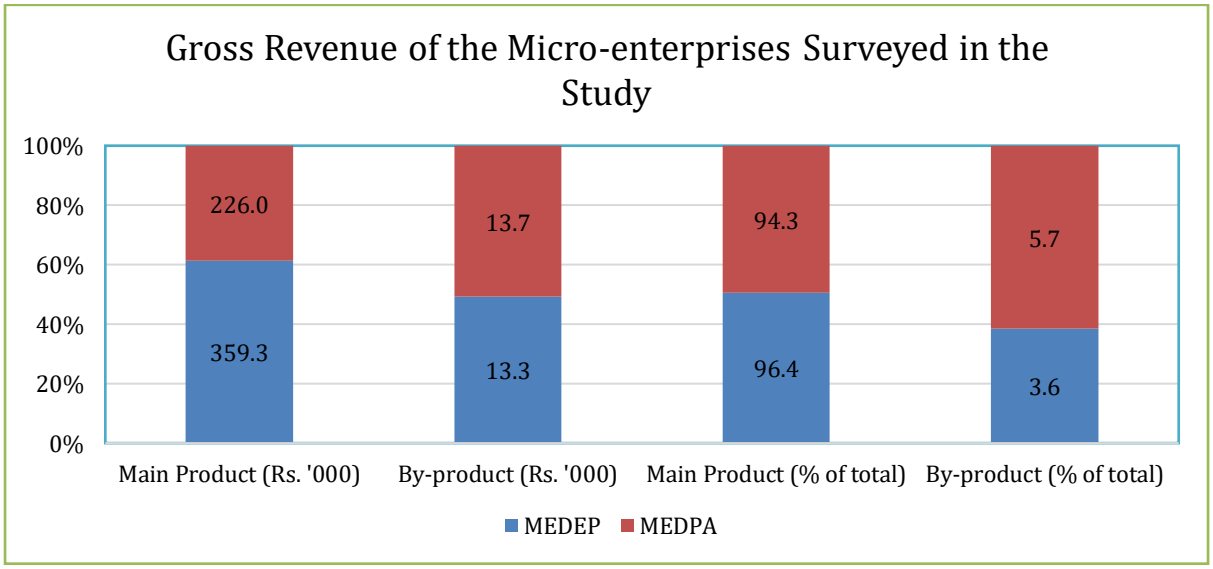
Though all the microenterprises surveyed had incurred annual operating variable costs such as salary for direct labour, cost for raw materials, utilities, packaging, storage, marketing, and other expenses to operate properly, direct labor cost and cost for raw materials are their major cost. Of the total annual operating variable cost, share of raw materials was 58%, and that of direct labour 32%, utilities 1%, packaging cost 2%, storage cost 2%, marketing 2% and other cost 2%. Average annual operating variable cost incurred by the microentrepreneurs surveyed was Rs. 215.5 thousand (Rs.229.8thousand in case of MEDEP promoted and Rs. 152.7 thousand (in case of MEDPA promoted) micro-entrepreneurs. Survey findings revealed that there arenotable and significant differences on amount of variable cost across MEDEP and MEDPA promoted micro-entrepreneurs.



The total annual operating variable cost structure is enterprise specific and varies greatly across study districts. Most o of the microentrepreneurs surveyed lack proper books of account, and annual operating variable cost presented in this section was imputed based on observation of their current state of microenterprise operation and interview with the micro-entrepreneurs. The research findings imply MEDEP promoted microentrepreneurs more efficient that MEDPA promoted ones.

Gross Revenue Analysis

All the microenterprises surveyed in this study has earned through main products and by-products they produced from the operation and management of their microenterprises. On an average the microentrepreneurs surveyed have earned Rs. 347.9 thousand (Rs. 372.6 for MEDEP promoted microentrepreneurs, and Rs. 239.7 thousand for MEDPA promoted microentrepreneurs). There is significant difference on gross revenue of the microenterprise promoted by MEDEP and MEDPA.



Net Revenue Analysis

Net return of microenterprise was analyzed by subtracting annual fixed cost and annual variable cost from gross revenue. Average net operating income of the micro-entrepreneurs was Rs. 68.0 thousand

(Rs.77.1 thousand in case MEDEP promoted entrepreneurs, and Rs. 28.0thousand in case of MEDPA promoted microentrepreneurs). The survey findings reveal that there are s significant differences on net income earned by the microenterprise managed by MEDEP promoted and MEDPA promoted microentrepreneurs. MEDEP promoted micro-entrepreneurs are earning relatively higher net revenue.

Analysis of Micro-Entrepreneurs' Share in Gross Income

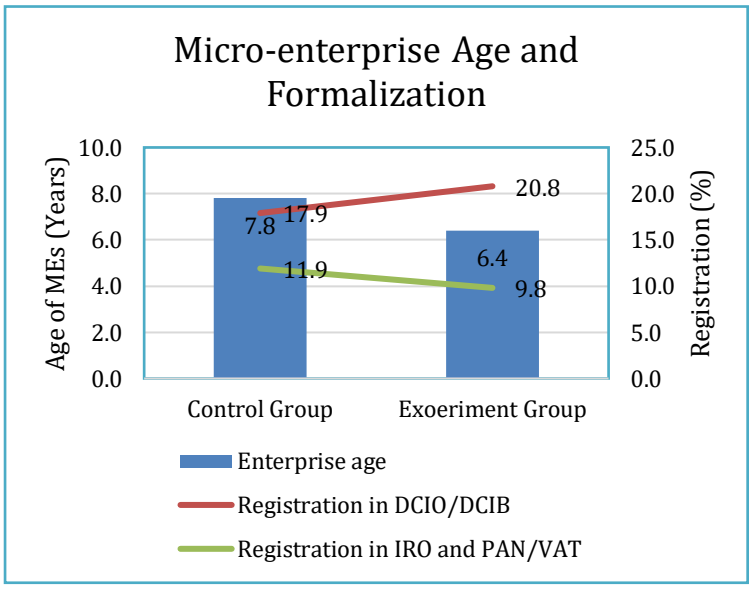
Net revenue presented above include imputed cost of wage laborers of micro-entrepreneurs and their HH members on assumption that they would have earned wage labor had they worked elsewhere as wage laborers. Proportion of hired labor used is very low. Under this assumption, analysis of micro-entrepreneur's share on enterprise income was done adding cost of indirect and direct labour on net income. Average share of micro-entrepreneurs in gross income was Rs. 157.1 thousand (Rs. 162.4 thousand among MEDEP promoted microenterprises and Rs. 133.8thousand in case of MEDPA promoted micro-entrepreneurs.

5.8 **Financial Analysis of the Microenterprise across Experiment and Control Group**

In order to systematically assess the changes on the key socioeconomic parameters brought about by this project, a quasi-experiment was designed during the field survey of this study. Thus, during field study both the microentrepreneurs receiving support from MEDEP/MEDPA (designated as experiment group) and microentrepreneurs who were excluded from MEDEP service delivery packages due to technical reasons were surveyed. This sub-section provided comparative assessment of the result of the comparison.

5.8.1 **Microenterprise Establishment, Formalization, and Institution Development**

In the rural setting, microenterprise has more forwards with a notable institutional development and formalization process either they are supported by MEDEP/MEDPA or operating stand-alone. Thus, after enterprise creation, in general enterprises undergo through a notable formalization and institutional development of the microenterprises over the passage of their age.



Type of Microenterprises

A total of 997 micro-entrepreneurs were surveyed in this study, of which 151 (15.1%) is control grouped (CG) and 846 (84.9%) were the experiment group (EG).

Age of the Microenterprises: Number of years of the micro-entrepreneurs surveyed ranges between 1 years and 18 years with an average of 6.6 years. Across the sample type average age of enterprises EG of microenterprise was 6.4 years and that of CG microentrepreneurs was 7.8 years.

Formalization of Micro-entrepreneurs: Microenterprises surveyed under this study are moving towards formalization. About 20.4% of the microenterprises (17.9% CG and 20.8% EG) were registered in District Cottage Industry Office (DCIO) and District Cottage Industry Board (DCIB).

About 10.1% microenterprises (11.9%CG and 9.8% EG) surveyed were registered in concerned Inland Revenue Office (IRO) and received permanent account number (PAN) or Value Added Tax (VAT) certificate. Some of them also started the process to update their transaction in IRD.

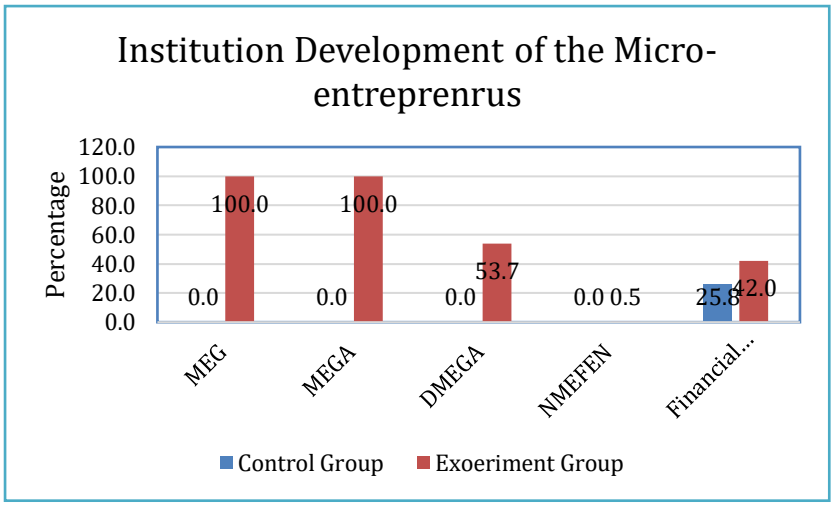
Institutional Development of Microenterprises

Institutional development of EG is quite systematic and start through social mobilization process and it is an integral part of MED model for enterprise development. MEG, MEGA, DMEGA, NMEFEN and transformation of the MEG into cooperatives (savings and credit or multipurpose) are the different types of the institutions promoted under MEDEP/MEDPA. Such institution is not mandatory in case of CG.

Micro-Entrepreneurs' Group: All the EG micro-entrepreneurs surveyed have joined into MEG. They have worked as a local level financial intermediary for their members.

Micro-Entrepreneurs Groups Association: All EG MEGs formed at the settlement level of a particular rural market centre are federated into MEGA, as their informal association. All the MEGA are operating at mixed success.

District Microentrepreneurs Group Association: In case of EG all the MEGAs within a district are federated into DMEGA, as an informal association of MEGAs but are operating at mixed success. Though all the DMEGA are currently working actively, most of them failed to bring all MEGA members into its ambit. About 45.5% surveyed EG were D-MEGA members.

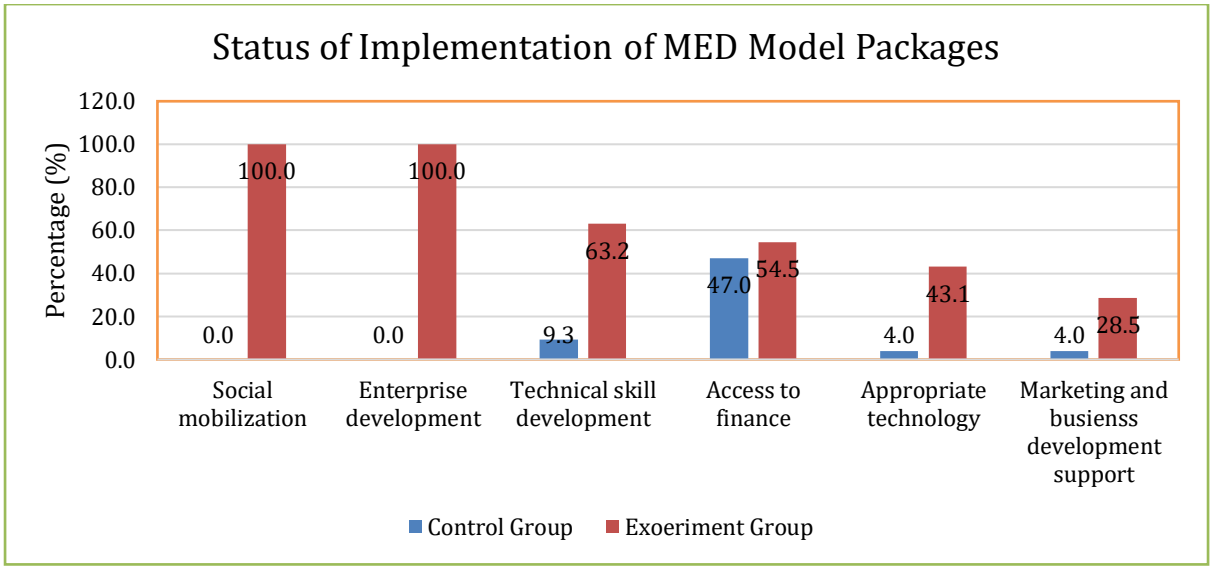


National Micro-Entrepreneurs Federation Nepal: In general, all D-MEGAs in MEDEP/MEDPA districts are federated into NMEFEN. NMEFEN is working actively, but it failed to bring all micro-entrepreneurs under its ambit. Only 0.4%, all EG micro-entrepreneurs surveyed were members of NMEFEN.

Financial Cooperatives: Some of the micro-entrepreneurs surveyed under this study were also the shareholders of financial cooperatives developed under the technical and financial support of MEDEP/MEDPA. On the other hand, even, the CG is also the member of the financial cooperatives. About 39.5% (25.8% CG and 42.0% EG) micro-entrepreneurs surveyed were the shareholders of financial cooperatives.

5.8.2 **Assistance from MEDEP/MEDPA**

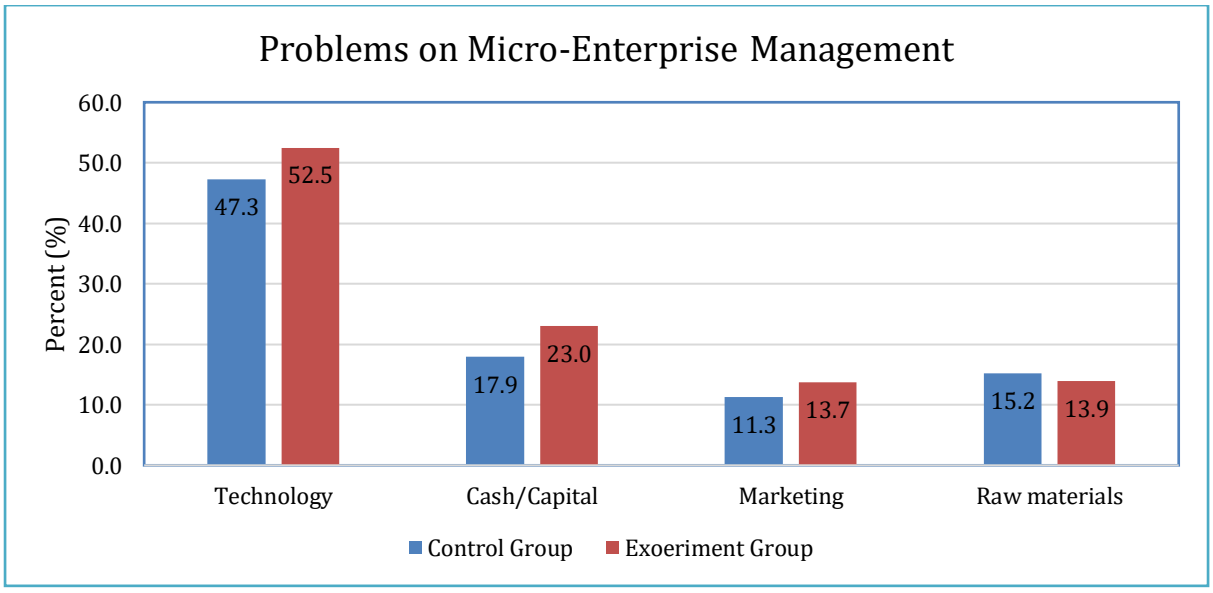
All the EG have received packages of support comprising of social mobilization, enterprise development, technical skill development, access to finance, appropriate technology support and marketing and business development support from MEDEP/MEDPA. In many cases, some or all of these supports had worked as catalyst to motivate poor and disadvantaged groups in remote rural, emerging market towns, and urban areas to establish and operate the microenterprises. CG microentrepreneurs have not received such support.



All the EG of microentrepreneurs surveyed have benefited from social mobilization support and enterprise development training provided under MEDEP/MEDPA. ON the other hand, 55.1% (63.2% EG and 9.3% CG) have received technical skill training, and about 53.4% (54.5% EG and 57% CG) have benefitted from access to finance. Likewise, 37.2% (4.0% CG promoted and 43.1% EG), and 24.8% (4% CG and 38.5% EG) microenterprises have received support from appropriate technology and marketing and business development support respectively from MEDEP/MEDPA, and/or other agencies.

5.8.3 **Microenterprise Management**

The programme has focused on providing packages of services encompassing technology, cash/capital, marketing and raw materials management to microentrepreneurs for their continued and sustainable growth. Such services were not available to the CG. Technology is the main problems faced by the microentrepreneurs surveyed followed by cash/capital, raw materials and marketing.

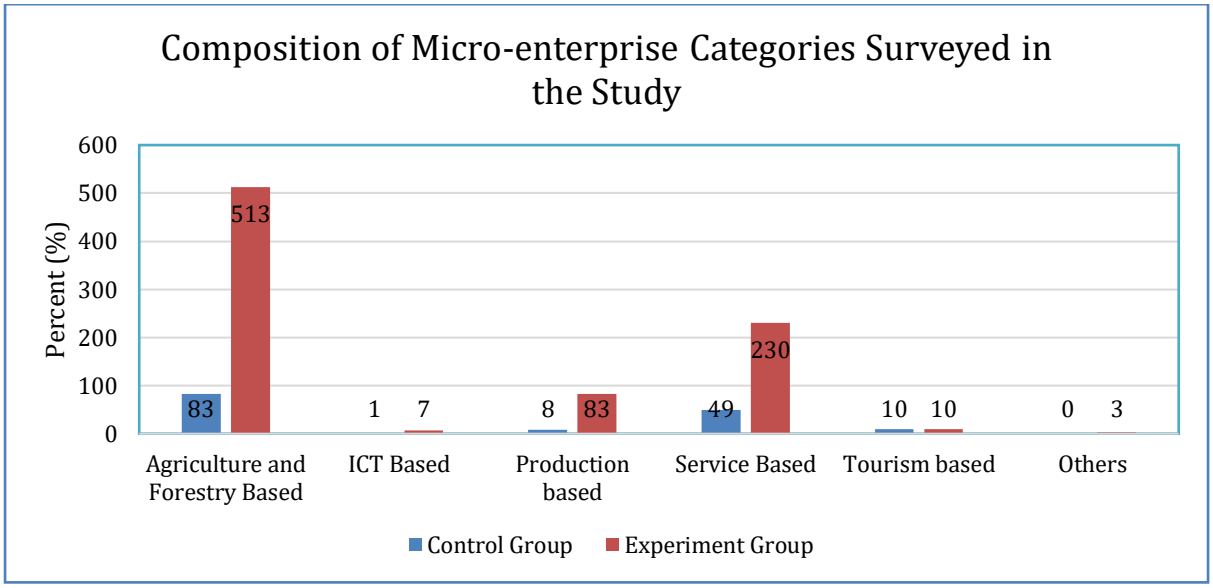


Technology problem is quite severe among the microentrepreneurs irrespective of sex; while market problem was quite milk all types of micro-entrepreneurs by sex. More proportion of GC microentrepreneurs have faced problem on technology (52.5%), cash/capital (23.0%), marketing (13.7%), and raw materials (13.9%) while incidence of problem faced by EG microentrepreneurs are technology (47.3%), cash/capital (17.9%), marketing (11.3%), and raw materials (15.2%). Slightly lower in some factors and higher in other factors.

5.8.4 Nature and Type of Microenterprises

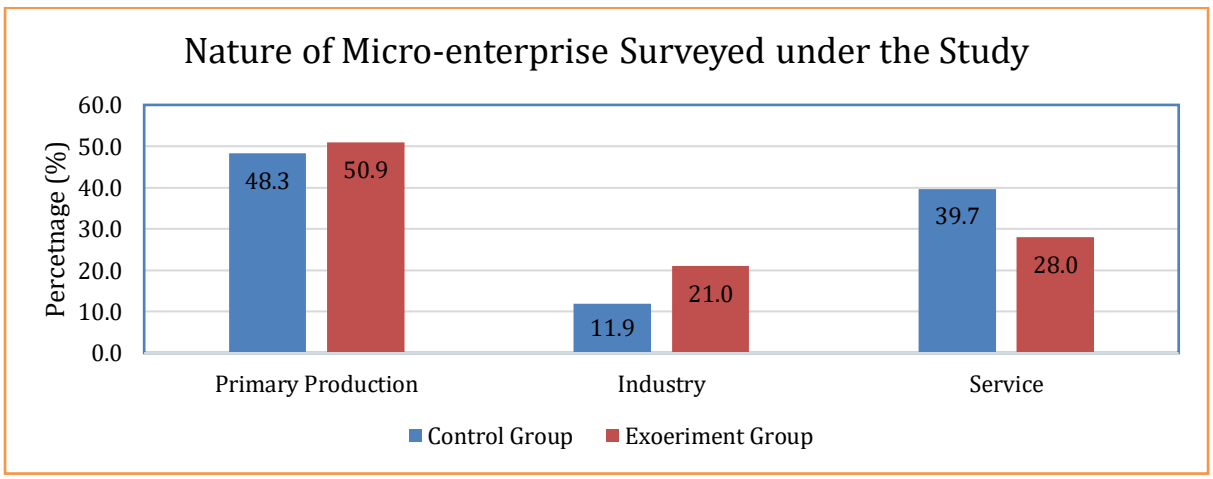
Categories of microenterprises:

All six categories of microenterprise are established, operated and managed by both CG and EG microenterprises. CE and CG include more or less fair representation of the different categories of the microenterprises covered under this study.



Nature of the microenterprises

Different categories of the microenterprises covered under EG and CG of microenterprises are further grouped into three based on nature of process involved on transforming production inputs into outputs namely production based, industry based, and service based. Of the total microenterprise surveyed, 50.9% (48.3% CG and 50.9% EG) were primary production based, 21% (11.9% CG and 21.0% EG) were industry based, and 28% (39.7CG and 28.0% EG) were service based.

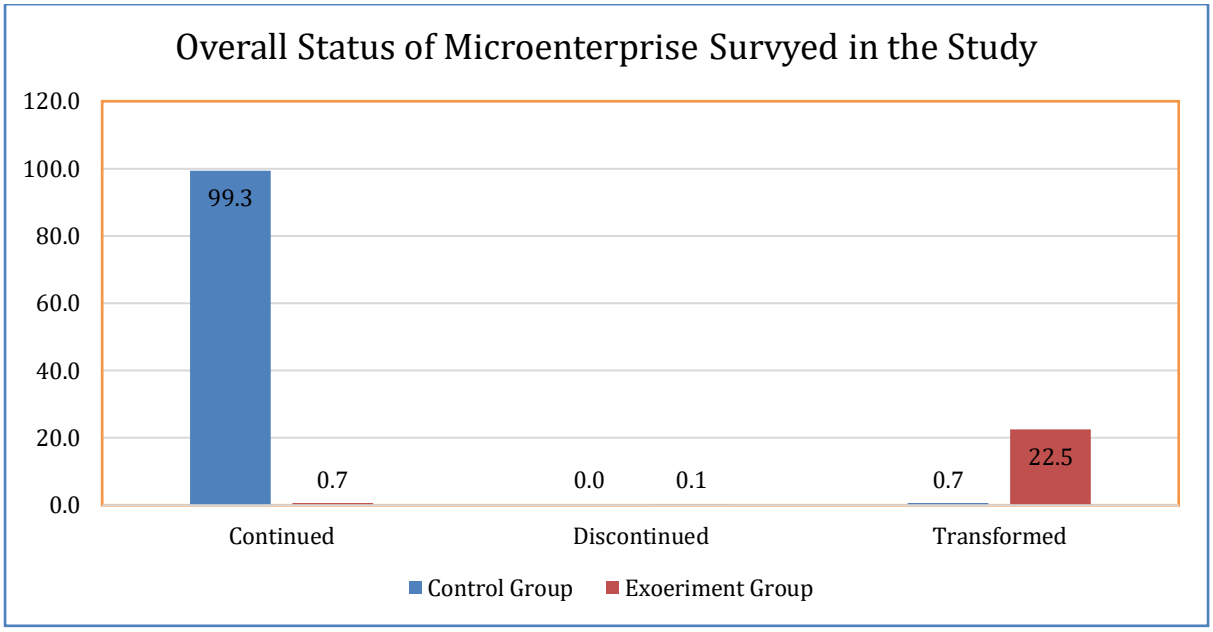


More proportion of CG were primary production and industry based while more proportion of EG were service based.

Mortality versus Shifting/Transformation of Microenterprises

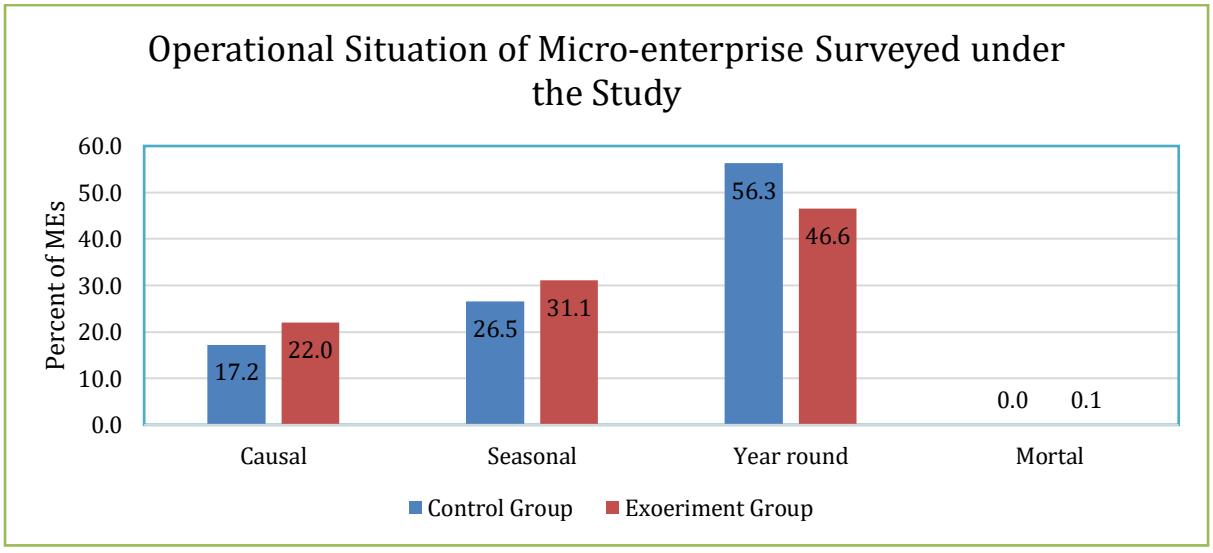
Both CG and EG of the microenterprises surveyed in this have either continued from their original business and some of them have gone through a shifting/transformation process. Incidence of shifting/diversification/shifting was found high in EG compared to CG of the microenterprises

surveyed under this study. Virtually, very negligible incidence of transformation/shifting was noted in CG of micro-entrepreneurs.



Capacity Utilization and Operation

Of the total microenterprise surveyed, 21.3% (17.2% CG and 22.0% EG) have providing causal employment, 30.6% (26.5% CG and 31.3% EG) providing seasonal employment and remaining 48.1% (39.7% CG and 27.9% EG) are providing year-round employment.

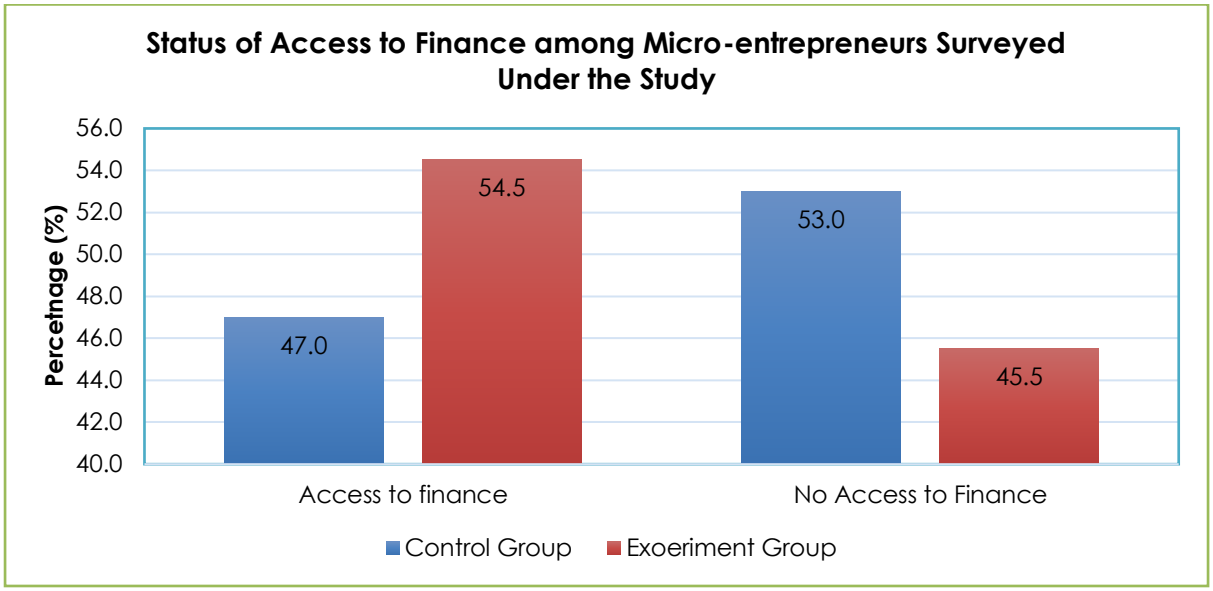


Slightly more number of EG are providing year-round employment compared to CG. Similarly, proportion of CG providing causal and seasonal employment is higher in the CG of microentrepreneurs surveyed.

5.8.5 **Access to Finance**

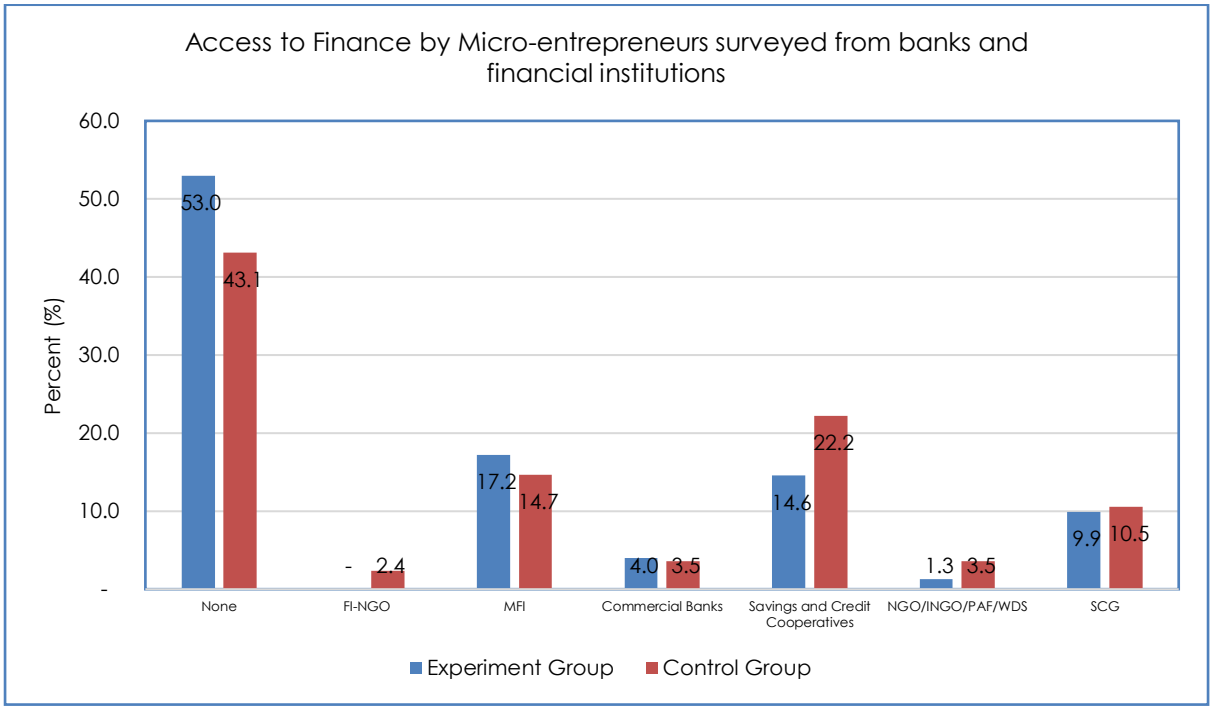
Both EG and CG of micro-entrepreneurs surveyed in this study have received financial services from sources viz. financial cooperatives, microfinance institutions, commercial banks, financial intermediary NGOs, and informal lenders. Field survey information revealed that 53.4% sample (47.1% CG and 54.5% EG) had access to finance from different financial service providers active in their vicinity. More proportion of EC promoted microentrepreneurs (54.5%) have received access to finance compared to

MEDPA promoted microentrepreneurs (47.0%).



Sources of Access to Financial Services

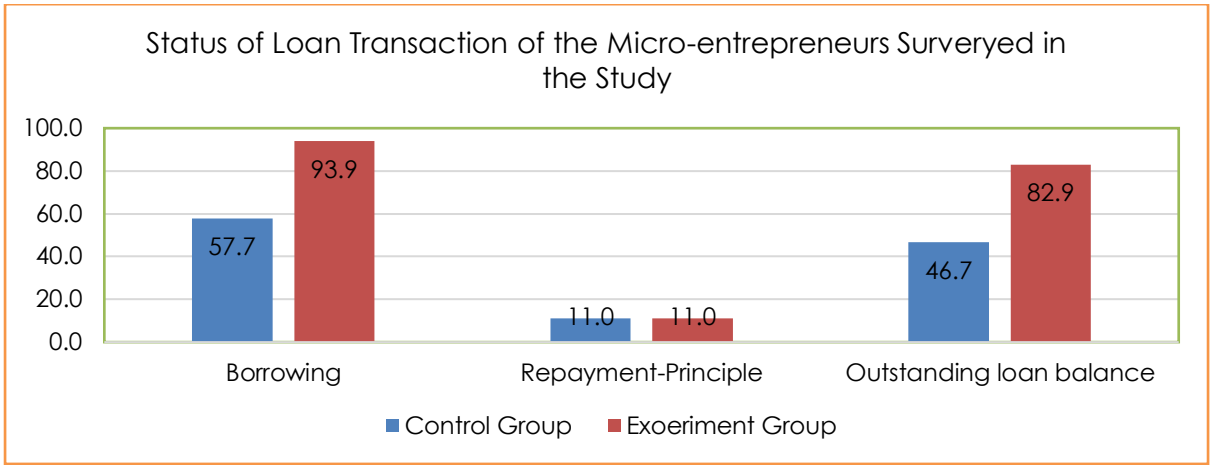
Both CG and EG micro-entrepreneurs surveyed have received access to finance from different sources such as financial cooperatives, microfinance institutions, commercial banks, financial intermediary NGOs, and informal lenders, NGOs, INGOs and Poverty Alleviation Fund (PAF).



There is not notable and discernable trend on access to finance by microenterprises across CG and EG except that more proportion of EG has received access to finance from financial cooperatives while more proportion of CG have received access to finance from MFIs. Savings and credit cooperatives are emerging as an emerging and reliable source for access finance for microentrepreneurs promoted under MEDEP and MEDPA. Especially those micro-entrepreneurs living in terai and accessible hills have better access to finance from formal sector compared to those living in inaccessible hills and mountains. While more male micro-entrepreneurs surveyed have borrowed from

Status of Loan Transaction

As discussed already about 53.3% of micro-entrepreneurs (CG and EG) surveyed have borrowed from different types of the financial service providers in their vicinity, and average amount of borrowing was Rs. 88.4 thousand (Rs. 57.7 in CG and Rs. 93.9 in EG). A comparison of the loan transaction across EG and CG revealed that CG have borrowed less, repaid more or less identical amount, with lower outstanding loan balance of Rs. 46.7thousand while in case EG, they have borrowed Rs. 93.9 thousand, repaid 11.0 thousand with Rs. 82.9 as outstanding loan balance.

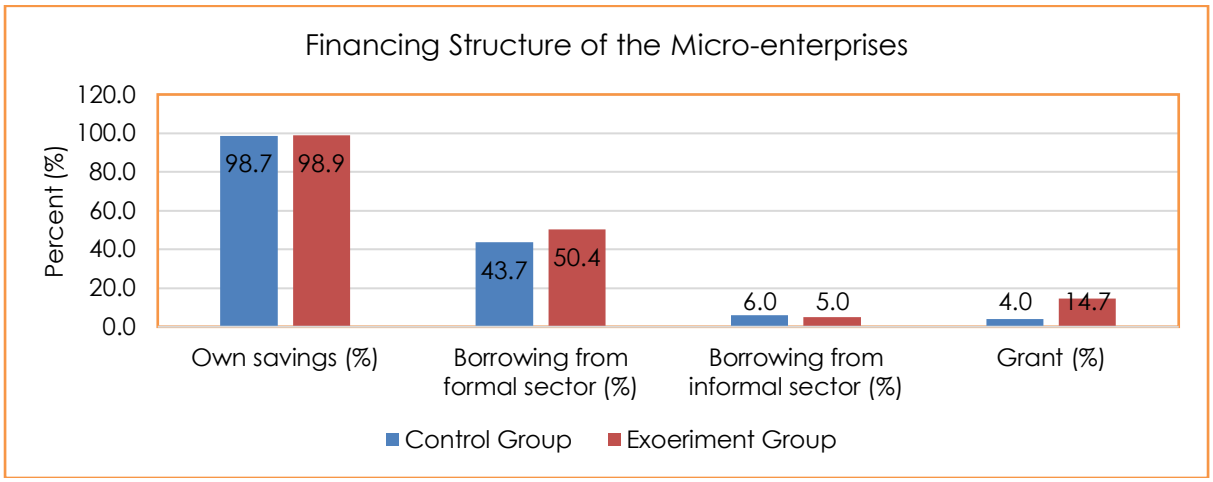


5.8.6 Financial Dimensions of Microenterprise

During field studies, gender disaggregated financial analysis of EG and CG microenterprise surveyed under this study was done through an estimation of current level of (i) financing structure, (ii) fixed investment, (iii) annual operating fixed cost, (iv) annual variable cost, (v) gross revenue and (vi) net income[19].

Estimation of Financing Structure

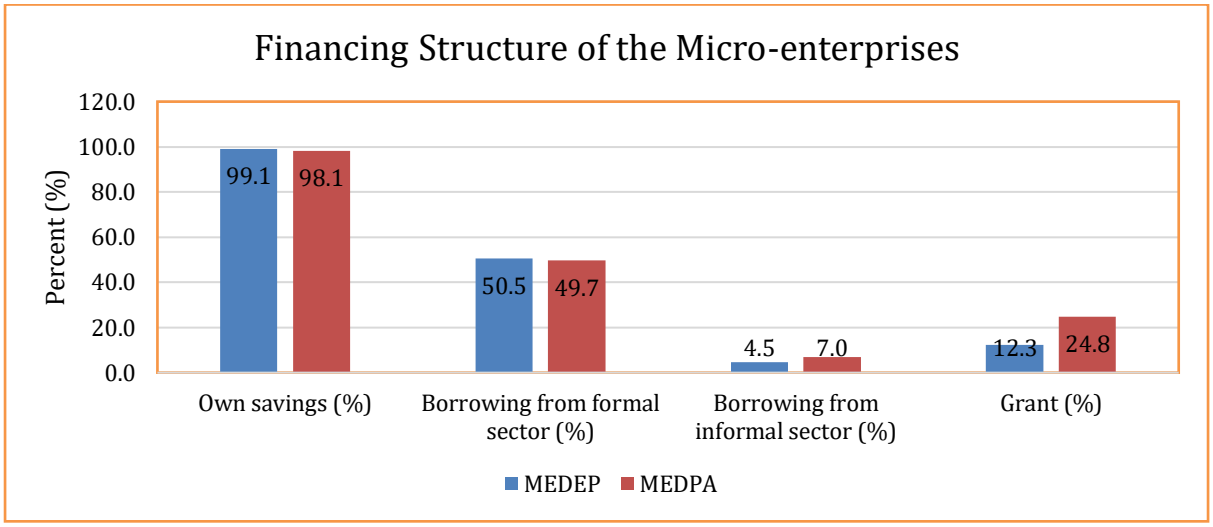
A typical CG and CG of micro-entrepreneurs surveyed in this study had managed financing required for their microenterprises from (i) using own savings, (ii) borrowing from formal sector, (iii) borrowing from informal sector, and (iv) use of grant money from MEDEP/MEDPA or any other agencies.



Of the total EG and CG of micro-entrepreneurs surveyed, 98.9% (98.7% CG and 98.9% EG) have

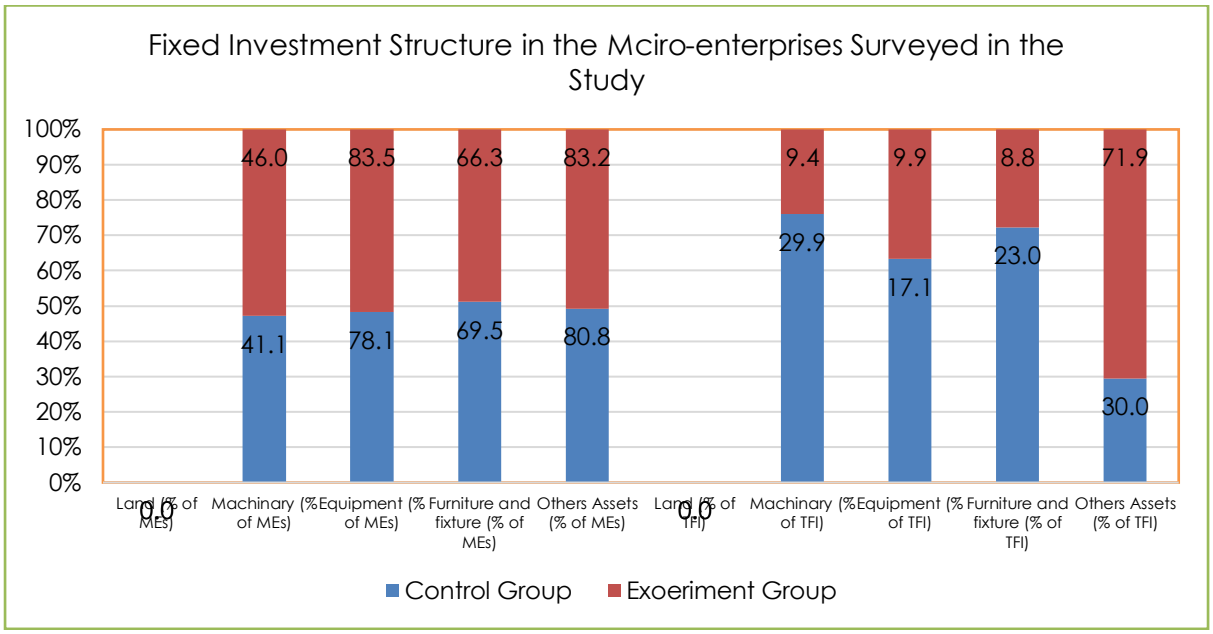
[19] Gross income and expenditure details provided by micro-entrepreneurs surveyed were analyzed to estimate profit or net income by enterprises over the last one year (2016-17). Profit analysis was carried out for 996 micro-enterprises operated by individual entrepreneurs. Since a large majority of respondents did not keep business details and accounts, data used for financial analysis was based on interviews with respondents, and observation of enterprise operation and management.

used their own savings to set-up their microenterprise, 49.3% (43.7% CG and 50.4% EG) have used money borrowed from formal sector (financial cooperatives, MFIs, FI-NGOs, and Commercial Banks) to set-up their microenterprise, 5.1% (6.0CG and 5.0% EG) have used money borrowed from informal sector (money lenders, savings and credit groups, etc.) and 13.0% (4.0% CG and 14.7% EG) have received grant (cash and/or in-kind) to set-up their microenterprise. All the micro-entrepreneurs surveyed had financed to set up their microenterprises. Average amount of financing was Rs. 135.9 thousand (Rs. 99.1 thousand CG, and Rs 142.6 thousand in EG).



Fixed Investment Structure Analysis

Microenterprises surveyed in this study were started with small fixed investment structure. They establish enterprise on their own land or in rented premises, but none have invested in fixed asset like land and buildings. Typical investment activities include land, building, machineries, equipment, and other accessories.



About 45.2% (41.1CG and 46.0 EG) microentrepreneurs surveyed have invested in machineries and average of amount of investment was Rs. 13.9 thousand (25.5 thousand in CG and Rs. 11.8 thousand in EG). On the other hand, about 82.6% microentrepreneurs (78.1 CG and 83.5 EG) surveyed have invested on equipment and average amount of investment on equipment was Rs. 12.8 thousand (Rs. 14.6 in CG and 12.5 in EG) among microentrepreneurs.

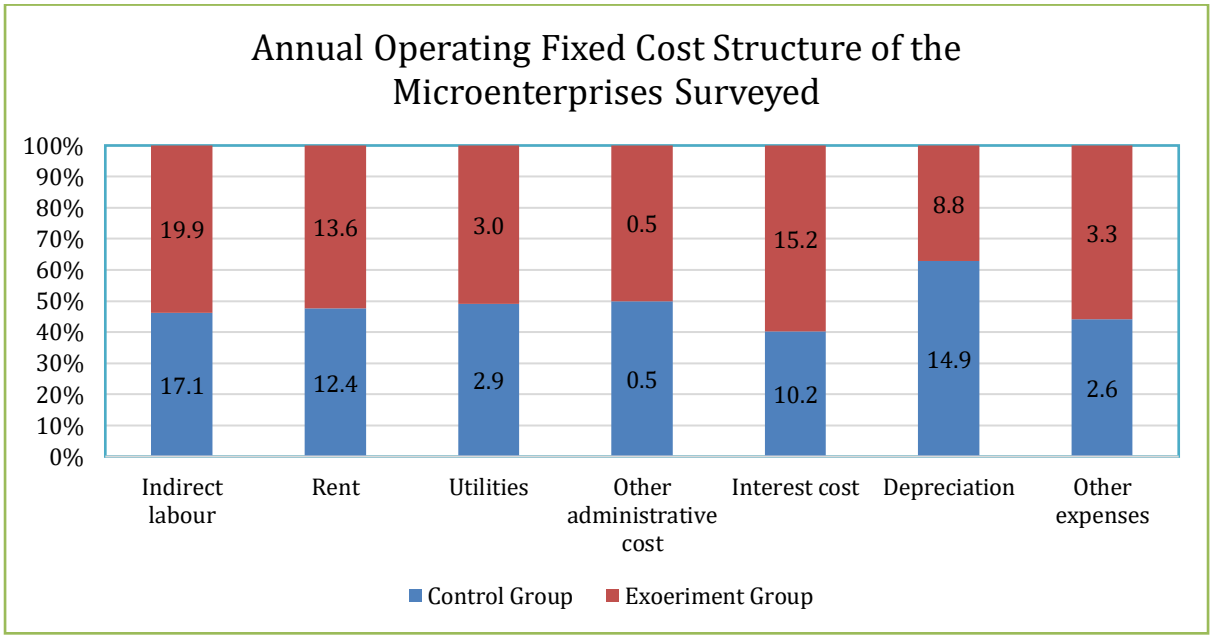
About 66.8% (69.5% CG and 66.3% EG) microentrepreneurs surveyed have invested in furniture and

fixtures and average of amount of investment on furniture and fixture was Rs. 12.4 thousand (Rs. 19.6 in CG and 11.1 in EG) among microentrepreneurs. Further, bout 82.9% microentrepreneurs (80.8% CG and 83.2% EG) have invested on building and other productive assets and across microenterprise surveyed and average of amount of investment on building and other productive assets was Rs. 80.9 thousand (Rs. 25.6 thousand by CG and Rs. 90.8 thousand by EG micro-entrepreneurs.

Some notable differences exist on the average total fixed investment across EG and CG micro-entrepreneurs. Average amount of fixed investment finance among CG was Rs. 85.3 thousand was significantly lower than the average amount of fixed investment of Rs. 126.2 among EG of micro-entrepreneurs. Survey findings revealed that there exist notable and significant differences on amount of annual operating fixed cost across EG and CG micro-entrepreneurs.

Annual Operating Fixed Cost Analysis

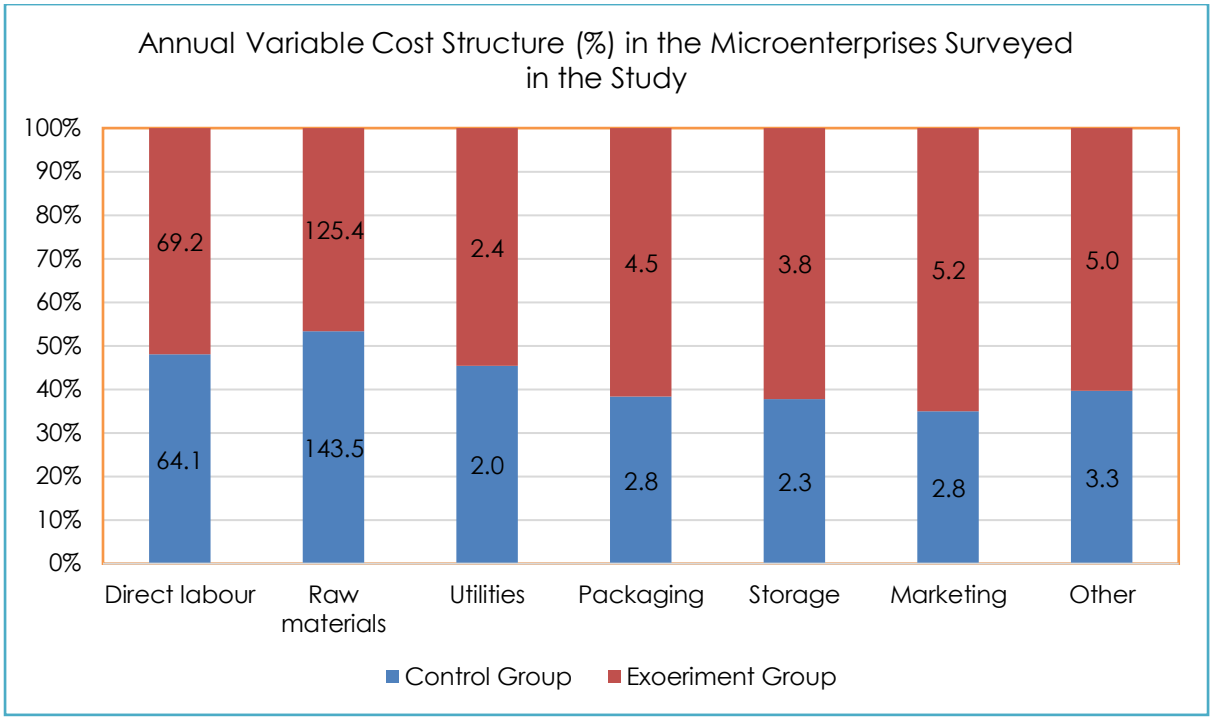
Both female and male micro-entrepreneurs surveyed in this study had incurred annual operating fixed cost such as salary for indirect labor, rent payment, utilities, other administrative cost, interest cost, depreciation, and other expenses.



All the micro-entrepreneurs surveyed had incurred annual operating fixed cost to operate their microenterprises. Average amount of annual operating fixed cost was Rs. 63.8 thousand (Rs. 60.6 thousand in case of CG and Rs. 64.3 thousand in case of EG) microenterprises. The total annual operating fixed cost structure is location specific and varies greatly across microenterprise surveyed. Since most of the microentrepreneurs surveyed lack proper books of account, annual operating fixed cost was imputed based on the observation of current state of operation of microenterprise and interview with micro-entrepreneurs.

Annual Operating Variable Cost Analysis

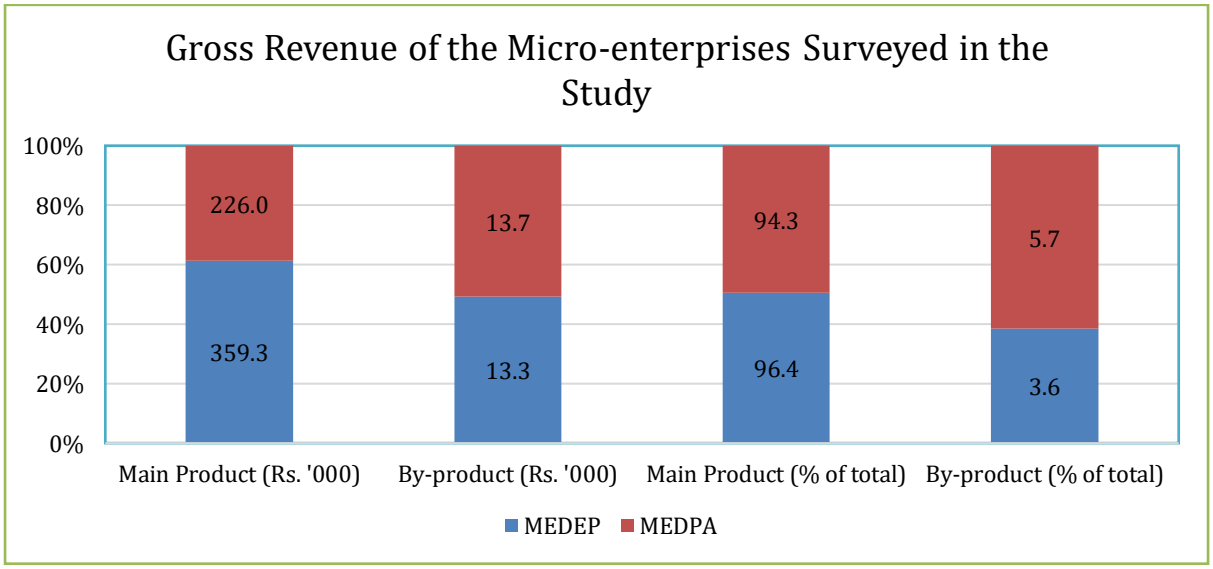
Though all the microenterprises surveyed had incurred annual operating variable costs such as salary for direct labour, cost for raw materials, utilities, packaging, storage, marketing, and other expenses to operate properly, direct labor cost and cost for raw materials are their major cost. Of the total annual operating variable cost, share of raw materials was 59%, and that of direct labour 32%, utilities 1%, packaging cost 2%, storage cost 2%, marketing 2% and other cost 2%. Average annual operating variable cost incurred by the microentrepreneurs surveyed was Rs. 216.3 thousand (Rs.220.8 thousand in case of CG and Rs. 215.5 in case of EG. Survey findings revealed that there does not exist notable and significant differences on amount of variable cost across EG and CG micro-entrepreneurs.



The total annual operating variable cost structure is enterprise specific and varies greatly across study districts. Most o of the microentrepreneurs surveyed lack proper books of account, and annual operating variable cost presented in this section was imputed based on observation of their current state of microenterprise operation and interview with the micro-entrepreneurs. The research findings imply the lack of significant difference on the working capital use efficiency between CG and EG.

Gross Revenue Analysis

All the microenterprises surveyed in this study has earned through main products and by-products they produced from the operation and management of their microenterprises. On an average the microentrepreneurs surveyed have earned Rs. 345.6 thousand (Rs. 332.7in case of CG and Rs. 347.9 in case of EG) of microentrepreneurs. There is small but significant difference on gross revenue of the sample in CG and EG included in this study.



Net Revenue Analysis

Net return of microenterprise was analyzed by subtracting annual fixed cost and annual variable cost from gross revenue. Average net operating income of the micro-entrepreneurs was Rs. 65.6 thousand (Rs. 51.3 thousand in case CG and Rs. 68.2 thousand in case of EG) among the microentrepreneurs. The survey findings reveal that there are small but s significant differences on net income earned by the microenterprise managed by CG and CG included in the sample of this study.

Analysis of Micro-Entrepreneurs' Share in Gross Income

Net revenue presented above include imputed cost of wage laborers of micro-entrepreneurs and their HH members on assumption that they would have earned wage labor had they worked elsewhere as wage laborers. Proportion of hired labor used is very low. Under this assumption, analysis of micro-entrepreneur's share on enterprise income was done adding cost of indirect and direct labour on net income. Average share of micro-entrepreneurs in gross income was Rs. 153.5 thousand (Rs. 132.5 thousand in case of CG and Rs. 157.3 in case of EG) among the microenterprises.

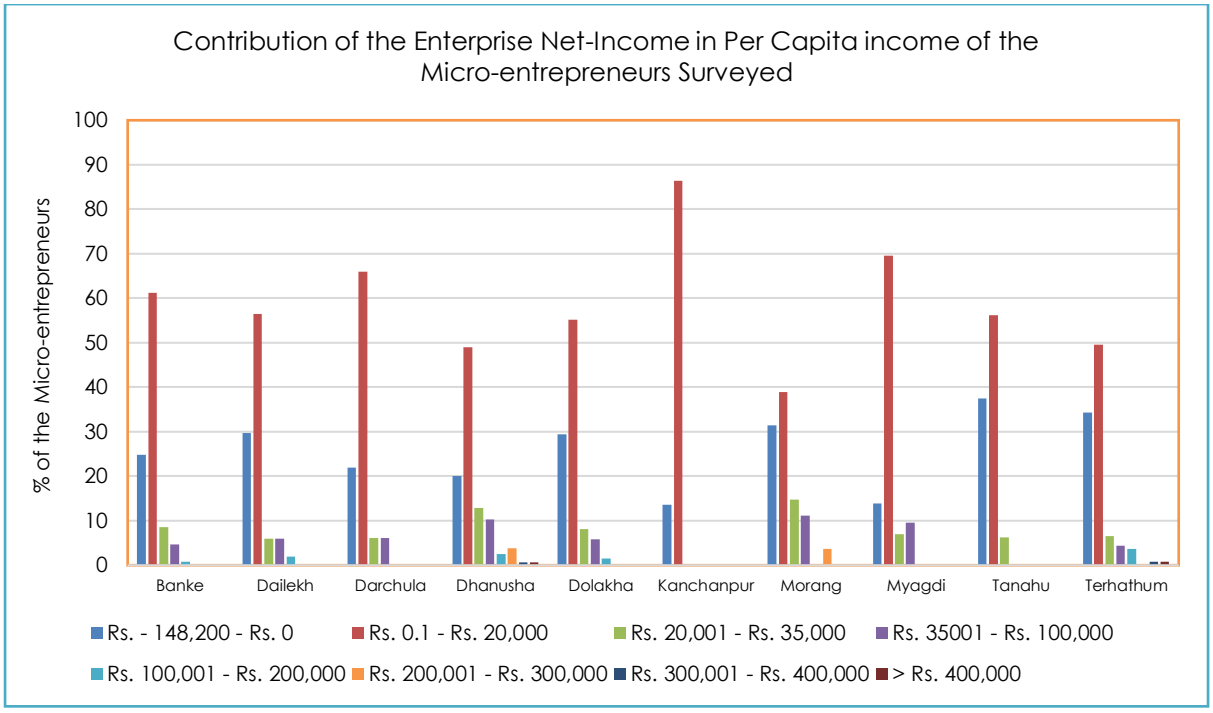
5.9 **Impact of MEDEP Interventions**

MEDEP has targeted very poor and excluded people by assisting them to identify their entrepreneurial skills from within by themselves and later to help them to select and operate the appropriate enterprises. The micro level impact of the MEDEP support on income, employment, at enterprise and households are calculated and analyzed.

5.9.1 **Microenterprise Income**

Of the total microentrepreneurs' surveyed 25.2% were operating in losses and remaining 74.8% were operating in profit. Proportion of the microenterprise operating in losses ranged between 13.6% in Kanchanpur and 37.5% in Tanahu. The microenterprises experiencing losses were mainly due to inadequate raw materials, project failure, access to market and credit.

Average contribution of microenterprise income to per-capital family income was Rs. 11.5 thousand. Across study district, increase in per capita income due to management of the microenterprises ranged between Rs. 3.7 thousand in Kanchanpur district, and Rs. 23.4 in Dhanusha district.
An analysis of the amount of the per-capita income increase due to microenterprise was done based on eight different categories such as (i) enterprise with negative contribution of household income, and enterprises with contribution level at (i) up to Rs. 20,000/-, (ii) Rs. 20,001 – Rs. 35,000, (iii) Rs. 35,001 to Rs. 100,000, (iv) Rs. 100,001 to Rs. 200,000, (v) Rs. 200,0001 to Rs. 300,000, (vi) Rs. 300,001 to Rs. 400,000 and (vii) more than Rs. 400,000/-.



It is apparent that over 57% of the micro-entrepreneurs surveyed has contribution to the GDP to a range of Rs. 0.1 thousand to Rs. 20.0 thousand, followed by 82% with enterprise income to contribute to the GDP to a range of Rs. 20,0001 to Rs. 35,000/-.

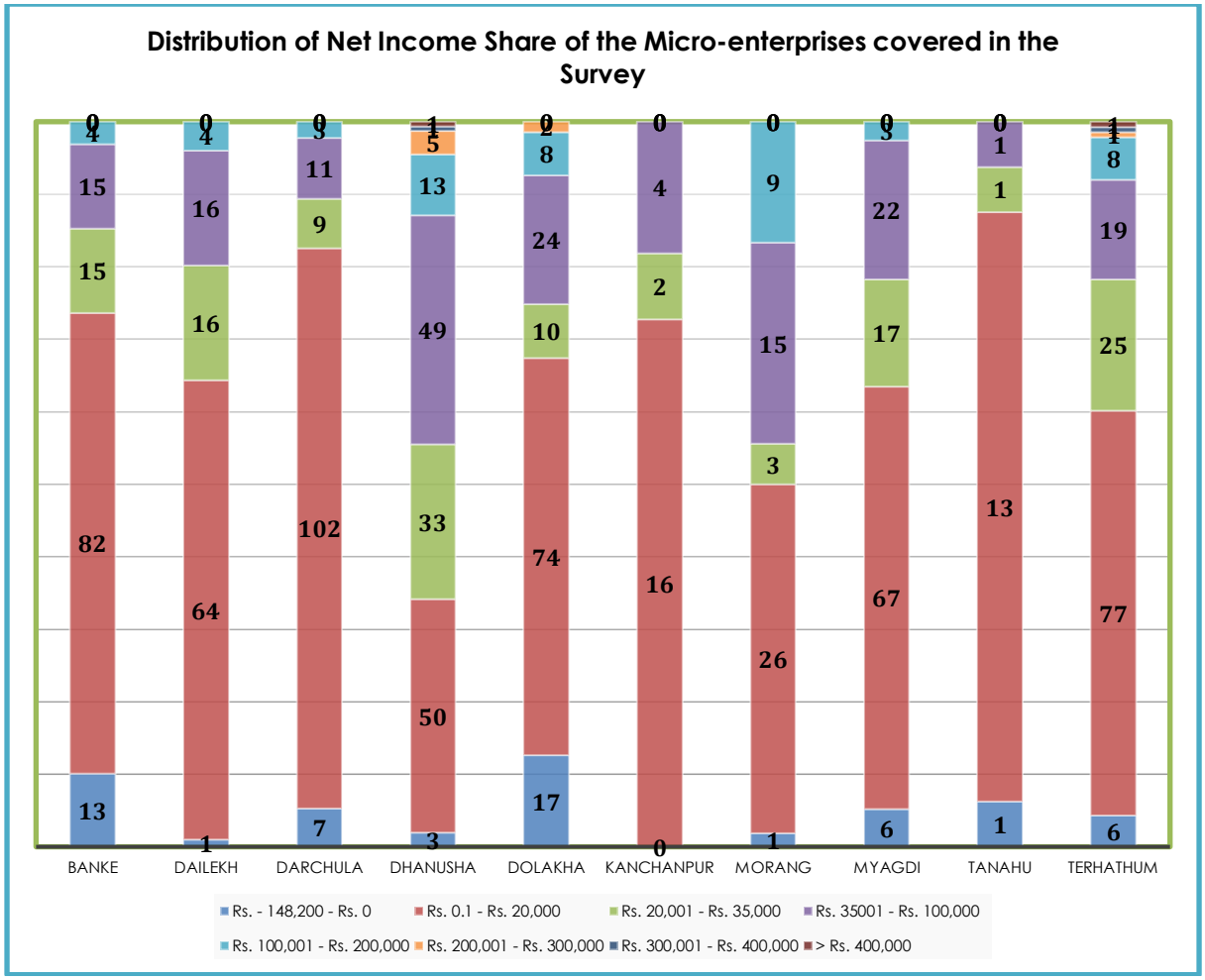
5.9.2 **Micro-entrepreneurs' Income**

Share of the microentrepreneurs on gross income were calculated in order to compute their contribution on per-capita income. Since over 90% of the microenterprise surveyed in this study were managed by entrepreneur and his/her family, the expenses incurred in indirect and direct labor was added in the income of concerned micro-entrepreneurs.

Of the total microentrepreneurs' surveyed 5.5% were operating in losses and remaining 94.5% were operating in profit. Proportion of the microenterprise operating in losses ranged between 0% in Kanchanpur and 12.5% in Dolakha. The microenterprises experiencing losses were mainly due to inadequate raw materials, project failure, access to market and credit, and lack of risk bearing capacity.

Average contribution of microenterprise income to per-capital family income was Rs. 26.9 thousand. Across study district, increase in per capita income due to overall microenterprise management ranged between Rs. 7.8 thousand in Tanahu district, and Rs. 48.9thousand in Tanahu district.

An analysis of the amount of the per-capita income increase due to share of the micro-entrepreneurs on microenterprise management was done based on eight different categories such as (i) enterprise with negative contribution of per-capita income, and enterprises with contribution level at (i) up to Rs. 20,000/-, (ii) Rs. 20,001 – Rs. 35,000, (iii) Rs. 35,001 to Rs. 100,000, (iv) Rs. 100,001 to Rs. 200,000, (v) Rs. 200,0001 to Rs. 400,000, and (vi) more than Rs. 400,000/-.



It is apparent that over 57.3% of the micro-entrepreneurs surveyed has contribution to the GDP to a range of Rs. 0.1 thousand to Rs. 20.0 thousand, followed by 13.1% with income to contribute to the GDP to a range of Rs. 20,0001 to Rs. 35,000/-.

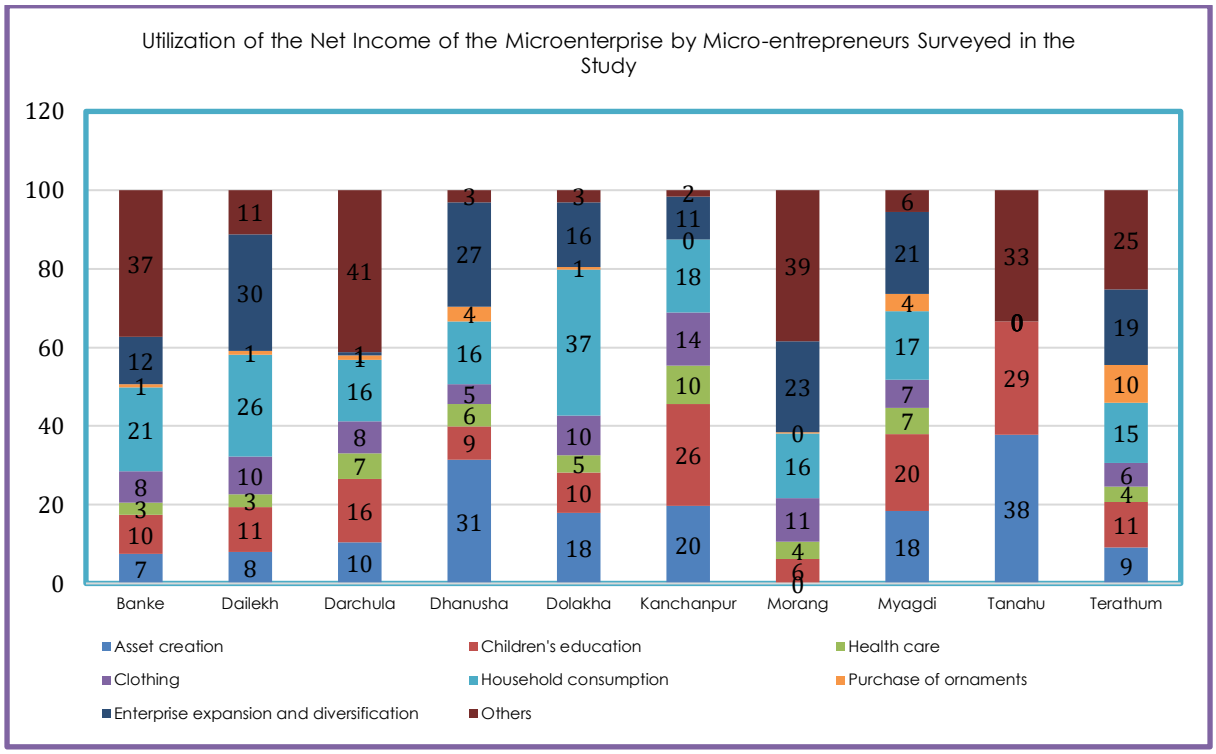
5.9.3 Utilization of Net Income Earned by the Micro-entrepreneurs

Survey findings revealed that micro-entrepreneurs surveyed have used the earned income for diverse purpose such as asset creation (buying land, repairs of houses, construction of premises, additional of toilets), children's education, health care, clothing, household consumption, purchase of ornaments, enterprise expansion and diversification (such as purchase of animal head, poultry birds, sewing machine, etc..), and other activities.

Survey findings revealed that majority of the households are inclined to create asset and/or expends and diversify their enterprise compared to purchase of ornaments, use for household consumption and clothing. They are more inclined to invest on children education and health care.

Survey findings revealed that about 22% of the total net income was used for enterprise expansion and diversification followed by household consumption (19.2%), asset creation (18%), other activities (15%), children's education (11%), clothing (7.2%), health care (5.0%) and purchase of ornaments (3.4%).

The proportion of women micro-entrepreneurs spending income on children education was higher than men micro-entrepreneurs, showing that women give a higher priority to children's education. Dalit spent more on household expenditures than other caste groups. Proportion of those who reinvested in enterprise was highest among service entrepreneurs followed by food products. Of those who reported to have reinvested in the enterprise, the proportion of entrepreneurs involved in forest-based products was the lowest.



Analysis of the net income earned by the micro-entrepreneurs across project district revealed notable variation on utilization pattern. More focus on enterprise expansion and diversification in the terai against asset creation in hill district is a clearly visible pattern that can be observed based on field realities.

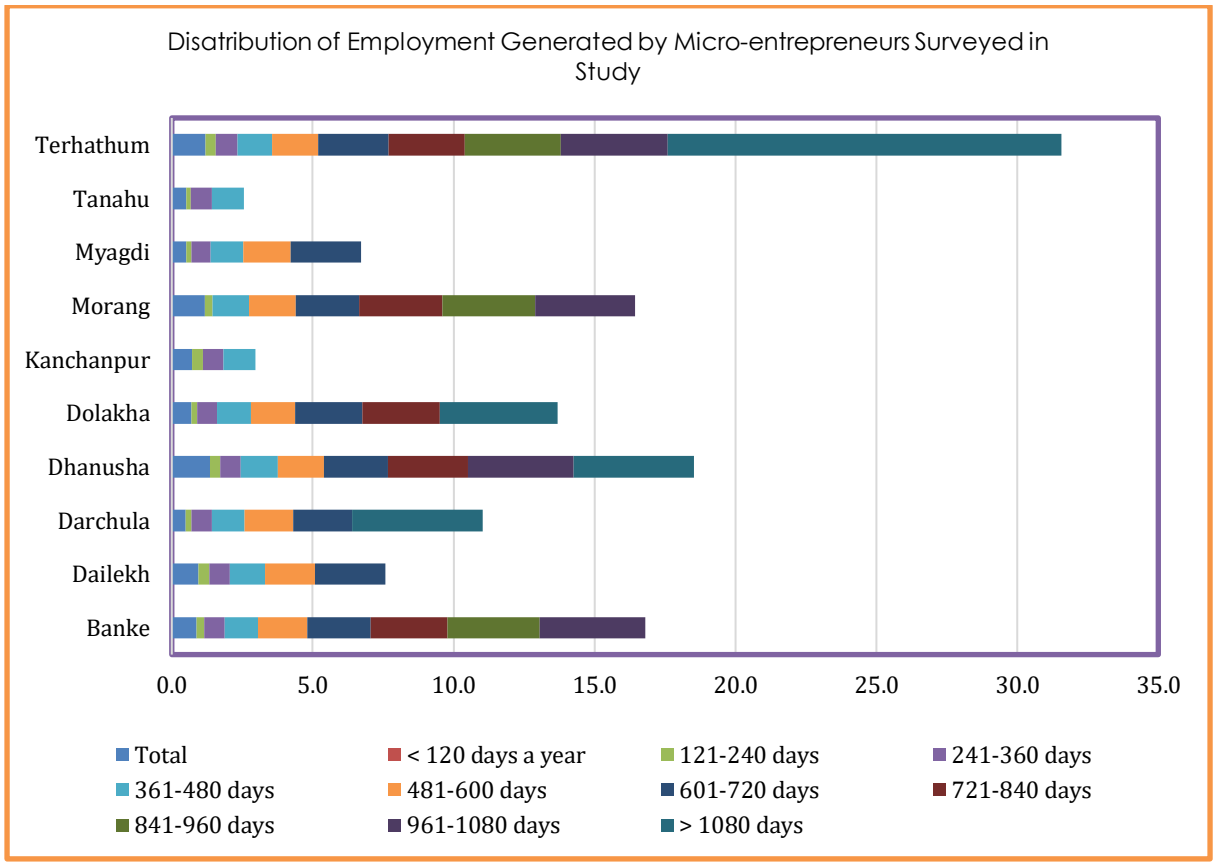
5.9.4 **Employment Generation**

One of the key purposes of microenterprise promotion is employment generation, however, the impact with regard to employment generation was found mixed. Overall, individual entrepreneurs were employed for 215 days per year per enterprise. Across the district surveyed, number of days of additional direct employment generated under the microenterprises surveyed ranged between 120 days in Darchula, and 288 days in Terhathum. Likewise, average number of days of indirect employment generated under the microenterprise surveyed was 49 days. Across the district surveyed, number of days of additional indirect employment generated by the microenterprises surveyed ranged between 6 days in Kanchanpur, and 124 days in Dolakha and Morang districts.

The average number of HH members engaged in managing sample microenterprises was 2.2 with contribution of average of 215-person days of employment per HH per year. In addition to contributing directly to employment creation, MEDEP has contributed to improve labor productivity indirectly[20]. Skill technology and technology transfer has supported to increase labor productivity greatly.

Number of days to employment generated by the microenterprises surveyed in this study ranged between 120 days and 2800 days with an average of 215 days of employment per day. About 121 and 240 days of employment were generated by 37% of the microenterprises surveyed under this study. This was followed by 241-360 days of employment generated by 24.4% of the micro-entrepreneurs surveyed under this study. There had been 22.8% of the micro-entrepreneurs that had been generating employment to a range of 362 and 480 days per year. There were 8.4%, 3.4%, 2.0%, 0.3%, 0.9% and 0.5% of the micro-entrepreneurs that generate additional employment of 481-600 days, 601-720 days, 721-840 days, 841-960 days, 961-1080 days, and more than 1,080 days of employment respectively.

[20] Labor productivity is defined as the ratio of net enterprise income to the total number of days worked for the enterprise by each household.



Apart from individual employment, very few entrepreneurs (3.1%) have created full time employment opportunities outside the households while 15.3% are hiring wage labor as and when required. Apart from this, very few have contracted out for production of goods and services.

5.9.5 **Linkages and Networking**

Entrepreneurs surveyed have realized the importance of maintaining functional relationship with a number of actors and stakeholders delivering different services. The entrepreneurs surveyed are not self-sufficient like subsistence farmers; rather they are commercial actors and producer of products and services for markets and to earn profits. Failing to receive information, support and cooperation from others means not only reduced chances for sustainability of enterprises, but also likelihood of expansion of enterprises is remote areas. The microentrepreneurs surveyed under this study have acknowledged these realities. A large majority of micro-entrepreneurs highlighted importance of backward and forward linkages in microenterprises operation[21]. Smartness of entrepreneurs depends on their skills and capacity receive support and cooperation of other actors and adjust depth and breadth of linkages based on quality, quantity and prices of services.

Over 80% of the microentrepreneurs surveyed under this study have established linkages with raw materials suppliers, machinery suppliers, traders, other entrepreneurs, processors, and market actors. Entrepreneurs involved in agricultural based enterprise have the lowest level of linkages with other actors and stakeholders compared to other categories of microentrepreneurs. Overall, value chain type of enterprise such as non-farm, food products, service, and forest-based products demonstrated a high level of linkages and coordination.

Support of other agencies: Microentrepreneurs surveyed have received services in three areas namely machinery, equipment, technical services, capacity development (skills enhancement). A higher level of support received from other agencies indicates lower dependence on MEDEP and

[21] Backward linkage refers to the linkages at pre-production stage and forward linkages refer to the linkages after the production of the primary products.

better opportunities for business expansion, greater likelihood of their sustainability. Entrepreneurs in food and beverage sector received more technical and machinery support compared to other sectors from other agencies in view of the existence and availability of the other complementary projects related to agriculture and forestry sector.

Overall Observations

While selecting the potential micro entrepreneurs and the criteria of MED model, it is specific to the poorer segment of the people with the specific criteria of women, dalit, young and Janajati. They all are struggling for 2 meals in a day. The processes of MED model don't fulfill immediate basic need. (Rs. 33,075 per year family income and priority for below 70% of stated amount).

MEDEP programme specific to women groups are very encouraging and these initiatives have open up their ideas and creativity for new avenue of income generation towards the entrepreneurs. Most of the women are still motivated and willing to work as entrepreneurs. Some women are working full fledge business, some are working as part time apart from their family business and very few dropped the ideas because of other better opportunity but still they appreciated the inputs given by the MEDEP programme. Here, dropping the ideas of operating microenterprise is close own business but again they are supporting the family core with business view.

Case Study

Group of women and men were provided refresher course on knitting though they wanted to get sewing training. Afterward, they got knitting machine on loan. They operated for 3 years; there were market demand for the product. Only 3 persons among 8 were active in knitting, marketing and management but sharing profit equally was found as problem. Hence, they stopped knitting work and afterward sold machine with loss.

Even in that situation 3 active members are still operating business; one in glossary shop, one in book store and one in cooperative.

MEDEP programme focusing on people belonging to dalit are also appreciated with the expansion of their business with upgrading technical support. They are still in the same occupation but with some business ideas with new technology, market inputs calculation of cost and labor charge. They are happy with the support. Some people too depended on the inputs from the programme, once decline the support, they stop working. The comparative advantages in money from local level microenterprises are found low, so high level of male migration for better opportunity and close the business, no updated records.

High level of young labor force migration has high level of incidence to close the business. The male migration has high level of impact on mortality of enterprise. It is even difficult to find male trainees and male entrepreneurs.

The micro entrepreneurs have limited knowledge and access on the credit processes; hence they have to depend on the cooperatives in high interest rate. The profit margin is low; hence they better close the enterprise and move for another job opportunities.

Selections of microenterprises are more on traditional and limited market access have high level of dropping microenterprise. Market is changing fast and back up support from old feasibility study don't give appropriate information of product feasibility.

Technology based enterprises need capital for investment; hence very few such types of enterprise are created. Even created those enterprises, the dropout rate found high because of high interest rate and less market demand.

Management aspect

District Division of Cottage Industry has internalized the MED programme. Head of the unit is responsible for the MED programme. They have appointed 2 EDF for follow up and monitoring the programme. The level of EDF is non gazatted first class level (salary Rs. 23500)

Monitoring and evaluation work is conducted as the norm from district level follow up and monitoring committee of DEDCC.

MED Packaging of 6 models for 2 years of time span is very good for ideal situation. 3 models of pre training package are also very ideal but it needs to update in a year or two years. Market is dynamic and changing rapidly.

Implementing process

In MEDPA, the Expression of Interest called by the Ministry at centre will start from Mid-July; it will take 2 months for selection. After section of district partners, district level cottage industry division office will invite detail proposal and financial statement; it will take around 2-3 months. When the time will come for agreement and signing contract, there will be 5-6 months already passed. The working period for microenterprise creation and development is found just for 6 months. The partner for implementation of programme may be changed as the selection is based on quality competitive bidding process.

Results: Six months for applying different models to achieve target such as 180 entrepreneurs created are jeopardized. Find out the existing trainees for training for existing entrepreneurs (TOEE) and training for growing entrepreneurs (TOGE) are found to be more challenging for new implementing partners. The gaps in follow up in between years have high changes of mortality in the enterprise creation. There is no updated record keeping. Responsible person for keeping record is not clear.

District level cottage industry division just need simple record for reporting and all detail records are with the implementing partners, while change the implementing partners, there is no process of handover and takeover information.

MEG does almost not exist as very limited social mobilization while providing training on potential entrepreneurs (TOPE) and training on startup enterprise (TOSE).

DMEGA was designed for umbrella organizations at district and they are fully equipped with equipment such as computer, printer, photocopy and furniture. The role of DMEGA during MEDEP time was business counseling, trainings, and data entry. Now, in the MEDPA model, their job is not clear. The ME is asking for benefit of DMEGA as they are member and paying membership fee. The role designed during MEDEP time is not functioning at present. As for the new formation of local government, they are changing DMEGA into Municipality MEGA (Terhathum); they said no value of District level MEGA.

Skill trainings are designed and approved by the central department of Industry, which are not need based for the potential micro entrepreneurs. Again, due to time pressure, skill training has to reduce as the closing of FY such as 15 days or 45 days, which should be 3 to 6 months.

Entrepreneurs were tough for single entry book keeping, which is not addressing the growing record keeping need of the enterprise.

There is no mandated of quality of EDF and coordinator while selecting local partners. Due to government bureaucratic system of deposit, bank guarantee, VAT system, NGOs are hesitating to apply for the programme. (Right person in right place).

6 ASSESSMENT OF CONTRIBUTION OF MICROENTERPRISE DEVELOPMENT ON NATIONAL AND LOCAL ECONOMICS

6.1 Background

Microenterprise promoted under MEDEP/MEDPA are gradually emerging as a backbone of Nepalese economy in terms of sustainable growth, employment generation, increasing trade, development of entrepreneurial skills and contribution of entrepreneurial earnings. The development of microenterprises is seen as the way to accelerate the achievement of wider socio-economic goals, including poverty alleviation. Microenterprise provides desirable sustainability and innovation in the economy as a whole. A large number of people transact with microenterprises directly and indirectly and could benefit out of this. Microenterprise thus helps both at micro, meso and macro level through income generation and employment creation.

6.2 Microenterprise Development under MEDEP/MEDPA

Over the last 18 years MEDEP/MEDPA developed about 137,404 microenterprises in all the 75 districts of Nepal. The average number of MED developed ranged between 450 (Tanahu) and 5,590 micro-entrepreneurs (Dhanusha), which an average of 1,784 microentrepreneurs per districts. Through the geographical outreach of services of the MEDEP/MEDPA increased in phased manner, in view of the total potentials for self-employment generation and demand for the services, total progress under MEDEP/MEDPA was lower than the local need, context and realities.

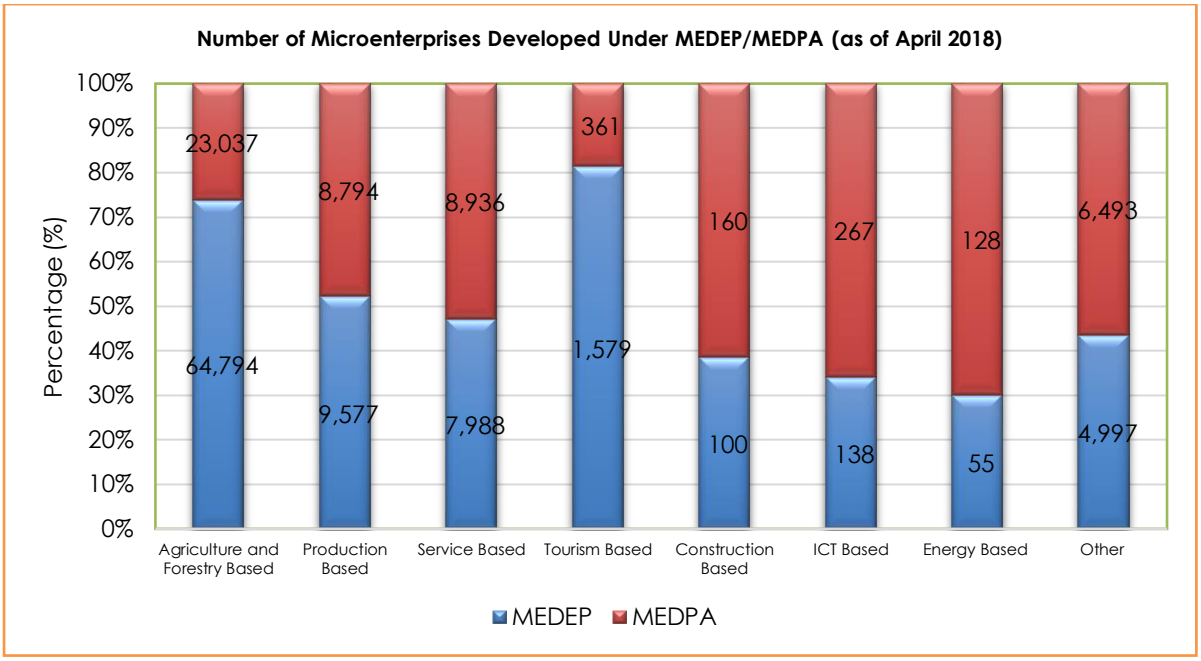
Table 3: Number of Microentrepreneurs Developed under the MEDEP/MEDPA (as of April 2018)

S.N.	Category	Unit	Total Number of Microentrepreneurs Developed			% of Total
			MEDEP	MEDPA	Total	
1	Agriculture and Forestry Based	No.	64,794	23,037	87,831	63.9
2	Production Based	No.	9,577	8,794	18,371	13.4
3	Service Based	No.	7,988	8,936	16,924	12.3
4	Tourism Based	No.	1,579	361	1,940	1.4
5	Construction Based	No.	100	160	260	0.2
6	ICT Based	No.	138	267	405	0.3
7	Energy Based	No.	55	128	183	0.1
8	Other	No.	4,997	6,493	11,490	8.4
	Total	No.	89,228	48,176	137,404	100.0

Source: MEDEP/MEDPA Data Base

On the basis of the enterprise classified under the Industrial Policy 2010, the microenterprises developed by MEDEP/MEDPA can be broadly grouped into eight: agriculture and forestry based, production based, service based, tourism based, construction based, ICT based, energy based and others. Over 64% of the microenterprises were agriculture and forestry based, this was followed by production based (13.4%) and service based (12.3%). There were 8.4% of the microenterprises that were based on other activities. MEDEP/MEDPA promoted other microenterprises such as tourism based, construction based, ICT based and energy based constitutes less than 2% of the total microenterprises developed. This implies that most of the MEDEP/MEDPA promoted microenterprises mainly focused on promoting primary production than, followed by services activities. The focus has been low on promoting the services activities. Scale of operation of even the primary microenterprises promoted under MEDEP/MEDPA were like a family business primarily assisting the basis food security need of the targeted beneficiaries by opening avenue for self-employment generation. Even the enterprises promoted are generating either causal, or seasonal or year-round employment. Only the 50% microenterprises promoted under MEDEP/MEDPA are supporting to generate year-round employment to 1-2 people of the family. By virtue of their very

informal nature of operation, most entrepreneurs have taken these activities as an add-in services rather than proven and reliable alternative for full employment generation.



6.3 **Microenterprises, Employment and Income**

Financial analysis of 997 randomly selected microenterprises were done in this status to review their current state of operation as well estimate annual average number of days of full employment, enterprise net income, entrepreneurs' net income and gross income.

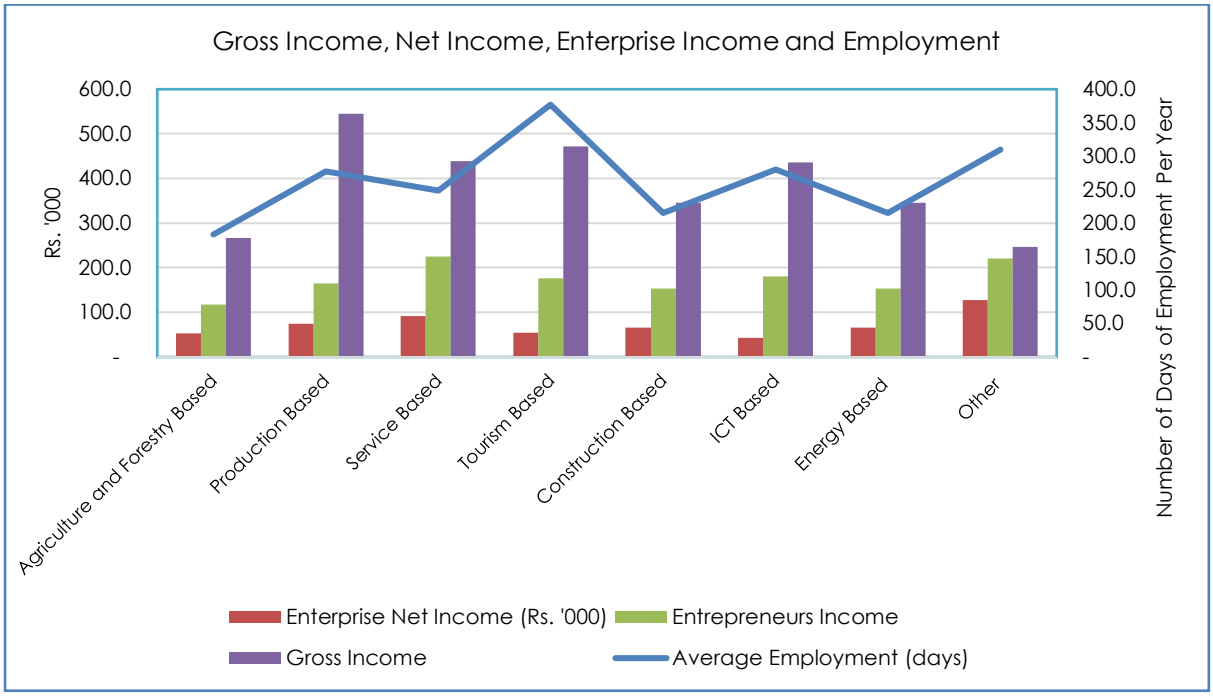
Table 4: Average Annual Income and Employment Generated by Microenterprises Developed under the MEDEP/MEDPA in 2017

S.N.	Categories	Unit	Average employment (days)	Enterprise Net Income (Rs. '000)	Entrepreneurs Income (Rs. '000)	Gross Income (Rs. '000)
1	Agriculture and Forestry Based	No.	183.0	52.5	117.2	267.1
2	Production Based	No.	277.0	74.7	165.0	544.9
3	Service Based	No.	249.0	91.6	225.0	438.5
4	Tourism Based	No.	377.0	54.6	176.9	472.5
5	Construction Based	No.	215.0	65.6	153.5	345.6
6	ICT Based	No.	280.0	43.5	180.6	436.3
7	Energy Based	No.	215.0	65.6	153.5	345.6
8	Other	No.	310.0	127.4	220.4	247.0
	Total	No.	215.0	65.6	153.5	345.6

Source: Field Survey, February-March 2018

Employment generation: Field survey findings revealed that tourism-based enterprises are more labor intensive compared to other enterprises. This is followed by ICT based and service-based enterprises. Agriculture and forestry based microenterprises have low potential to generate employment, partly because most they are either operate seasonal and/or causal level and very few agro-based enterprises are operated year-round either providing full employment or part-time employment. Very few agricultures based microenterprises are providing full time employment to the micro-entrepreneurs.

Net-income: Net income refers to gross income less operating fixed expenses and operating variable expenses incurred in enterprise management. Net income of the enterprise surveyed ranges between Rs. 52.5 thousand and Rs. 127.4 thousand with an average of 65.6 thousand. Agriculture and forestry-based enterprise have lowest annual net income followed tourism-based microenterprises. Seasonality, price and quantity risk associated with agriculture enterprise management has been the main factors for the lower enterprise net income from the agriculture and forestry enterprises.



Entrepreneurs Income: Since over 99% of the microenterprises surveyed in this study were managed by the entrepreneurs themselves, and their family members are used to meet direct and indirect labour needed for proper operation and management of their microenterprises. Thus, entrepreneur's income refers to sum of the enterprise net income, and imputed cost for the indirect and direct labor. Average entrepreneurs' income has been estimated at Rs. 153.5 thousand. This ranges between Rs. 117.2 thousand in agriculture and forestry-based enterprise, and Rs. 225 thousand in service-based enterprises. The agriculture and forestry-based enterprises were less attractive compared to other even in terms of entrepreneurs' income for reasons of seasonality, price and quantity risks inherent to these enterprises and lack of appropriate infrastructure to address those challenges.

Gross Income: This refers to the total market value of main products and by-products of the microenterprises over a production cycle of one year. Average gross income of the microenterprise surveyed ranged between Rs. 247.0 thousand in other microenterprises and Rs. 544.1 thousand in production-based microenterprises with an average of Rs. 345.6 thousand. The agriculture and forestry-based enterprises were financially less attractive based on the context and realities under which these microenterprises operate.

Marketing and Market Share Analysis

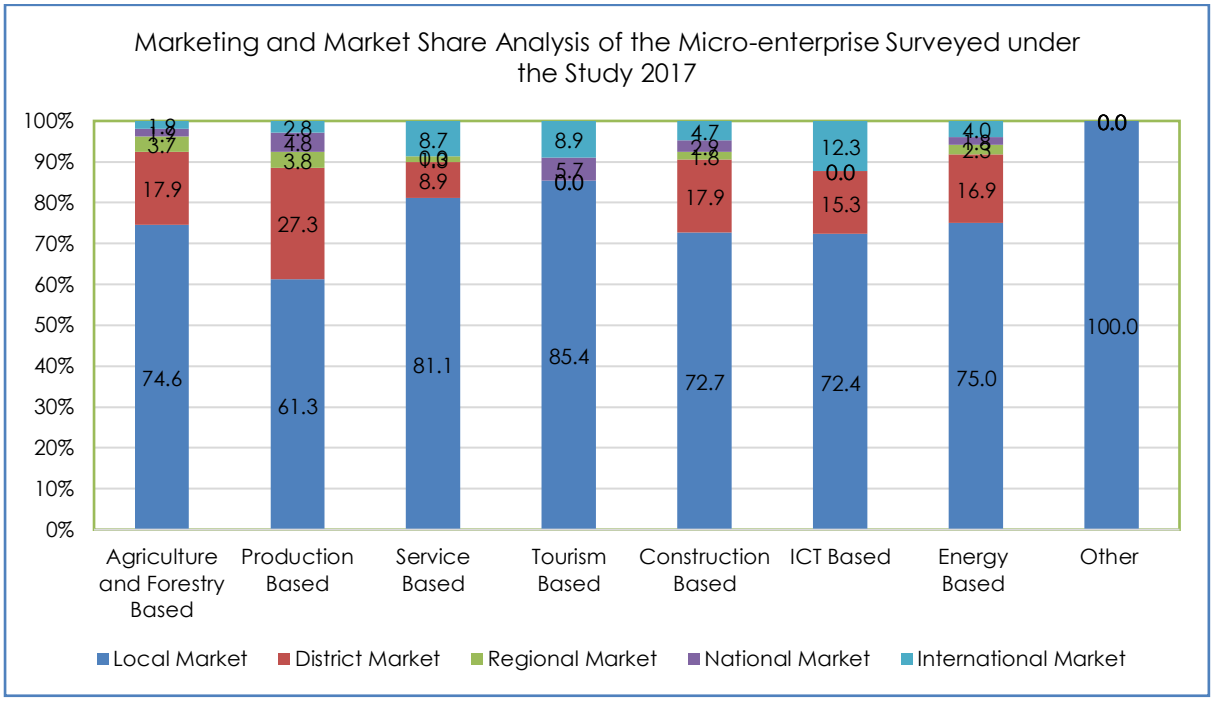
On the basis of the field studies it has been found that various type of products and services produced by the surveyed under this study were marketed at five different marketing nodes. They are: local market, district market, regional market, national market, and international market.

Table 5: Marketing and Market Share Analysis of the Microenterprises Surveyed in the Study 2017

Category	% of Total Sale					
	Local Market	District Market	Regional Market	National Market	International Market	Total
Agriculture and Forestry Based	74.6	17.9	3.7	1.9	1.9	100.0
Production Based	61.3	27.3	3.8	4.8	2.8	100.0
Service Based	81.1	8.9	1.3	0.0	8.7	100.0
Tourism Based	85.4	0.0	0.0	5.7	8.9	100.0
Construction Based	72.7	17.9	1.8	2.9	4.7	100.0
ICT Based	72.4	15.3	0.0	0.0	12.3	100.0
Energy Based	75.0	16.9	2.3	1.8	4.0	100.0
Other	100.0	0.0	0.0	0.0	0.0	100.0
Total	75.1	17.1	2.2	1.9	4.3	100.0

Source: Field Survey 2017

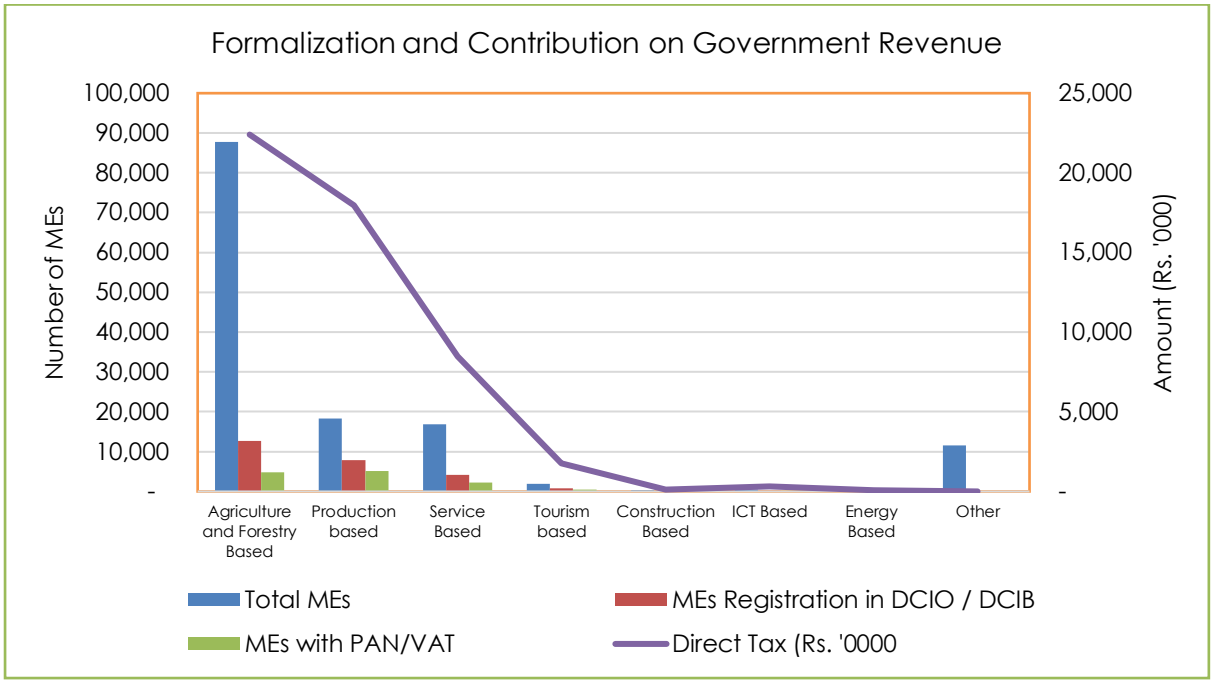
Microenterprises developed under the MEDEP/MEDPA has been essentially focused at enhancing local self-sufficiency as evidenced by the fact that about 75.1% of total products of these microenterprises are marketed in local rural market centers. This was followed by district market (17.1% of the products), 2.2% in regional market, 1.9% in national market, mainly in Kathmandu, and 4.3% in international market (bordering Indian towns (agriculture and collage industries) and overseas (honey, Allo cloths, Dhaka, cosmetic goods).



Findings of the marketing and market share analysis discussed above reveals that goods, products and services produced by the MEDEP/MEDPA has contributed on enhancing local self-sufficiency, import substitutions and export promotion to some extent. Due to small scale and scattered production and distribution of the products and services, the trade impact of the MEDEP/MEDPA produced microentrepreneurs had less visibility. Since about 50% of the MEDEP/MEDPA activities are focused on 20 terai districts, most of the products and services produced under microenterprises are informally traded in bordering Indian towns.

6.4 **Formalization, Taxes and Duties**

Microenterprises are gradually formalizing their operation. About 20.4% microenterprises were registered in District Cottage Industry Office (DCIO) and District Cottage Industry Board (DCIB), and about 10.1% were registered in concerned Inland Revenue Office (IRO) and received permanent account number (PAN) or Value Added Tax (VAT) certificate. Some of them also started the process to update their transaction in IRD. They have started Annual Audit of their transactions and payment of applicable taxes. Inputs from MEDEP/MEDPA for maintaining account keeping is not enough to be registered in DCIO and IRO.



Microenterprises contribute immensely to government revenue through the taxes and duties they pay. Microenterprises pay direct taxes on their revenues and profits as well as indirect tax such as value added taxes, sales tax, apart from duties such as excise, fees and levies. Estimates on direct taxes could be made in this study and this was estimated to be NRs. 51,089 thousand in 2017.

6.5 **Contribution to Gross Domestic Products**

Microenterprises has contributed directly to the overall economic development of an economy. They have played a considerable role in GDP[22] growth on account of increased outputs, value add and

[22] GDP = compensation of employees + gross operating surplus + gross mixed income + taxes less subsidies on production and imports. Alternatively, this can be expressed as:

$GDP = COE + GOS + GMI + T_{P\&M} - S_{P\&M}$

- Compensation of employees (COE) measures the total remuneration to employees for work done.
- Gross operating surplus (GOS) is the surplus due to owners of incorporated businesses.
- Gross mixed income (GMI) is the same measure as GOS, but for unincorporated businesses. This often includes most small businesses.
- $T_{P\&M}$ is taxes on production and imports.
- $S_{P\&M}$ is subsidies on production and imports.

The sum of COE, GOS, and GMI is called total factor income; it is the income of all of the factors of production in society. It measures the value of GDP at factor (basic) prices. The difference between basic prices and final prices (those used in the expenditure calculation) is the total taxes and subsidies that the government has levied or paid on that production. So, adding taxes less subsidies on production and imports converts GDP at factor cost (as noted, a net domestic product) to GDP.

Economically, the gross domestic product (GDP) can be defined as the total value of goods and services (counted without duplication) that are newly produced in the economy during an accounting period, generated net incomes to the economy and are available for domestic final uses or for exports. This definition, when

profits. Even without considering the multiplier effect of economic activity and production by microenterprises, the contribution to GDP by microenterprises in economics cannot be overlooked. Typically, microenterprises that make profit and a positive rate of return on additional capital contribute directly to GDP to about the amount of the profit and return on additional capital. Additionally, there is a significant multiplier effect in the wider economy due to increased economic activity of employees and suppliers of microenterprises.

Table 6: Contribution of Microenterprise on Gross Domestic Product and Capital Formation in 2017

S.N.	Category	Number of MEs	Average Entrepreneurs Income (Rs. '000)	Average Capital formation (Rs. '000)	Contribution to GDP (Rs. '000)	Contribution on Capital formation (Rs. '000)
1	Agriculture and Forestry Based	87,831	117.2	64.7	10,293,793	5,682,666
2	Production Based	18,371	165.0	90.3	3,031,215	1,658,901
3	Service Based	16,924	225.0	133.4	3,807,900	2,257,662
4	Tourism Based	1,940	176.9	122.3	343,186	237,262
5	Construction Based	260	153.5	87.9	39,910	22,854
6	ICT Based	405	180.6	137.1	73,143	55,526
7	Energy Based	183	153.5	87.9	28,091	16,086
8	Other	11,490	220.4	93.0	2,532,396	1,068,570
	Total	137,404	153.5	87.9	20,149,634	10,999,526

Source: Field Survey, February-March 2018

Microenterprises developed under MEDEP/MEDPA has contributed directly to GDP growth through on account of increased outputs, value add and profits. Even without considering the multiplier effect of economic activity and production by microenterprises, contribution to GDP by microenterprises developed under MEDEP/MEDPA has been estimated at Rs. 20,149 million. Additionally, there is a significant multiplier effect in the eider economy due to increased economic activity of employees and suppliers of microenterprises.

Microenterprise has contributed towards net capital formation through the additional of capital stock such as equipment, tools, transportation assets, electricity, etc. They need capital goods to replace the current assets that are used to produce goods and services, failing which lead to decline in production. Generally, higher the capital formation in microenterprise, the faster they can grow its aggregate income. Contribution of the microenterprise in capital formation was Rs. 10,999 million.

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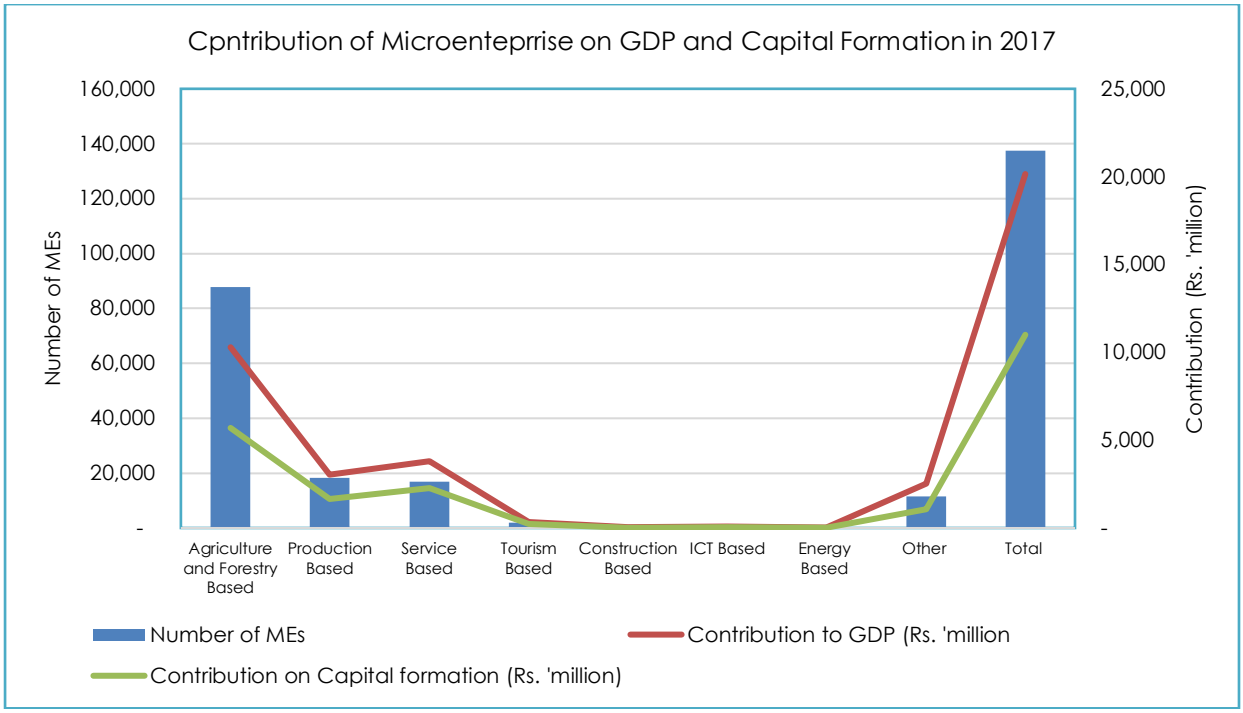
operationalized, provides three approaches for compiling gross domestic products (GDP): the production approach, the income approach and the final expenditures approach.

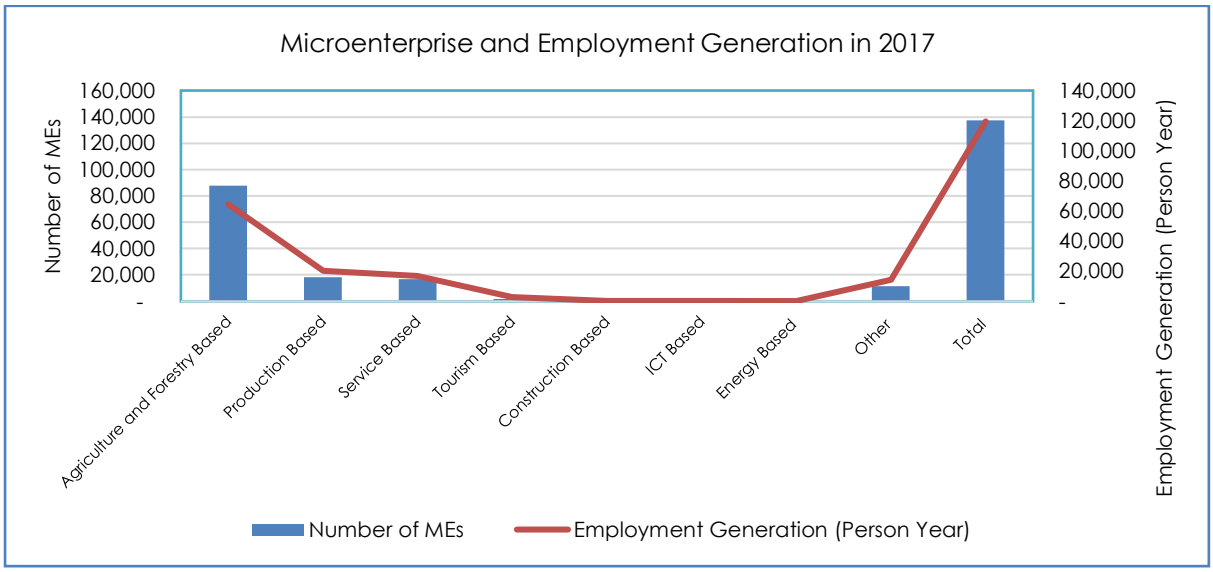
- The production approach, which is also called the output approach, measures GDP as the difference between value of output less the value of goods and services used in producing these outputs during an accounting period.
- The income approach measures GDP as the sum of the factor incomes generated to the economy.
- The expenditure approach measures the final uses of the produced output as the sum of final consumption, gross capital formation and exports less imports.

Theoretically, these three approaches are identical but in practice, however, the measure of GDP derived using three approached may be different mainly on account of different data sources used for the measurement of the economic activities undertaken in an economy.



6.6 **Employment and Job Creation**

Microenterprises usually deploy more labour intensive production process than large enterprises, so proportionally require more employees. Consequently, they contribute significantly to the provision of productive employment opportunities, the generation of income and the reduction of poverty. In Nepal, the microenterprise segment plays a major role in poverty reduction and propelling sustainable growth. They contribute towards a more equitable distribution of income due to the nature of business. Microenterprise help in efficient allocation of resources by implementing labour intensive production process, particularly in the context where labour is abundant and capital is scarce.



On an average a MEDEP/MEDPA supported microenterprises have 0.87-person years of employment and in aggregate term total employment generated have been estimated at 119,511-person year of employment. This is quite notable employment and job creation by MEDEP/MEDPA promoted microenterprises.

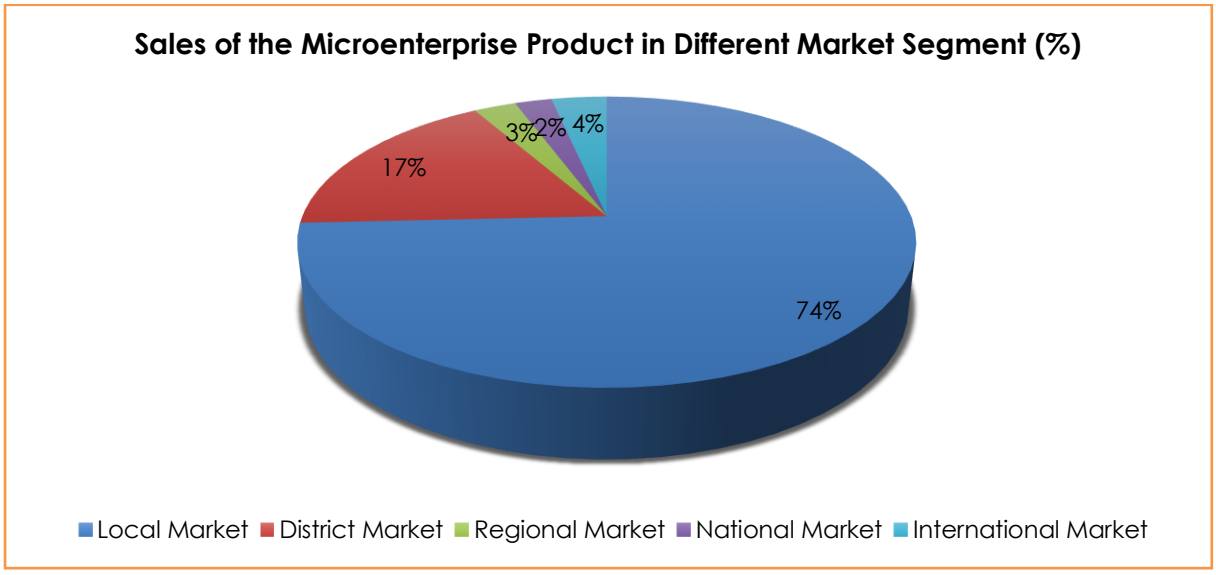
6.7 **Foreign Trade**

Microenterprises contemplates to expanding its operations in a foreign country have to choose a specific market entry strategy. Trade is the most common form of internationalization for microenterprises. Microenterprise has supported both to promote export and substitute imports. MEDEP/MEDPA promoted microenterprises have gradually started to take part on foreign trade, as evidenced by the fact that about 75.1% products are traded in local market, 17.1% are traded in district market, 2.2% in regional market, 1.9% in national market and 4.3% in international market. It has high level of contribution on the import substitution.

Table 7: Contribution of Microenterprise on Foreign Trade in 2017

S.N.	Category	Total Sale (Rs. 'million)	Sale in Different Market Segments in Million					
			Local Market	District Market	Regional Market	National Market	International Market	Total
1	Agriculture and Forestry Based	23,460	17,595	4,223	704	469	469	23,460
2	Production Based	10,010	6,006	2,803	400	501	300	10,010
3	Service Based	7,421	5,937	742	74	-	668	7,421
4	Tourism Based	917	779	-	-	55	82	917
5	Construction Based	90	67	15	2	2	4	90
6	ICT Based	177	129	27	-	-	21	177
7	Energy Based	63	47	11	1	1	3	63
8	Other	2,838	2,838	-	-	-	-	2,838
	Total	44,976	33,399	7,820	1,181	1,028	1,547	44,976
	% of Total		74.3	17.4	2.6	2.3	3.4	100.0

Value of export of the goods produced by the microenterprises is estimated at NRs. 1,547 million, and that of import substitutions is estimated at NRs. 2,728 million. With more specialization, the proportion of foreign trade is likely to increase in future.



Thus, microenterprise promoted under MEDEP/MEDPA has played an important role in employment creation and income generation. They are more efficient for economic development as that create employment and provide income generating opportunity for low income groups. The sector is highly labor intensive and provide employment to the major part of the informal sector workers. Generally, all the business starts either as microenterprises or as a small enterprise initiated by individual(s). They generally operate close to a locality, thus offering employment opportunity to local people who would acquire the required skills and knowledge. The impact of microenterprises promoted under

MEDEP/MEDPA on micro and macro level is clearly visible in terms of their contribution on gross domestic product; taxes and duties; trade, and employment and job creation.

7 ANNALYSIS OF THE FACTORS SUPPORTING AND INHIBITING POSITIVE ECONOMIC IMPACT

This section synthesizes the micro and macro level analysis undertaken in previous sections and determines the factors that limit the growth and/or success of the micro-entrepreneurs promoted under MEDEP/MEDPA. Number of contributing and limiting factors had been identified and they are mainly grouped into two: (i) internal factors such as education, training, business plan, access to finance, raw materials, technology, networks and linkages, etc. and (ii) external factors such as government policy, bureaucratic process, competition, collaboration, agencies and institutions, etc.

7.1 Life Cycle Stages of Microenterprise Growth

Microenterprises are rapidly growing and have notable contribution on generating employment. They are dynamic and quickly transforms from small to large change in nature, scale and form in pursue of growth. The management role and style of the microenterprises could be depicted into five stages below.

Table 8: Life-cycle Stages of Microenterprise Growth

S.N.	Stage	Top management role	Management style	Organization structure
1	Inception	Direct supervision	Entrepreneurial / individualistic	Unstructured
2	Survival	Supervised / Supervision	Entrepreneurial / administrative	Simple
3	Growth	Delegation / Coordination	Entrepreneurial / coordinate	Functional, centralized
4	Expansion	Decentralization	Professional / administrative	Functional, decentralized
5	Maturity	Decentralization	Watchdog/ supervision and direction	Decentralized, functional / product

7.2 Determinants of Microenterprise Growth

The stage model as depicted in above table is not straightforward and automatic. There are several ups and downs. It has been found that MED requires combining three components such as the micro-entrepreneurs, the firm and the strategy appropriately in order that the microenterprises achieve their rapid growth. The figure below show that the shaded area constitutes only a small portion of each of the individual circle or components, and it constitute only a small portion of each of the individual circle or components. Less rapidly growing, no-growth or failing microenterprise may have some appropriate characteristics in the micro-entrepreneur, microenterprise or strategy areas, but it is only where all three combine that the fast-growth microenterprise is found. Each component provides a distinctive contribution for the growth of the microenterprises, and these components comprise of a set of separate elements that influences microenterprise development.

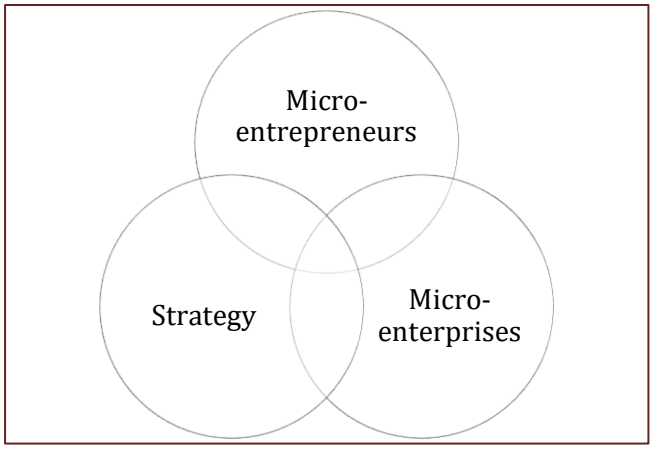


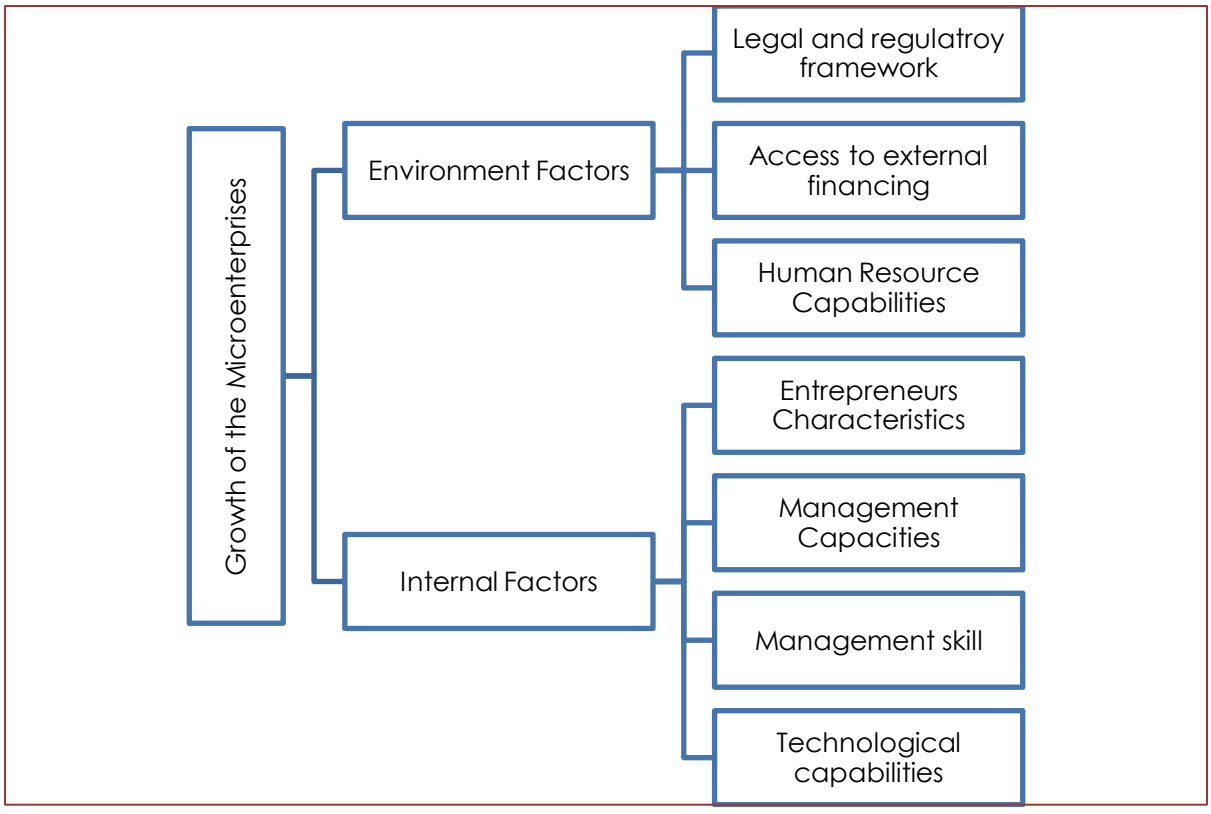
Table 9: Components and Elements of Microenterprises Growth

S.N.	Components	Elements

S.N.	Components	Elements
1	Micro-entrepreneurs	Motivation, unemployment, education, management experiences, number of founders, prior self-employment, family history, social marginality, functional skills, training, age, prior business failure, prior sector experiences, prior enterprise experiences, gender
2	Microenterprises	Age, sector, legal form, location, size, ownership
3	Strategy	Workforce training, management training, external equity, technological sophistication, market positioning, market adjustments, planning, new products, management recruitment, state support, customer concentration, competition, information and advice, exploring, linkages with other institutions/business agencies

7.3 **Factors Influencing Microenterprise Growth**

In general, the growth of the microenterprises is a particularly erratic phenomenon. Entry rates of new enterprises are high; however, a large number of these entrants can be expected to be bankrupt within a few years. These exists evidences that about 20-40 percent of entering firms fail within the first two years while only about 40-50 percent survives beyond the seventh year. Most get transformed. One of the reasons they do not survive and transform is that they face several obstacles over time. Findings of this study revealed that the factors affecting the growth of microenterprises can be broadly divided into two groups: internal factors of the microenterprise, and external factor that are beyond microenterprises' control as depicted in following chat.



7.3.1 **Business (External) Environmental Factors Affecting the Microenterprises Growth**

A conducive business environment is an important enable of an effective microenterprise sector. GON has undertaken major reforms to improve the business environment by streamlining the regulation, reforming the financial sector, and removing trade and investment barriers. However, despite these efforts, the business environment in Nepal remains inefficient for reinforcing the competitiveness of microenterprise, particularly with regard to bureaucracy, informal sector competition, access to land and access to financing. Figure below summarizes the internal and external factors affecting growth in microenterprise sector.

Competition: Competition is the main barrier to growth to microenterprises. The nature of the market into which a microenterprise operates is a key influence upon its growth. In general, low growth enterprises have the poorest understanding of their competitors. New enterprise likes tika and bangles have to compete with imported products on quality and price.

Government policy: Several government policies government growth and development of the microenterprise sector has not benefited the majority of microenterprises development under MEDEP/MEDPA. Though GON has identified importance of microenterprises in boosting the economy, and it has come-up several microenterprise friendly policies, which aimed at access to subsidized loan, free or subsidized information or advice, tax rebate and input subsidy, etc. Significant institutional reform has also been undertaken. But, major problem remains that many small entrepreneurs are unaware of these services.

Technological barrier: Another factor limiting the success of small forms is technological barrier. It has been found that microentrepreneurs adopting modern technological tools are more likely to grow faster than microenterprise without modern technological tools. This is basically because modern tools enable efficiency and effectiveness to be achieved in doing business, therefore saving money, time, and energy (saving more for less). However, because of the poor economic conditions and low level of education, microentrepreneurs see it as a disadvantage to invest in technology since its benefits are not easily realized in the short run. If education about the benefits of modern tools is provided adequately, microenterprise growth would be materialized heavily across the country.

Bureaucratic processes: Formalization is a major constraint for the growth and development of Nepalese microenterprises which is partly attributable to microentrepreneurs finding it difficult in areas such as business license obtaining, registering a business, tax matters, and so on. At present there is not a clear system of providing small entrepreneurs information on such matters neither by the government not by other stakeholders. This leaves microentrepreneurs out and about with no formal way of conducting their business hence lacking professional appeal to their customers, stakeholders in their particular enterprises and event to the government.

Unfavorable economic conditions: Most microentrepreneurs lack understanding on unfavorable economic conditions. The lack of proper business education to microentrepreneurs prevents them to fail to forecast the direction of the economy and the way their particular microenterprise would be affected by the changed. For example, change in demand of products due to inflation and underestimation of the rise of costs of production due to scarcity of resources, etc. If only adequate information and education is provided to micro-entrepreneurs on how changing economic situation affect their particular microenterprise, this matter should not be much of a big problem since the owner would be aware of the changes beforehand and make adjustments to their business in line with the forecasted economic conditions.

7.3.2 **Internal Environmental Factors Affecting the Microenterprises Growth**

Apart from the serious business environmental challenges to MED, the microenterprise specific factors such as entrepreneur characteristics, poor management competencies, lack of management skill, and deficiencies in marketing strategies, low efforts of research and development and low technological capacity also affect the growth of microenterprise sector.

Motivation: Starting with the lack of motivation has been the main reasons for the entrepreneurs establishing the enterprise and its growth. Positive motivations of the entrepreneur(s) are more likely to establish the enterprise that grows than those with negative motivations. Positive motives include such things as the perceptions of high demand for a product, cash turnover and market opportunities while negative motives include such things as dissatisfaction with exiting enterprise. There are entrepreneurs starting a business with no clear vision for their enterprise meaning that they are just about being in business to earn normal income to meet their basic needs.

Background and experience: This refers to prior self-employment, prior employment in the same business, and prior business failure. Lack of background and experience in the business is another important factor for enterprise success. With prior experience in the same microenterprises, micro entrepreneur is likely to achieve rapid growth in the enterprise. This is because experience gives the

microentrepreneurs adequate managerial capabilities to handle and overcome more easily the problems which are experienced as the new enterprise grows.

Access to finance: Access to finance is a constrain in accessible hills and mountains district, and in some cases in accessible hills and terai also due to factors such as collateral constraint, inadequate business plan, state of economy and bureaucratic procedures in applying for loans/finances. Mis-match between the location of the micro-entrepreneurs and operational areas, lending methodology and loan products of banks and financial institutions have accelerated the problems on access to finance for the micro-entrepreneurs.

Capital constraint: Most of the microentrepreneurs have started the microenterprises using their own savings which has forced them to start small and operate below capacity. The significance of finances as a constraint to small business growth cannot be overlooked since capital is major factor of production.

Business plan / vision for the business: Despite provision of packages of enterprise development support, most microentrepreneurs lack proper business plan, which force them to face the most challenges during the course of their lives. A formal plan for a microenterprise is needed in order for proper goals and objectives to be laid out in the open so that microentrepreneurs work together for the same goals in their minds. In case, there are microentrepreneurs with business plan, they lack capacity to use these plans for monitoring and review reasons as to why the plans and outcome differs.

Management issue: Most microentrepreneurs lack management experience and management training. Though management experience and continuous training provide a particular entrepreneur with the necessary skills and competences needed for successful entrepreneurship, most lack such competencies. Their management skill mis-matched with their household core and other social business.

Running informal/unregistered business: Most microentrepreneurs are operating informal or as unregistered business as it is linked to the characteristics of the enterprises itself and the relationship it has with other parties. Owning of the legal formality by the microenterprise enforce them to self-regulated and supervised complying legal formalities.

Education and training: Education and training provides the basis for intellectual development needed by micro-entrepreneurs in microenterprises to be successful. Moreover, they provide micro-entrepreneurs with confidence to deal with clients. Educated entrepreneurs showed more promising results in operation and management of their microenterprise.

Record keeping: Most microentrepreneurs lack proper record keeping of their business transactions, as a result they lose track of its cash flows and in turn leading to cost control and liquidity problems. If the records of the transactions a microenterprise undertakes are not kept properly, growth cannot be achieved since the firm loses track of where it is heading to.

People factor: Most microenterprise suffers the problem of people factor and/or inadequate needed talent, which has constrained to growth. There are microenterprises with needed talent but these fail to deliver up to their full potential either because of mis-trust or low salaries. Most entrepreneurs want to cut costs and hence employ cheap labour. Often, they hire unemployed family members or relatives to help out in their business in return of compensations such as food allowances or other favors instead of actual cash payment. This has costed many microentrepreneurs since these workers don't take business seriously as they know they are owned by their relatives and firing is less likely. Labor is a factor of production and most microenterprise growth suffer due to absence of quality and quantity labor.

Professional advice and consultation: The proper professional advice and consultation is important for microenterprise growth and development. Microentrepreneurs seek advice on financial management, market research, business strategy, public relations, packaging, marketing and advertising. More rapidly growing microenterprises have sought and used information and professional advice from external sources, rather than relying in business development service providers provisioned in this project.

7.4 **Critiques and Way Forward**

Despite the vital role of microenterprises in building a competitive private sector and contributing significantly to employment creation, innovation, and economic development, they are facing more challenges. These challenges arise from interaction between external and internal factors. The results reflected in the study indicate that unfair competition from the informal sector, cumbersome and costly bureaucratic procedures, burdensome laws, policies, and regulations, a lack of access to external financing, and low human resources capacities are the key business environmental factors affecting growth and development of microenterprise sector. On the other hand, entrepreneurial characteristics, low managerial capacities, lack of marketing skills, and low technological capacities are the main internal factors responsible for the unstable and limited growth of microenterprises. As a result of the findings of this study, the following recommendations are made.

GON should make a greater effort to create a meaningful and comprehensive policy to improve the country's business environment, which is currently not conducive to the development of the private sector. Policy makers should strengthen the legislative and regulatory framework for the creation and development of microenterprise by designing rules according to the “Think Small First” principle; in addition, policies to promote microenterprise need to be tailored to each sector. The government should improve microenterprises’ access to financing by deepening the reforms of the banking system. Further efforts should be undertaken to develop, expand, and promote a range of financial instruments for microentrepreneurs, a diversified array of financial instruments could benefit the microentrepreneurs sector and provide a way forward. Microentrepreneurs should offer more training for their personnel. In addition, they have to invest more in research and development activities and technology and know-how agreements with foreign firms to improve their technological capacities.GON should promote market led skill development training for the microenterprises. GON should promote incubation policy for Microentrepreneurs to sustain and grow.

8 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Economic (financial) analysis of the microenterprises prompted by MEDEP/MEDPA were carried out to systematically analyse changes brought about by it in the socio-economic conditions and livelihoods of its beneficiaries and to know how its beneficiaries have benefited by operating microenterprises. This study covers first 18 years period which is comprised of all four phases of MEDEP covering 10 districts namely Darchula, Kanchanpur, Dailekh, Banke, Myagdi, Tanahu, Dolakha, Dhanusha, Terhathum and Morang districts.

8.1 **Summary**

Subsistence agriculture is the main-occupation of both MEDEP participants and non-participants. Compared to non-participants, a higher proportion of MEDEP participants are involved in business than non-participants. Profile of 846 participant respondents showed that 78% of them have private enterprises, 17% members in group enterprises, four percent are employed in enterprises of other MEDEP participants, and 20% has transformed the microenterprises at survey period. Proportion of MEDEP participants operating no enterprises is highest among Dalit followed by BCTS, others and lastly Janajati. Dalit participants reported that they prefer for quick cash back job rather than microenterprise. Likewise, among the sex, the proportion of women not operating any enterprise is higher than men.

Overall, all the MEDEP/MEDPA supported micro-entrepreneurs have received support on social mobilization and enterprise development, while some selected and properly screened microentrepreneurs have also received skill training, access to finance, access to appropriate technology, and marketing and business counseling services. Both individual and group type of enterprises are promoted, and higher proportion of entrepreneurs receiving group enterprises was mainly related to machinery, credit, CFC services, and sale of produce, packaging, quality control and trade compared to individual entrepreneurs. Group enterprises have been successful to establish more linkages with other actor actors and stakeholders than individual enterprises.

Generally, operation of MEs has not been constrained by the supply of raw materials, except some microenterprise based on imported raw materials. They are in general transformed/shifted microenterprises. More men owned enterprises and BCTS have received support of other agencies for raw materials. A higher proportion of food products enterprises used improved technologies followed by service enterprise, agriculture, non-farm and forest. Men entrepreneurs have greater access to improved technology than women. Social inclusion has improved as women and Dalit show a higher linkage to markets as compared to men and other ethnic categories.

Among the enterprises, the highest average profit-making enterprise is service followed by food products, non-farm, forest based and agriculture. Individual HH or entrepreneurs often operate year-round businesses and employ themselves, whereas group businesses could be seasonal and workers tend to get seasonal or casual employment. Almost all entrepreneurs have invested in enterprises. However, group enterprises have invested primarily in fixed capital and less in working capital.

Enterprises supported by MEDEP/MEDPA showed that almost all are profit making, with return on investment ranging from 71% to 157%. This is a significant achievement. However, employment creation has not reached the same levels. It also points to a possible location and market constraint, in remote and poorer regions, which are prioritized by MEDEP/MEDPA. Of those who are operating the enterprises, nearly one fifth have either changed or diversified enterprises. A larger percentage of individual enterprises (22%) have diversified enterprises compared to group enterprises. Men and relatively advantageous group have been able to diversify the enterprises compared to women and backward castes, like Dalit. Proportion of Dalit reporting improvements in labour productivity, production capacity and cost of production was high compared to other caste/ethnic groups. Overall, individual entrepreneurs were employed for 215 days per year per enterprise.

The microenterprise surveyed were either self-financed or financed through borrowing from formal and informal sector and grant received from MEDEP. They incur both annual fixed cost and annual variable cost. The final products are sold mainly in local market, followed by district market, regional market, national and international market. Sale in international market is 4% of the total production

and that of national market is 2%, rest are sold either at local, district and regional market. Thus, market participation in national and international market was modest. The net enterprise income has been estimated at Rs. 65.6 thousand, lowest in ICT based microenterprise at Rs. 43.5 thousand and highest in others microenterprise at Rs. 127.4. On the other hand, considering that almost the labour share of the enterprises goes to microentrepreneurs, average enterprise income is Rs. 153.4 thousand, minimum Rs. 165.0 thousand in production based microenterprises and Rs. 225.0 in service based microenterprises. Thus, average contribution of microenterprises on per capita income was Rs26.9 thousand, lowest Rs. 20.2 thousand in agriculture and forestry based microenterprises, and Rs. 39.5 thousand in service-based microenterprises.

The direct economic impact of microenterprise development on individuals and their households, including the micro-entrepreneurs, i.e. their income, employment, individual and household poverty, has been effective to establish the causal linkages of contribute of microenterprise development on national and local economies such as GDP, export, import substitution, multiplier and demonstration effects – and the extent of such contribution. Social mobilization, enterprise development, appropriate training, access to finance, access to appropriate technology, marketing and business counseling, in additional to institutional participation on DMEGA, NMEFEN, and financial cooperatives are the factors supporting and inhibiting positive economic impact on micro and macro level.

8.2 **Conclusions**

The findings of this study revealed that MEDEP/MEDPA can be the effective interventions for income and employment generation, poverty reduction and livelihoods, while addressing the issues of the gender equality and social inclusion.

Employment, poverty reduction and livelihoods

More employment can be created when microenterprise development programmes promotes enterprises like production, service, tourism and agriculture and agricultural based enterprises, all of these have a high potential for value addition. The likelihood of generating employment through enterprises like agriculture and service is less, but they have benefits of continuity and sustainability. The proportion of participants diversifying their enterprises is relatively higher among agriculture entrepreneurs followed by service. Of the total income among participants, share of enterprise is highest. A higher proportion of participants have moved to higher income ranges than non-participants. MEDEP's contribution to increases in ownership of houses, improvements in roofing material; quality of floor, access to safe and drinking water, improvements in sanitation, access to electricity, access to physical assets, ownership of livestock, participation in community forestry groups, self confident and better education for their children is positive and significant. MEDEP intervention increased the proportion of HHs using electricity; average monthly saving in groups and cooperatives and perception of increase in bankability and negotiating skills. Access of participants to community organizations has increased significantly. Many entrepreneurs trained by MEDEP/MEDPA are leader of many orgnisations and some are elected women members of wards in local governments. The number of months of food sufficiency has increased for both participants and non-participants. However, the increase was significantly higher among participants. MEDEP/MEDPA did not contribute to increase migration but, in fact, it might have lowered/reduced the probability of migration. Whereas; the skill training and other MED training packages give more vision and opportunity for better livelihood; wherever they move on.

Gender equality band social inclusion

Empowerment level of Dalit and other caste (Terai) persons, especially women, have been improved as a result of their participation in MEDEP and that they have been able to seek services from others. Socially excluded groups like Dalit, ethnic groups and other Terai backward caste people as well can benefit equitably from the use of improved and modern technologies if they too get opportunities as has been provided by MEDEP. There are mixed results for MEDEP's contribution to change in the proportion of HHs having land in terms of ethnicity. By gender, proportion of change in land ownership due to MEDEP intervention was positive among both women and men, with men showing a higher propensity to acquire land as compared to women. There is a movement towards greater equity, with Dalit showing higher proportion of physical and livestock assets accumulation than BCTS. MEDEP's intervention has changed the rules of the game by increasing the proportion of women in decision

making positions in forestry, water related functional groups, community organizations and local government. The proportion of participants saving in groups and cooperatives has increased significantly, with the largest increase observed among Dalit in groups and cooperatives. PCI of all categories and types of participant and non-participant HHs have increased with larger increase among women entrepreneurs. By ethnicity, increases were highest among BCTS followed by Janajati, other Terai Castes and Dalit. Higher proportion of other Terai backward caste people and Dalit have benefitted from MEDEP's intervention than BCTS. The level of public awakening of participants is substantially higher than that of non-participant. The net difference in empowerment level between the two groups, participants and non-participants, in terms of their situation before and at present is significant. The role of women entrepreneurs has constantly been improved as currently there is an increased representation of women entrepreneurs in community institutions, such as, Community Forestry Users Groups (CFUGs), Drinking Water Management Groups (DWMGs), cooperatives and saving and credit groups. Yet representation of women at decision making positions at community institutions is lower than men entrepreneurs. Gender sensitive interventions by MEDEP have created many individual success cases for women from the poor and vulnerable communities of being enabled to lead a life of dignified human.

MEDEP has been successful to overcome major institutional, social and economic barriers and constraints in enhancing opportunities for disadvantaged women and socially excluded people to participate economic opportunities. From social inclusion dimension, MEDEP is inclusive and provided more opportunities for Dalit, Janajaties and other Terai caste people to participate in the microenterprise development programmes. The participation of women participants in CBOs and political parties have increased more than non-participants and men. MEDEP has made significant contribution to increase in capacity of participants to demand better and timely services from local government organizations. Capacity of women and Dalit to organize themselves and protest against gender based violence and social discrimination has increased significantly. Women and Dalit have got more exposure that they are able to stand against discrimination, violence and early child marriage, etc. They are active member of justice group in local government. Targeted microenterprise development programme can significantly contribute to poverty reduction, particularly among women entrepreneur HHs and Dalit. Participation in microenterprises can increase women's access to wage employment in non-agriculture sector. Participation in MEDEP activities has improved the living standard and well-being of the beneficiaries particularly that of the people below the poverty line and disadvantaged groups like Dalit, Janajati and other Terai caste.

8.3 **Recommendations**

MEDEP/MEDPA is an example demonstrating higher level of success in social sector and economic sector as snail pace. Given that the programme has shown proof of concept, and the programme concept has been institutionalized into a government system at least in policy and principles. Another major shift is to move from supporting all types of small enterprises, to adding a value chain perspective. It is likely that targeted poor households will choose a variety of enterprises, and MEDEP must continue to support these. New support system for microenterprise development should be market led, demand driven, quick return and appropriate to new federal structural development.

The pressing need is recognizing of the potential and impact of microenterprises on local and national economics and supporting them to overcome the obstacles that curb their growth and success such as access to finance, infrastructure, labour, skills and training. MED model of MEDEP/MEDPA demonstrates all these features. The additional features need to add on is networking and linkages with market structure and marketing.

Another area could be making the model more efficient and effective in terms of poverty outreach and employment generation: The model is very elaborate, and when it is replicated, will need to be made more efficient, and adapted to the needs of different districts. In order to refine the model, it would be good to continue to engage with enterprise development work at least in a few districts. These could be remote hill districts, which lack infrastructure and employment opportunities, and where outreach to the poor is difficult. By working in these districts, MEDEP will learn lessons of reaching those excluded geographically or by social and ethnic characteristics. Continuous research and development is needed to refine the package appropriate to changing people's preference in society, technology and market. Targeting for poor package needs to be designed suitable for the geographical areas and people's interest.

Incorporating support for growth and financial services: Another area where model needs development is in assisting entrepreneurs with growth process. Attention to microfinance linkages also needs to be strengthened.

Providing demand-oriented business development and financial services: Currently, BDS providers are supply oriented, with MEDEP project paying for their services. Instead, they need to be demand oriented. This will demand change in proposal-writing and contracting procedures, which need to get serious attention in the next phase.

The supply of financial services is inadequate, whether they relate to savings, credit, insurance or remittances. This is more so in remote areas, where infrastructure is poor. Outreach to the poor is limited, and the terms and products are not appropriate for MEDEP participants. Finance is not available for enterprises in their growth phase. Financial services are another area where MEDEP programme needs to make strong demands, and contributions, for policy formulation.

The appropriate models for serving the needs of remote, scattered and poverty-ridden households are those that allow them access to their own savings and allow them to manage their own organizations, so that they have control over the decision making. The future interventions should be on building financial capability of the micro-entrepreneurs through proper financial literacy, enhancing the capacity of the EDF through their increased understanding on financial landscape, and choice of proper financial service providers, and educating the financial service providers on the comparative advantages that MEDEP/MEDPA developed microentrepreneurs have compared to exclude poor and disadvantaged groups.

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ANNEX A: DATA COLLECTION TOOLS

A1: Questionnaire for Enterprise/Entrepreneur Survey

About the Surveyors

1.1 Name of Surveyor	
1.2 Date of Survey	
1.3 Signature of Surveyor	

Introduction of the Entrepreneurs

2.1	Name of the entrepreneur	Mr./Mrs./Miss.:……									
2.2	Promoted by	MEDEP ……1 MEDPA ……2									
2.3	Sex	Janajati		Dalit		Youth		Muslim		others	
		M	F	M	F	M	F	M	F	M	F
2.4	Age	…….. years									
2.5	Education	Illiterate…….., literate …….. years of schooling									
2.6	Address	Tole…… ward no……..., district……..									
2.7	Market center	……..., Rural:1 Urban:.2									
	Associated with										
2.8	Micro entrepreneurs groups	Yes…… ,No… If yes, name:…….									
2.9	Micro entrepreneurs group association	Yes…… ,No… If yes, name:…….									
2.10	District micro entrepreneurs association	Yes…… ,No… If yes, name:…….									
2.11	Cooperatives	Yes…… ,No… If yes, name:…….									
2.12	Role in cooperative besides shareholders	Board of directors, Staff Special/Subject committee, member									
2.13	Family size	Male:……number Female;……number Total …….									
		< 5 years		5-16 years		16-60 years		> 60 years			
2.14	Female										
2.15	Male										
	Total										
2.16	Family type	Nuclear….., Joint… Extended…									

Enterprise Related

3.1	Type of enterprise	……...
3.2	Legal entity	Registration: Y/N If yes, agency of registration: Tax registration: Y/N If yes, PAN/VAT Number:
3.2	Enterprise categories	Agro-based ……1 Artisan-based ……2 Forest based (non-timber based) ……3 Forest based (timber based)……4 ICT based……5 Production based……...6 Service based……..7

		Tourism based ……..8 Other…… 9

		2070	2071	2072	2073	2074
3.4	Total investment (Rs.)					
3.5	Fixed Capital (Rs.)					
3.6	Working Capital (Rs.)					
3.7	Source of investment capital					
3.7.1	Accumulated savings (Rs.)					
3.7.2	Loan from informal sector (Rs.)					
3.7.3	Loan from formal sector (Rs.)					
3.8	If loan from formal sector, name of financial institution					
3.9	Repayment of loan (Rs.)					
3.10	Outstanding loan balance (Rs.)					
3.11	Gross income per week/month/year (Rs)					
3.12	Gross expenses per week/month/year (Rs.) Tax paid					
3.13	Net income per year (Rs.)					
	Use of net income (Rs.)					
3.14	Asset creation (Rs.)					
3.15	Children education (Rs.)					
3.16	Health care (Rs.)					
3.17	Clothing (Rs.)					
3.18	Household consumption (Rs.)					
3.19	Buying ornaments (Rs.)					
3.20	Other (Rs.)					
	Problems on microenterprise management					
3.21	Cash crunch (Y/N)					
3.22	Marketing (Y/N)					
3.23	Raw materials (Y/N)					
3.24	Sickness of family members (Y/N)					
3.25	Other (Y/N)					
3.26	Measures adopted on solving problems on microenterprise management					
	Marketing arrangement					
3.27	Self					
3.28	MEGs					
3.29	Middleman					
	Employment Generation					
	Full time (No)					
3.30	Men					
3.31	Women					
3.32	Children					
	Part time (No)					
3.33	Men					
3.34	Women					
3.35	Children					

Savings and loan operation from MEGs

4	**Savings mobilized in MEG**		
4.1	Total savings	Rs.	
4.1.1	..... Compulsory savings	Rs.	
4.1.2	..... Voluntary savings	Rs.	
4.1.3	..... Other savings	Rs.	

4.2	Savings rate	Rs.	
4.3	Savings intervals	Time	
	Loan transactions from MEG		
4.4	Total loan borrowing	Rs.	
4.5	Total loan recovery	Rs.	
4.6	Total loan outstanding	Rs.	
4.7	Total loan overdue	Rs.	
	Loan transactions from MFI		
4.8	Total loan borrowing	Rs.	
4.9	Total loan recovery	Rs.	
4.10	Total loan outstanding	Rs.	
4.11	Total loan overdue	Rs.	

1. Impact on livelihood:

5.1 Land holding:

		Total			Irrigated			Un-irrigated		
		Owned	Rented-in	Rented-out	Owned	Rented-in	Rented-out	Owned	Rented-in	Rented-out
5.1.1	Before joining MEDEP									
5.1.2	Now									

5.2 Livestock holding

		Cattle	Buffalo	Ox	Heifers	Goat	Pig	Chicken	Duck	Other
5.2.1	Before joining MEDEP									
5.2.2	Now									

5.3 Other asset creation after being the member of MEG (specify):.....

2. Empowerment

6.1 Economic empowerment:

6.1.1	Who manage the IGA/ME	Self ……..1 Husband……..2 Other family members …….3
6.1.2	Who make the borrowing decisions	Self ……..1 Husband……..2 Other family members …….3
	Do you maintain accounting? If yes who maintain	Self ……..1 Husband……..2 Other family members …….3
6.1.3	Who control the income and expense from IGA/ME	Self ……..1 Husband……..2 Other family members …….3

6.2 Social empowerment:

6.2.1	Is there any change on your position/ identity in the households?	Yes ……1 No……..2	What types of changes?
6.2.2	Is there any change on your status on the society?	Yes ……1 No……..2	
6.2.3	Has the mobility been increased?	Yes ……1 No……..2	

6.2.4	Is there increase on your confident / social capital?	Yes ……1 No……..2	

6.3 Political empowerment:

6.3.1	Did you participate in the political process (association, cooperative, local groups) in your community?	Yes ……1 No……..2
6.3.2	Did you been able to select you leader (association, cooperative, groups) in more informed way?	Yes ……1 No……..2

6.4 Legal empowerment:

6.4.1	Is there increase in your legal awareness level?	Yes ……1 No……..2
6.4.2	Have you ever filed a case against exploitation or harassment	Yes ……1 No……..2
6.4.3	Do you feel more secured now?	Yes ……1 No……..2

7. Constraints/problems related to Microenterprise Management?

S.N.	Constraints/Problems	Description
7.1	MEG meeting	
7.2	MEG operation	
7.3	Savings mobilization	
7.4	Borrowing from MEG	
7.5	Borrowing from MFI	
7.6	Loan repayment	
7.7	Enforcement of joint liability	
7.8	Maintaining group discipline	
7.9	Market	
7.10	Investment/Finance	
7.11	Raw Material	
7.12	Skill/Technology	
7.13	Other (specify)	

8. Measures adopted for solving above constraints/problems?

S.N.	Constraints/Problems	Measures adopted
8.1	MEG meeting	
8.2	MEG operation	
8.3	Savings mobilization	

8.4	Borrowing from MEG	
8.5	Borrowing from MFI	
8.6	Loan repayment	
8.7	Enforcement of joint liability	
8.8	Maintaining group discipline	
8.9	Market	
8.10	Investment/Finance	
8.11	Raw Material	
8.12	Skill/Technology	
8.13	Other (specify)	

9. Assessment of Progress Out of Poverty Index

S.N.	Indicators	Value	Points	Score
1	How many household members are age 0 to 17?	a) Four or more b) Three c) Two d) One e) None	0 7 11 20 28	
2	What is the highest level that the female head/spouse has passed in school?	a) None b) Up to third grade c) Fourth grade through high school d) College preparatory 1-3 e) Normal/technical/commercial f) Professional, master's or doctorate g) No female head/spouse	0 5 7 10 14 20 14	
3	How many household members have a written employment contract for a salary or for an indefinite period?	a) None b) One c) Two or more	0 6 16	
4	What is the main materials of the floor of this residence?	a) Dirt b) Cement/concrete c) Other	0 2 7	
5	How is water supplied to the resident's toilet for flushing?	a) No toilet, or no water supply b) Carried by bucket c) Piped	0 1 3	
6	Does the resident have a medium sink for washing dishes?	a) No b) Yes	0 4	
7	What fuel so you usually use to cook or heat food?	a) Firewood b) Other	0 2	
8	Does the household have a blender?	a) No b) Yes	0 4	
9	Does the household have an	a) No	0	

S.N.	Indicators	Value	Points	Score
	electric iron?	b) Yes	4	
10	How many televisions does the household have?	a) None b) One c) Two d) Three or more	0 0 5 12	

Any other remarks

.....
.....
.....
.....
.....
.....

Thank You

A2: Checklist for Qualitative Information Collection (FGD and KII)

Checklist for consultation with MEDEP and MEDPA staff

Name: …… position…… Role in MED promotion

1. Could you explain the process of service delivery in promotion of MED models?
2. How many models are available?
3. What types of MED model you are promoting in which areas?
4. What is your ideas on relevance of the MED model (which one) in which areas?
5. Which model do you feel as effective in implementation and why?
6. How do we precede MED model for the more efficient way?
7. How can we combine/ emulate for sustainability of the MED model?
8. Combination of MED model for sustainability in terms of acceptability, adoptability/ application, capacity building, financial effectiveness and efficient?
9. What are the differences between MEDEP and MEDPA model in designing, implementation, reporting and monitoring?
10. Any suggestions

Checklist for the discussion with key informants (Staff of central ministry and department)

Name: …… position…… Role in MED promotion

1. Could you explain about the MED models implementation?
2. What are the differences between previous MED model of MEDEP and now MEDPA process on MED promotion?
3. What are your ideas on relevance of the MED model promotion?
4. Do you think this model need to modify as the target groups and areas to make it more market-led, need based and demand led?
5. How do we need to modify MED model for more efficient way?
6. How can we combine/ emulate for sustainability of the MED model?
7. Combination of MED model for sustainability in terms of acceptability, adoptability/ application, capacity building, financial effectiveness and efficient?
8. What do you think about the technical and financial support provided to the entrepreneurs? Do you think we need to provide more support to make it more effective and produce economically viable enterprises at the field?
9. Do you think that there is a knowledge and capacity gaps in the implementers? They need to provide capacity development trainings, exposure, on the job training to make them capable to delivery their services efficiently?
10. What is the problems, constraints and bottleneck for effective MED model service delivery and sustainability of the programme?
11. Are there any changes needed for the institutional arrangement for delivery?
12. Any suggestions

Checklist for the discussion with key informants (Staff of MFI, Bank, Cooperatives)

Name: …… position…… Role in lending process in MED promotion

1. What do you think about the MED promotion model of MEDEP and MEDPA?
2. What do you think about the entrepreneurs? Are they doing well or they need more support in which areas?
3. When they will come to you for loan support, they are well educated for loan process or they need more information for cash calculation, loan requirement and business plan education?
4. How do you fell while dealing with MEDEP promoted entrepreneurs? They are more educated than others or can be easily trusted for lending?
5. Scale of loan amount for the different sectors?
6. What is your opinion on cash management and repayment pattern of MEDEP graduate?
7. What is a percentage of good loan repayment and re-loaning entrepreneurs of which sector?
8. What is a percent of bad loan repayment and which sector?
9. What about the loanee of women or men or dalit or janjati or youth in the collateral against the loan, sincerity and repayment?
10. Any suggestions?

Checklist for the discussion with key informants (Project Staff and business service providers)

Name: …… position…… Role in MED promotion

1. Could you explain about the MED model implementation?
2. What are the differences between previous MED model of MEDEP and now MEDPA process on MED promotion?
3. What is your ideas on relevance of the MED model promotion?
4. Do you think this model need to modify as the target groups and areas to make it more market-led, need based and demand led?
5. What do need to modify MED model for more efficient way?
6. How can we combine/ emulate for sustainability of the MED model?
7. Combination of MED model for sustainability in terms of acceptability, adoptability/ application, capacity building, financial effectiveness and efficient?
8. What do you think about the technical (training, product designing, marketing/selling, technical and networking) and financial support (facilitation for credit) provided to the entrepreneurs? Do you think we need to provide more support to make it more effective and produce economically viable enterprises at the field?
9. Do you think the capacity and knowledge equipped by the service providers are sufficient for effective delivery if so, what types of capacity need to enhance to which level?
10. What is the problems, constraints and bottleneck for effective MED model service delivery and sustainability of the programme?
11. Are there any changes needed for the institutional arrangement for effective delivery considering the recent changes in federal architectural?
12. Any suggestions

Checklist for the Focus group discussion with key informants (ME group and ME association)

Name: …… position…… Role in MED promotion

1. How do you promote ME among the groups and association?
2. What are major roles in ME promotion? Are you satisfy with your work or do you feel you need to support more? If so which areas
3. Do you think you need some level of capacity development programme to foster your services more effectively?
4. How do you get support from MEDEP and MEDPA programme and in which areas?
5. What do you think about the different phases of MEDEP and MEDPA services and which phase do you think very good? Please describe.
6. Do you want to suggest for any modification in MED model to make it more market-led, need based and demand led?
7. What are your ideas on relevance of the recent MED model promotion to make it more efficient and sustainable?
8. What do you think about the technical (training, product designing, marketing/selling, technical and networking) and financial support (facilitation for credit) provided to the entrepreneurs by the MEDEP/MEDPA and local business service providers? Do you think we need to provide more support to make it more effective and produce economically viable enterprises at the field?
9. Do you think the capacity and knowledge equipped by the service providers are sufficient for effective delivery if so, what types of capacity need to enhance to which level?
10. What are the problems, constraints and bottleneck for effective MED model service delivery and sustainability of the programme in creating and development microenterprises?
11. Are there any changes needed for the institutional arrangement for effective delivery considering the recent changes in federal architectural?
12. Any suggestions

Checklist of case study

1. Introduction of entrepreneur (Photo)
2. His/her previous status (Photo)
3. Explain process/ steps/ procedure made to change with milestones (Photo)

4. Inputs from MEDEP/MEDPA and other organization/external.
5. Present status with changes or improvement in legal status, financial status with profit, property, confident level, marketing, technical, etc. (Photo)
6. His/her opinion for future.