

Current Status & Prospects of Micro-Enterprise
(A Case Study of Birendranagar Municipality, Surkhet District)

A Thesis Submitted to
Central Department of Rural Development in Partial Fulfilment of the
Requirements for the Degree of Master of Arts in Rural Development

Dhal Bahadur Gurung
Roll Number: 2866
Registration No.: 5-1-37-491-96

Central Department of Rural Development
Faculty of Humanities and Social Sciences
Tribhuvan University, Kirtipur
Kathmandu, Nepal
April 2009

LETTER OF RECOMMENDATION

This is to certify that **Mr. Dhal Bahadur Gurung** has completed this thesis entitled “**Current Status & Prospects of Micro-Enterprise: A Case Study of Birendranagar Municipality, Surkhet District**” under my supervision and guidance. I therefore recommend this thesis for final approval and acceptance.

.....
Prof. Dr. Mahendra Singh
Supervisor
Central Department of Rural Development
Tribhuvan University, Kirtipur
Kathmandu, Nepal

Date: 2065-12-23

APPROVAL SHEET

This thesis entitled “**Current Status & Prospects of Micro-Enterprise: A Case Study of Birendranagar Municipality, Surkhet District**” submitted by **Mr. Dhal Bahadur Gurung** has been accepted as the partial fulfillment of the requirements for the degree of Masters of Arts in Rural Development.

EVALUATION COMMITTEE

Approved by

.....
Prof. Dr. Pradeep Kumar Khadka
Head of the Department

.....
Prof. Dr. Pradeep Kumar Khadka
External Examiner

.....
Prof. Dr. Mahendra Singh
Research Supervisor

Date: 2065-12-25

Acknowledgement

I would like to express my gratitude to my supervisor Prof. Dr. Mahendra Singh for his inspiring guidance, valuable suggestions, encouragement, continuous support and supervision in all stages of this research work.

Furthermore, I want to express my great gratitude to Prof. Dr. Pradeep Kumar Khadka (Head of the Department) who encouraged and accepted my topic for the study. My sincere gratitude also extends to Associate Prof. Dr. Umakanta Silwal, Mr. Suman Baskota and other teachers, staffs of the central department of Rural Development.

I would also like to express my gratitude to Dr. Lakshman Pun, National Programme Manager (MEDEP), Mr. Niranjana Baral, National Programme Director (MEDEP) and Dr. Raj Shrestha, Micro-enterprise Specialist, (MEDEP) for offering research grant to support the study.

I would also like to thank all the library staffs of ICIMOD and Central Library, Kirtipur.

I am also grateful to Mr. Binod Dev Pant, Chief Officer (Cottage and Small Industry, Surkhet) and Mr. Sanjaya Thapa, Chief Officer (Surkhet Industrial zone) and many thanks goes to all the entrepreneurs and other general people, who participated in my study.

I remember my parents, brothers and sister in laws for their continuous encouragement and financial support for the study. My thanks extend to my wife, nephews and nieces for their invaluable support in my effort.

I would like to thank my friends Lok Oli, Bhupendra Shahi, LK BC, Binod Poudel, Puru, Deepak, Suman, Vivek, Madina, Sarojani including my mama ji Yadab Gurung and also many thanks to all my colleagues and friends at the University Campus and my Department.

5 April 2009
DB Gurung

Abstract

The purpose of this study is to explore the prospects of micro-enterprise in the Birendranagar Surkhet so the report has tried to describe its research procedure, techniques analysis and findings accordingly. This study relies on a combination of intensive fieldwork and literature review to analysis the prospect of micro-enterprise.

Micro-enterprise has long negligence history in Nepal but after 9th Five Year Plan, government has paid sincere attention to this sector and formulated many Acts and Policies in the industrial sector for its development. The Three Year Interim Plan has given higher priority to micro-enterprise development.

To support Nepal's poverty reduction efforts, the Micro-Enterprise Development Programme (MEDEP) has been launched since 1998 with the help of Ministry of Industry and UNDP.

The research is based on field survey and participatory observation; there are many constraints of existing micro-enterprises in the study area, such as credit, market, technology and other. On the other hand, newly operated enterprises are shut down within a year without any support and inexperience of management. Women, youth and educated personals are involving in very few numbers in these sectors, in spite of these constraints, it is clearly seen that the existing entrepreneurs have good income and creating at least two or three employment from their business.

In the study, researcher has found that forest covers 66 percent and cultivation land covers 18 percent of total area of the Surkhet District. Paddy, Maize, wheat are the main agricultural products of the district. Brahmin, Chhetri, Magar and Kami are major caste/ethnicity of the study area, which contribute 24.65, 21.33, 13.05 and 5.08 percent respectively in the study area. Population of the economically active population in the study area is 55.24 percent and literacy status is little good, which comprises 72.06 percent of the total population. From the survey, out of the total entrepreneurs 68 percent are male and female comprises only 31 percent. There are very few numbers of young entrepreneurs in the field of micro-enterprises, majority (63%) of entrepreneurs are from the age group 31 to 50. Micro-enterprises include the different caste/ethnicity but Brahmin and Chhetri are major groups. Most of the

entrepreneurs have low educational status, among them 81 percent of entrepreneurs are just SLC and below SLC. Financing is the main problem of the entrepreneurs in the study area, 27 percent of the entrepreneurs have faced the finance problem other 36 percent have faced market and technology/infrastructure problem. Majority of the micro-enterprises (59%) in the study area uses local raw materials, which is significant for the local development.

Finally, the study reveals that the micro-industrial sector in our country has large potential and it is an easy way to reduce rural poverty through micro-enterprises. Women, youth and educated persons from the deprived groups should be lured to become entrepreneurs or self-employed.

Table of Contents

Title	Page
Recommendation letter	i
Approval Sheet	ii
Acknowledgements	iii
Abstracts	iv-v
Table of Contents	vi-vii
List of table	viii
List of figure	ix
Acronyms and Abbreviations	x
CHAPTER	
I INTRODUCTION	1-5
1.1 Background of the Study	1
1.2 Statement of the Problem	4
1.3 Objective of the Study	4
1.4 Significance of the Study	4
1.5 Limitation of the Study	5
1.6 Organization of the Study	5
II LITERATURE REVIEW	6-43
2.1 Conceptual Framework of the Study	6
2.2 Conceptual Review	7
2.3 Micro-enterprise is the Emerging Poverty Reduction Strategy	12
2.4 Micro-enterprises in the Context of Nepal	17
2.5 Micro-enterprise Development Policies & Strategies in Nepal	22
2.6 Micro-enterprise Development Programme in Nepal	29
III RESEARCH METHODOLOGY	46-48
3.1 Research Design	46
3.2 Nature and Source of Data	46
3.3 Sampling Procedure	46
3.4 Data Collection Techniques/instruments	47
3.4.1 Household Survey	47
3.4.2 Observation	47
3.4.3 Key Informant Interview	47
3.4.4 Secondary Data Collection	47

3.5	Data Processing and Data Analysis	48
3.5.1	Data Entry and Editing	48
3.5.2	Statistical Analysis	48
3.6	Ethical Consideration	48
IV	ANALYSIS AND INTERPRETATION OF DATA	49-66
4.1	Study Site Description	49
4.2	Economic Structure	50
4.3	Infrastructure Facilities	50
4.4	Land Resource and Land Use	50
4.5	Crops, Cropping Patterns and Crop Yield	51
4.6	Population	52
4.7	Caste and Ethnicity	53
4.8	Education Status	54
4.9	Economic Activity	55
4.10	Employment Status	56
4.11	Registration of Enterprises in Surkhet from 2003-2008	57
4.12	Types of Micro-enterprise in Surkhet	58
4.13	Sex Distribution of Entrepreneurs	58
4.14	Age of the Respondents	59
4.15	Caste and Ethnicity of Respondents	60
4.16	Educational Status of Respondents	61
4.17	Distribution of Respondents by types of Enterprises	62
4.18	Per month Income Generated by Micro-enterprises	64
4.19	Initial Financial Source of Entrepreneurs	64
4.20	Constraints Faced by Entrepreneurs	65
4.21	Proximity of Raw Materials	66
V	FINDINGS AND DISCUSSION	67-69
VI	CONCLUSION AND RECOMMENDATION	70-71
6.1	Conclusion	70
6.2	Recommendation	71

REFERENCES

Appendices

List of Tables

S.N.	Title	Page
2.1	Basic objectives and features of 9 th Five Year Plan	24
2.2	Basic objectives and features of 10 th Five Year Plan	25
2.3	Basic objectives and features of Three Year Interim Plan	26-27
2.4.	Basic objectives and features of Micro-enterprise Policy, 2064	28
4.1	Land Resource and Land Use in Surkhet District	51
4.2	Cropping Patterns and Crop Yield in Surkhet District	51
4.3	Distribution of Population by age in study area	52
4.4	Caste/Ethnicity in study area	53
4.5	Population by literacy status and sex in study area	54
4.6	Population by Economically Active in Study Area	55
4.7	Population by Employment Status in Study Area	56
4.8	Enterprises Registered in Surkhet district from 2001 to 2008	57
4.9	Types of Cottage & Small Industries in Surkhet	58
4.10	Sex Distribution of Entrepreneurs	59
4.11	Age Distribution of Entrepreneurs	60
4.12	Caste and Ethnicity Distribution of Entrepreneurs	61
4.13	Educational Status of the Respondents	61
4.14	Distribution of Respondents by Types of Enterprises	63
4.15	Per month Income Generated by Micro-enterprises	64
4.16	Initial Financial Sources of Enterprises	65
4.17	Constraints Faced by Entrepreneurs	65

List of Figures

S.N.	Title	Page
2.1	Conceptual framework of the study	6
4.1	Population by employment status	56
4.2	Employment registered in Surkhet District from 2001 to 2008	57
4.3	Sex Distribution of entrepreneurs	59
4.4	Educational status of respondents	62
4.5	Proximity of Raw Materials	66

ABBREVIATIONS AND ACRONYMS

ADBN	Agriculture Development Bank Nepal
BDS	Business Development Services
BDSPO	Business Development Services Providing Organizations
CBS	Central Bureau of Statistics
CPR	Crisis, Prevention and Recovery
CSIDB	Cottage and Small Industries Development Board
CTEVT	Council for Technical Education and Vocational Training
DADO	District Agriculture Development Office
DCCI	District Chamber of Commerce and Industries
DCSI	Department of Cottage and Small Industries
DDC	District Development Committee
DEDC	District Enterprise Development Committee
DFID	Department for International Development
DFO	District Forest Office
DLSO	District Livestock Service Office
FNCSI	Federation of Nepalese Cottage and Small Industries
FY	Fiscal Year
GDP	Gross Domestic Production
ICIMOD	International Centre for Integrated Mountain Development
IEDI	Industrial Enterprise Development Institute
ILO	International Labour Organization
INGO	International Non-Government Organization
ISC	Industrial Service Center
LDC	Least Development Country
MCSI	Micro, Cottage and Small Industries
MEDEP	Micro-Enterprise Development Programme
MEDS	Micro-Enterprise Development Service
MOF	Ministry of Finance
MOFC	Ministry of Forest and Soil Conservation
MOICS	Ministry of Industry, Commerce, and Supply
MSE	Micro and Small Enterprise
MSME	Micro, Small and Medium Enterprises
NGO	Non-Government Organization
NPC	National Planning Commission
NRs	Nepal Rupees
PAF	Poverty Alleviation Fund
PRA	Participatory Rural Appraisal
SED	Small Enterprise Development
SME	Small and Medium Enterprises
SSI	Small Scale Industries
TU	Tribhuvan University
UNDP	United Nations Development Programme
VDC	Village Development Committee

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Nepal is a beautiful Himalayan country among the world, which is situated in the south central Asia. It is located in between the latitude 26°22'N to 30°27' North and longitude 80°4' E to 88°12' East and average breadth is about 193km. north to south. Nepal is a landlocked country and home place of natural beauty with traces of artifacts. The country is bordering between the two most populous countries of the world, India in the east, south, west and china in the north. The northern range of Nepal is covered with snow over the year where the highest peak of the world. Geographically, the country is divided in three major zones: Mountains, Hill and Terai. These zones comprise 15, 68 and 17 percent respectively of the total land area of the Country.

According to CBS (2001), the total population of Nepal is 23,151,423 of the total population, female constitute 50.03 and male constitute 49.93 percent. More than 80 percent of the population lives in the rural areas.

The country is potpourri of many natural resources. Even being the rich in its natural resources, around 31 percent people of this country is still below the poverty line. The root causes of the poverty are the lack of infrastructure development, low income, low educational level, traditional agriculture, unskilled manpower, unutilised natural resources etc. To left out of the poverty, micro-enterprises can play crucial role in the developing countries like Nepal. So, micro-enterprises help to generate employment and increase the income level by sustainable utilization of natural resources in the rural areas of the Nepal. The role of the micro-enterprise is not only the source of employment, it is also a device against poverty and its goods and services cater for some of the

basic needs of low-income consumers. This sector is getting attention because of its perceived potential in reducing inequality, in absorbing a growing and rural labour force, in reducing rural-urban migration and contributing to national growth.

Micro-enterprises contribute significantly to economic growth, social stability and equity. The sector is one of the most important vehicles through which low-income people can escape poverty. With limited skills and education to compete for formal sector jobs, these men and women find economic opportunities in micro-enterprise as business owners and employees.

In the economic survey of MOF (2003), Micro-enterprises are important in the economic development of the nation not only in Nepal but also anywhere micro-enterprises are considered more important for the country like Nepal because of its geographical condition and small size of market such kinds of enterprises are suitable because they utilize local available resources, create employment opportunities, use local technology and mobilize domestic capital. So, micro-enterprises should be promoted and improved technology to accelerate the pace of economic development. Small and micro-enterprises are the most suitable means of economic development of the least developed countries of like Nepal so the need based programs should be developed in time so as to promote productive human resource in the field of micro enterprises.

Maskey (1999), in his article stated that; Small and Medium Enterprises (SMEs) or industries constitute the backbone of all economies regardless of the level of their development. In the developing countries even with high investment in human capital and lower use of improved technology, the SMEs are found to contribute 40-60% of the total output or value added to national economy. This is indeed substantial contribution. Besides, this quantitative contribution, there are other contributions of high social significance that the SMEs can create

emolument and feelings of entrepreneurship. The less developed economy the more significant is the SMEs contribution.

According to FNCSI, Micro, Small and Medium Enterprises (MSMEs) or Micro, Cottage and Small Industries (MCSIs) constitute the backbone of national economies regardless of the level of their development. The definition of SMEs varies from country to country, however in Nepalese context these are characterized as Micro, Cottage and Small Industries (MCSIs) and play significant role in national economy contributing about 90 percent of the total industrial GDP. MCSI sector contribute about 70-80 percent of the total industrial value addition providing 80 percent of the industrial employment and 70 percent of the total national export. Importance of MCSI sector is also due to its self-employment generation capacity providing adequate space for establishing new industries in rural areas. In addition, MCSIs are labour intensive, consuming local raw materials and can therefore help contribute in balanced agro-industrial growth and equity in income distribution.

1.2 Statement of the Problem

Surkhet is a small fertile valley in the western Nepal where we find diversity in terms of natural resources. Even being the ample resources, the livelihood of the people is still poor. The main causes of poverty are over population, imbalance distribution of resources, living standard not matching with income, insufficient education, low opportunities for employment, environmental degradation, low skill, indebtedness, subsistence. Poverty has become serious problems especially in rural areas of Surkhet where marginal productivity is zero. People of rural areas have no sources of income except traditional agriculture.

For the better livelihood of the people in this area, micro-enterprises can play crucial role, which help to generate employment and on other hand micro-

enterprises that uses local/rural resources really help to uplift their economic situation.

1.3 Objectives of the Study

The overall objective of the research is to uncover the current situation of micro-enterprises in Surkhet District. While, the specific objectives are:

- To assess the current status of micro-enterprises in Birendranagar Municipality, Surkhet District
- To examine the present situation of micro-enterprises in Birendranagar Municipality, Surkhet District
- To explore the prospects of the micro-enterprises in Birendranagar Municipality, Surkhet District.

1.4 Significance of the Study

Micro-enterprises have a crucial role to play in generating employment opportunities and reducing poverty in Nepal, although their role has not been recognized. Since their contribution in totality is providing to be significant, it is forcing policymakers, academicians and other to consider micro-enterprises as a vehicle to economic upliftment at the grassroots level.

The research will help to identify the challenges and opportunities of the micro-enterprises in the Surkhet District, which help to lure the new entrepreneurs to invest. Micro-enterprises will create income and employment generating opportunities with sustainable use of local resources to reduce poverty in this area.

1.5 Limitation of the Study

This study is confined with the study area of Birendranagar Municipality of Surkhet district. Thus, the result drawn from the study will represents the selected study area only and may not be generalized to the other parts and in other cases of country. The study was conducted in November 2008. At that period, the situation of industrial sectors was peril, due to the transitional phase of country. And in other hand, the study is a mini-research work, which is

prepared for the partial fulfilment of the Master Degree course in Rural Development, and this study has not covered the whole aspects of micro-enterprises.

1.6 Organization of the Study

The study is organized into Six chapters. The First chapter includes background of the study, statement of the problems, objectives of the study, significance of the study, limitation of the study, conceptual framework of the study and organization of the study. The Second chapter deals with the review of available literature found in the time of study. The Third chapter deals the research methodology, the Fourth chapter of the study comprises the presentation and analysis of the data, the Fifth chapter includes the findings, discussions and finally Sixth chapter includes conclusions and recommendations of the research.

CHAPTER II

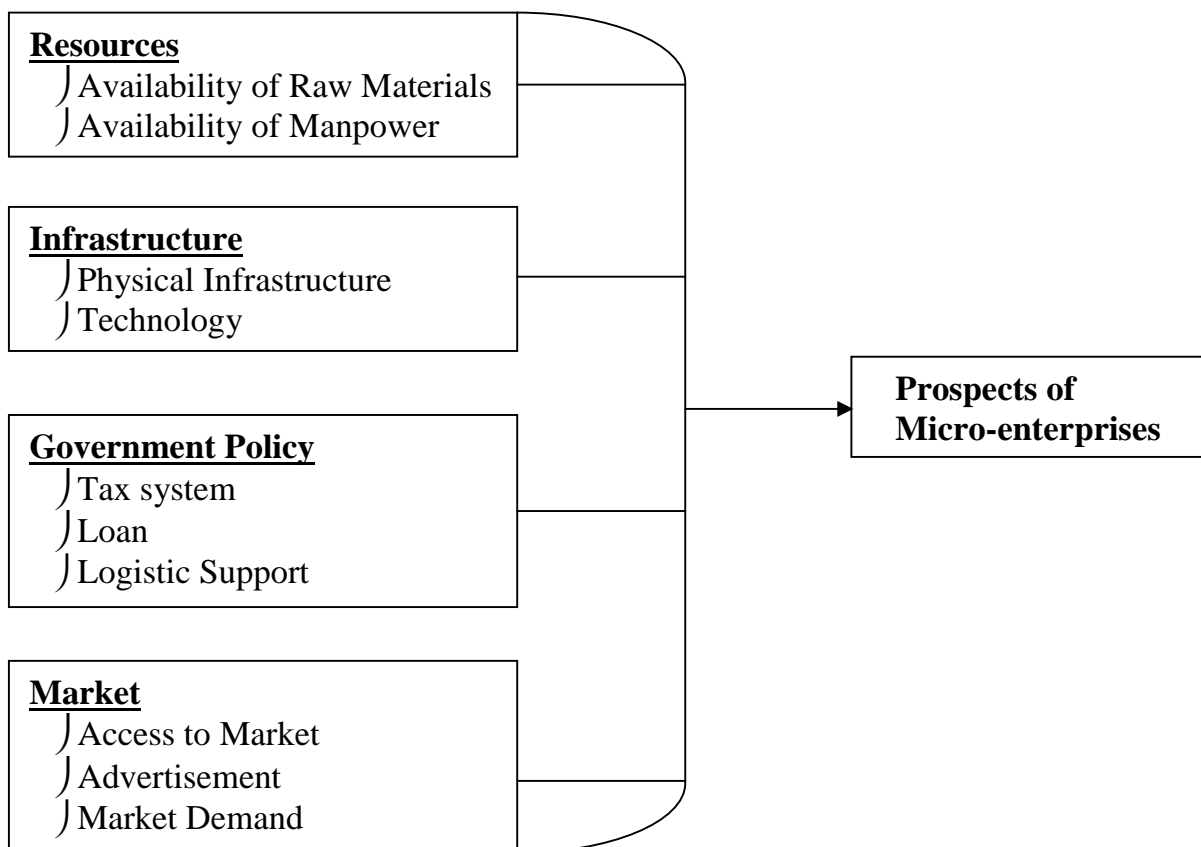
LITERATURE REVIEW

This chapter deals about more of less some basis parameters of pertinent literatures of theoretical implications and study topic concern book reviews by different scholars, and also other related documents included.

2.1 Conceptual Framework of the Study

The frameworks shows the major factors that directly or indirectly and positively or negatively related with the current status and prospects of the micro-enterprises.

Fig 2.1: Conceptual Framework of the Study



2.2 Conceptual Review

According to Nepal (2004), the term micro-enterprises when used in Nepal generally means very small enterprises, with an average investment of around NRs 20,000 (US \$ 300) and annual turnover of around NRs 250,000 (US\$ 3,700). The overall nationwide employment provided by micro-enterprises slightly exceeds 3 percent. Access to finance is also available only high interest rates (because such micro-enterprises borrow from private money lenders) due to lack of knowledge, collateral and procedural complications. They do not have logistics, technology or input supply. Beyond these, the more prominent constraint is that there is no policy and legal framework designed for the development of micro-enterprise. Moreover, there is no commonly accepted definition for micro-enterprises in Nepal.

According to the Micro Enterprise Policy 2064,

- (a) “Micro-enterprise” means any industry, enterprise or other service business, based particularly on agriculture, forest, tourism, mines and handicrafts, which meets the following conditions:
 - (i) In the case of a manufacturing industry, enterprise, involving the investment of fixed capital of not exceeding two hundred thousand rupees, except house and land, and in the case of a service enterprise, an industry, enterprise involving the investment of fixed capital of not exceeding one hundred thousand rupees,
 - (ii) The entrepreneur himself or herself is involved in the management,
 - (iii) A maximum of nine workers including the entrepreneur are employed,
 - (iv) It has annual turnover of less than two million rupees,

- (v) If it uses an engine or equipment, the electric capacity of such engine or equipment is less than five kilowatt.

Provided that notwithstanding anything contained above any industry or enterprise, which manufactures liquors, cigarettes or other tobacco products, or for the establishment of which approval has to be taken will not be considered as a micro-enterprise.

- (b) “Population below the poverty line” means the population remaining below the poverty line in accordance with the criteria set by the National Planning Commission.

Harper (1984) in his publications stated that, enterprises means an organization primarily or production and commercial sale of industrial products in almost all cases for the pecuniary or other material benefit of the enterprise’s owner or owners such as the proprietors, partners, or member of a co-operative.

There is usual practice to differentiate small or micro scale enterprise from large-scale firms. Of many parameters, again the number of employees is often used to define small or micro enterprise, which differs from country to country. For instance, the operational definitions being used in one study for micro and small enterprises are: a micro enterprise is defined as having below 5 employees and a small enterprise with 5-25 employees, located in villages and /or towns.

According to Industrial Enterprise Act, 2049 and Industrial Enterprises (first amendment) Act, 2057 “the traditional industries utilizing specific skill or local raw materials and resources and labour intensive and related with national tradition art and culture shall be named as cottage industries.” The cottage industry is one which is one which is carried on wholly or primarily with the well’ of the members of the on wholly or primarily with the help of the members of the family either as a whole or part time occupation. Cottage industries are the oldest industries in Nepal. In most cases, outside labours are

not employed in its productive works. Cottage industries in rural areas are greatly associated with agriculture, these are conducted many a seasonal job.

Kharel (2005) in the economic journal; Cloth making, blanket weaving, wood carving, furniture making, curio goods making, oil pressing dyeing and printing, agro based industries such as milk dairy, juice product etc, are some of the most important example of small industries or micro-enterprises in Nepal.

According to Maskey (2001), Sustained high growth of the economy with more equitable income distribution is quite unexpected without a strong turnaround in small and medium enterprises and effective policy interventions of the government. In fact, small and medium enterprises sector is important. For many reasons as an employer with reasonable equity benefits in terms of distribution of income, as a feeder to large enterprises to micro-enterprises and to informal sector and a catalyst to the process of industrialization and technical advancement.

Pradhan (2003) in his book defined as, A self-employed construction worker, a self-employed transport worker such as driver of three-wheel rickshaw and a self-employed service worker such as shoeshine boy, for example, are all treated as constituting an individual enterprise even though they do not hire any employees; own little or no capital; have no fixed business location; and produce only services. This primarily refers to micro-enterprise.

Pradhan (2003) in his book stated that, economic enterprise is also broadly divided into two sectors, such as formal (modern) and informal (traditional). It can be argued that the distinction between 'modern' and 'informal' is far more important than that between 'large' and 'small' in terms of production system. This distinction is often applied to the urban economy in developing countries, even though majority of the economic enterprises in rural region lies under informal sector. Informal sector includes activities, which are not officially registered. There are several nomenclatures of informal enterprise such as

‘peasant system of production’, ‘bazaar type economy’, ‘lower circuit’, ‘unorganised’, or ‘unprotected’.

The WIKIPEDIA Encyclopaedia defines that; a micro-enterprise is a type of small business. A micro-enterprise is defined as a business having 5 or fewer employees and a seed capital of not more than \$35,000. Typically, micro-enterprises have no access to the commercial banking sector. Micro-finance institutions have become common sources of funding for micro-enterprises, particularly in the Third World. Persons who found a micro-enterprise are usually referred to as entrepreneurs. The terms *microenterprise* and *micro-business* have the same meaning, though traditionally when referring to a small business financed by microcredit the term *microenterprise* is used. Similarly when referring to a small, usually legal business that isn't financed by microcredit the term *microbusiness* is used. Broadly stated, a micro-business is a business started with as little capital as possible, or less capital than would be usual for a business. More precisely, the term is often used in Australia to refer to a business with a single owner-operator, and no employees.

Apart from that the FNCSI has defined the members industries such as:

- a) **Micro-Industries:** Though not yet defined officially, enterprise with fixed capital not exceeding NRs. 200,000 working at local level utilizing local raw materials and labours with total employees not exceeding nine persons and electrical power consumption utilizing less than 5 KW. The registered group of such enterprises can only be the general members of the FNCSI.
- b) **Cottage Industries:** Local human resource and raw materials based traditional industries reflecting country's indigenous are and culture.
- c) **Small Industries:** Small-scale industries (SSI) with capital size (fixed assets) not exceeding NRs. 30 millions but not the cottage industries.

From the above, different scholars define the term micro-enterprise in their own way. There are not concrete definitions of the micro-enterprise; it is different from place to place.

2.3 Micro-enterprise is the Emerging Poverty Reduction Strategy

On the other hand Micro-enterprise is the first step of the economic development, entrepreneurship development and poverty reduction. Micro-enterprise is a programme of poverty reduction programme in developing countries like Nepal.

Nepal is one of the least develop countries of world. Among 23.1 million people of the country as per the census of 2001, 85.80 percent people live in the rural areas. (CBS: 2005) the preliminary estimate of per capital GDP at current prices stand at NRs 27,209 (US\$383) for the fiscal year 2006/07. The annual growth rate of GDP at producers price is 2.50 percent in the year 2006/07. Nearly one third of the population (31.8%) live below poverty line as per Nepal Living Standard Survey 2003/04 and the Ginni coefficient, which indicates inequality between the poor and rich is 41.4 (CBS: 2007).

A review of the share of the major production sector in GDP at real price in fiscal year 2006/07 testifies to the growing predominance of the service sector in the economy. Viewed sectorwise, agriculture stands with 36.1 percent contribution to the GDP at real prices in fiscal year 2006/07, likewise wholesale and retail trade with 13.1 percent, transport, communication and storage with 8.7 percent industry with 7.8 percent real-state and professional services with 7.5 percent, construction with 6.1 percent and education with 5.9 percent. The increase in service sector's contribution reflects the changing feature of economic development compared t its growth rate of 4.7 percent in fiscal year 2005/06, it has recorded a phenomenal growth rate of 9.0 percent in the following year, thus increasing its total share in GDP from 46.4 percent last year to 47.1 percent this year. (Economic Survey, 2007)

Thapa (2007) has focused micro-enterprise as a poverty reduction strategy in the Business Journal; from the World Bank to the tiniest local nongovernmental organizations, development interventions have embraced micro-entrepreneurs as the key to unlocking the potential of stagnant economies and improving the livelihood of the poor. Micro-enterprises are expected to provide employment and thus sustainable incomes (Mann, 2002). Micro-enterprises are also expected to provide lower-cost goods and services to poor people (Kirkpatrick and Hulme, 2001). Micro-enterprise focuses on the assets of the poor, rather than on their deficits, and strives to empower citizens to become economically self-sustained. Unlike other poverty reduction programmes that tend to create paternalistic relationships between the economically disadvantaged and those providing assistance, the goal of micro-enterprise is to empower citizens to become economically self-dependent. The popularity of micro-enterprise has been growing across the globe as a new form of development agenda of poverty reduction strategy and even more so in the developing world, because such enterprises offer income and employment opportunities.

Shrestha (2008) strengthen the role of micro-enterprises in the poverty reduction in his article; the development of sustainable micro-enterprises for the improvement of the living condition of the low income families by providing employment opportunities through self-employment is successful in most cases in reducing poverty in Nepal. Poverty is the greatest enemy of all time for development and realizing this Nepalese Government has given high priority in its reduction in Ninth five year plan and has given continuity in the following successive plan also. In this effort the government and donor communities have emphasized on the development of micro-enterprises as one of the strong poverty reduction strategy.

The USAID Online page stated that; for the past three decades, support for micro-enterprise development has been an important feature of U.S. foreign

assistance. In this era of globalisation, generating economic growth in developing countries while reducing poverty is a fundamental development challenge. To ensure that the contribution of micro-enterprises to key sub-sectors and national economies is maximized, and to ensure that the poor are not left out of market development, micro and small enterprises (MSEs) need access to finance, business services, and improved inputs; they also need a conducive enabling environment that facilitates rather than inhibits their participation in markets. Therefore, USAID focuses on three areas of strategic support: financial services, business development services, and enabling environment.

Vendenberg P. (2006) has written his research papers that, small enterprise development contributes to poverty reduction when it creates employment either through the start up of new enterprises or the expansion of existing ones. Job creation provides income to the poor. Poverty, following the broad definition, is also reduced when the conditions of work and representation are improved. There are five types of poor people who can benefit from SED: i) the poor owners of micro and small enterprises; ii) the working poor who are employed in small enterprises; iii) the dependents of such poor workers and owners; iv) the unemployed who may obtain employment from small enterprises, and v) poor people who purchase goods and services from small enterprises.

Entrepreneurs make investments and employ workers who contribute to the success of the business. Thriving enterprises also contribute to job creation, providing employment, skills and valuable experience for a large number of young people entering the labour market for the first time. Through appropriate wage and tax policies, they can also contribute to a more equitable distribution of wealth among the working population

MEDEP has able to increase family income and women empowerment in its programme areas, MEDEP Phase II, Mid Term Report (2006) says, One important purpose of micro-enterprise is to significantly increase the incomes of

the poor. As one indicator of success regarding incomes, MEDEP compares the participating entrepreneur's family per capita income before MEDEP with the net income (revenues minus all nonfamily- labour costs) of the resultant micro-enterprise (not including any other income that the family may still be earning). The average MEDEP micro-enterprise now provides 56% more per capita family income⁸ than the family was receiving before MEDEP.⁹ The percentage increase in family incomes is similar for *Dalits*, *Indigenous Nationalities*, and ultra poor, however their enterprises are smaller than those of other MEDEP entrepreneurs. And Women entrepreneurs report that they have been able to raise their status and identity inside and outside their household, and strengthen their role in household decision making. The majority of the women entrepreneurs interviewed stated that their income generally goes for better food, clothing, education for their children and other household expenses including their children's marriage.

MEDEP Annual Report (2000) says that, the goal of Micro-Enterprise Development Programme (MEDEP) is to develop a common approach to performance measurement for micro-enterprise development services (MEDS) that is targeted towards poor people lining below the poverty line to be involved in Micro-enterprises. Micro-enterprises have become increasingly popular in the new development agenda across the globe. International Non-Government Organizations (INGOS) and development agencies in Nepal have focused their attention towards the development of micro-enterprises. The MEDEP has initiated the process to provide opportunities for uplifting the economics of low-income families through employment generation in rural areas by helping them produce goods and services for local consumption. While small and medium scale enterprises focus their operations on profit the micro-enterprise Development Programme's support for micro-enterprises are for survival and

sustenance of low-income families but ultimately leading up to inclusion in the mainstream of economic development.

The ICIMOD Research Paper (1999) says that, the quality of its entrepreneurs influences the economic destiny of a nation. It is the enterprise of a few in a society that helps change the economic growth profile and diversities the economic base. Entrepreneurs not only establish business but also help create employment, increase outputs, improve the quality of goods and services by bringing about changes in the production function. Lack of entrepreneurs is out of the principle constraints to development in poor nations. It is also true of hill regions; only much more so and with serious ramifications. On both the economy and the environment. Growth of entrepreneurship is an essential prerequisite to employment generation. In the long term, such as growth in entrepreneurs spirit can act as a catalyst to growth in previously isolated societies.

2.4 Micro-enterprises in the Context of Nepal

Besides the large organized industries in Nepal, there are large numbers of micro-enterprises, which are operation on cottage basis. It is estimated that cottage and small industries have contributed around 30 percent in total industrial production. In terms of employment generation the World Bank estimates that 95 percent employment opportunities are created by this sector out of total industrial employment.

Rijal (2007) writes in his dissertation that that in the context of Nepal, there are two types of micro-enterprises: formal & informal. Informal enterprises are generally initiated by an individual family to earn money via their traditional craft skills, whereas formal enterprises are initiated by NGOs and government agencies as an income generating programmes for poor families and for women.

The main objective of such programmes is to enable such people to earn a livelihood. Formal enterprises are to some extent backed by training and funds. Often, however, business counselling and market linkages are not thoroughly considered. Further, environment-impact considerations are generally totally neglected. Since micro-enterprises are very small and family-based (with regard to investment) they generally originate within the home. Thus, in many cases the environment is adversely affected (like through poultry, wool carding, chemical dyeing, welding, furniture repairing etc.), but since this impact originates within the informal sector of the home it is never documented. Despite of these limitations, micro-enterprises tend to be more profitable entities because of non-valuation of labour inputs of the owners.

Micro-enterprises have become increasingly popular in the new development agenda across the globe, and even more so in the developing world, because such enterprises offer income and employment opportunities. In least-developed countries like Nepal, therefore, micro-enterprise is one of the more viable alternatives to create employment opportunities and consequently to reduce poverty. Moreover, since Nepalese society is characterized by social exclusion, unequal development of such enterprises can address different social realities of women and men across varied classes, castes, ethnic, age groups and locations.

For generations micro-enterprises have served as a means of livelihood in Nepal. They operate at the local level to meet the requirement of local people. Very few have extended their market to the district or national level. A large number of such enterprises are neither recognized nor recorded, so they are not linked to proper marketing systems and or opportunities. Both their market access and their ability to compete are limited.

Nepal is one of the south Asian countries to formulate special programs for supporting small businesses in both urban and rural areas. In Nepal, outside agriculture, the micro and small enterprises sector (MSE) is said to employ 1.6 million persons or more than 70 percent of the people employed in the non-

agricultural sector (Sing, *The Rising Nepal*, Setp 12, 2007). MSEs were spelt out as a strategy for industrial development in the Tenth plan (2002-2007) and the Poverty Reduction Strategy Paper (PRSP). More recently, the Government of Nepal has come out with a draft legislation of the Micro-enterprises Act and the policy related to it. So, it looks as if the government is committed to the enhancement and development of micro-enterprises in Nepal.

The business environment in Nepal contributes only moderately, at best, to the growth and sustainability of the micro-enterprises sector. Physical constraints make it costlier to produce more goods, but they also protect micro-enterprises from competition. Rising under and unemployment has encouraged people to opt for the micro-enterprises sector, but the micro-enterprises sector may be able to absorb only a small segment of the people coming into the labour market in the absence of requisite skills. The right incentives can make an activity competitive and create a foundation for growth. The basic ones are the tax incentives available to the cottage industries and incentives to promote technology, capital goods and inputs at nominal import duty. However, the micro-enterprises generally cannot make use of these incentives because they do not import inputs and capital goods directly.

There are many diverse support services available in the country at present. Many agencies and programmes are extending skill training, technological support, micro-credits and other forms of Business Development Services (BDS). The regulatory requirements are, however, usually burdensome for the smaller enterprises operated by less educated persons with lesser access to resources. Likewise, legislation requirements are also not clear, and so a large number of micro-enterprises are not registered.

Economic liberalization in the 1990s has clearly spurred private sector growth. The importance of micro and small enterprise, including home-based work in

contributing to job creation and output growth, is now widely accepted in both developing and least developed countries like Nepal.

In Nepal, there is a lack of coherent micro and small enterprise development strategies, which take into account the three dimensions of enterprise evolution (start up, survival and growth). We should also identify the different needs of the enterprises in their various stages of evolution, which is another important contributory factor.

As regards the competitions in micro-enterprises, in the absence of a coherent policy framework for enterprise development, globalisation and the opening of domestic markets as part of liberalization policies, there has been an adverse impact on the enterprise structure in many developing countries and the LDCs. In particular, the products of home-based work are continually losing their competitiveness, forcing many women who are home-based to lose their jobs.

The existing legal and regulatory environment is confusing and does not help the cause of micro enterprises. The absence of an appropriate and encompassing definition of micro enterprises and lack of policies and regulations directed towards the development and promotions of micro-enterprise are pronounced as major gaps. For instance, the Industrial Enterprises Act 1996 covers only the manufacturing and services sector. The Labour Act, 1992 is not applicable to all enterprises. The legal and regulatory framework needs substantial improvement to make it conducive for the development of micro-enterprises.

Many micro-enterprises, mostly but not exclusively at the lower end, are part of the informal economy, which is growing in most regions of the world and is also generally characterized by economic precariousness. In most countries, the share of women workers and employers in micro-enterprises is much higher than their share in the larger enterprises. It is almost 60 percent in Nepal.

The poor protection of labour and lack of labour-related laws pose problems in running micro-enterprises in Nepal. There is little mention about the minimum wages to be given, social protection and job security. More than the content of the law, the complicated administrative procedures for compliance are bigger burden. Hence, the application of labour and labour-related laws must be made less cumbersome by eliminating unnecessary fees, reducing the number and complexity or simplifying the contents of the forms. There is a need for removing legal verifications, reviewing the periodicity of cyclical reporting and data collection and strengthening the capacities and transparency of law enforcement agencies, including the elimination of corrupt practices.

The International Labour Organization (ILO) has in the recent past carried out reviews of the policy and regulatory environment in a number of countries around the world. In these reviews, it has become obvious that the labour and labour-related laws are an important element in the overall policy environment for micro and small enterprises.

The discussion of these issues is expected to contribute to the better design and implementation of labour-related legislation for micro and small enterprises, particularly in relation to issues such as: Has the growth in job creation by the micro-enterprises been constrained or facilitated by their exemption from labour related laws? Is there any scope for reducing the “cost of doing business” for the micro-enterprises by simplifying the compliance procedures? Would simplification of the complicated procedures improve the protection of the workers’ rights and the overall job quality in the micro-enterprises?

2.5 Micro-enterprise Development Policies and Strategy in Nepal

NPC (2007) has specified that, policy and institutional infrastructure necessary for making the industrial-sector more competitive in a liberal economy were prepared during the Eighth Plan period. Basically, the following Acts and Policies contributing to industrial development were formulated:

- Industrial Policy, 1992
- Industrial Enterprise Act, 1992
- Foreign Investment Policy, 1992
- Foreign Investment and Technology Transfer Act, 1992
- Company Act, 1996

Supportive policies for industrial development such as Trade Policy and Privatisation Act were also brought out during the Eighth Plan period.

The Tenth Plan has formulated the objective related to micro-enterprises, is to contribute poverty alleviation goal by increasing the income and purchasing power of the rural people through employment generalization in the micro, cottage and small-scale industries.

Karki (1997) has mentioned that, the first five-year plan was implemented in Nepal from 1956-1961 with a planned effort was made to promote and develop entrepreneurship in the country. The Industrial Service Center (ISC) conducted the first entrepreneurship training in Nepal, from 11 July 1978 to 16 July 1978 with the help of UNDP.

Kharel (2003) has focused to changes brought about by the policies and other reforms initiated in the past, the contribution of the industrial sector in the Gross Domestic Product (GDP) has not exceeded to present. Still more than 90 percent of the industries fall under small and cottage industry (micro-small-scale) categories. Such industries have contributed over 76 percent in value addition. Thus, there is a huge potential for using the development of small scale and cottage industries as important means of poverty alleviation. It is necessary to develop micro enterprises and small-scale industries and to attend them in rural areas. There is also a need to reform policies, legal, institution, procedure to expand and diversify the products of industrial sector through active participation of private sector. Moreover, the equality of the industrial products need to be improve and the competitive in the international market.

Recognizing the importance of micro-enterprises in the country, the National Planning Commission has given high priority to micro-enterprise development programme since 9th Five Year Plan, with co-ordinating different INGOs/NGOs. After having several rehearsal parades, the different Industrial Act was put into effect on different Five Year Plan. The basic objectives and features of 9th, 10th, 3 year Interim plan and Micro-enterprise Policy, 2064 have been sketched in the following tables.

Table 2.1: Basic objectives and features of 9th Five-Year Plan

Objectives) To increase the income and purchasing power of rural people by creating non-agricultural employment in rural areas through cottage and small scale industries.
Policy & Strategies) To expand and develop cottage and small-scale industries through integrated programme for providing essential assistance and technical support.
Programs	<p><u>Cottage and Small Scale Industry Programme</u></p> <p>) For the promotion and enhancement of micro-enterprises and cottage and small-scale industry, market-oriented skilled development programme on various income-generating areas will be implemented for 100,000 people. A market study will be conducted to make the skill development training programme market-oriented and entrepreneurship and management subjects will be included in such a programme. An integrated rural entrepreneurship development programme will be launched in order to encourage 12,000 people in rural areas for creating and developing industry. An additional employment opportunity will be provided to 12,000 people; the contribution of cottage and small scale industry in gross domestic product will be increased proportionately; and necessary extension services will be arranged in a way to provide support services to cottage and small scale enterprises.</p> <p><u>Micro Enterprise Development Programme</u></p> <p>) Micro-enterprise development programme will be initiated in ten districts of the country (five from Terai and five from the Hills) and a total of 7,000 new micro-enterprises will be created. This programme will be launched with the assistance of the UNDP.</p>

Source: NPC, 2007

From the above table, government has emphasised the micro-enterprise in the Ninth Five Year Plan. The government had planned to launch the micro-enterprise development programme with the assistance of UNDP.

Table 2.2: Basic objectives and features of 10th Five-Year Plan

Objectives) To contribute to poverty alleviation goal by increasing the income and purchasing power of the rural people through employment generation in the micro, cottage and small-scale industries.
Strategies) Special attention will be given for the sustainable development of infrastructures, entrepreneurship and skills to develop micro, cottage and small scale industries based on local agro-forest resources.
Policies & Action Plan	<p>Establishing the micro and small scale industries based on local agro-forest Resources.</p> <p>) Local bodies and private sectors will be mobilized to develop suitable human resources, concessional loan, and technical service necessary for the promotion of micro, cottage and small scale industries.</p> <p>) Micro and small scale industries will be encouraged to work as subcontracting to big industries.</p> <p>) Various promotional programmes will be launched in rural areas to develop entrepreneurship and skills to promote investment in industries based on local resources.</p> <p>) The micro, cottage and small scale employment-oriented industries will be developed and expanded by strengthening financial, institutional and technical supports.</p> <p>) To develop entrepreneurship among rural women, the access of entrepreneurial women will be enhanced in the operation and management of food processing industries.</p>

Source: NPC, 2007

In the Sixth Five Year Plan, the micro-enterprises development programme was increased from the ten to twenty districts. Especially, the agro-based micro-enterprises are highly encouraged by the government.

Table 2.3: Basic objectives and features of 3 Years Interim Plan

Objectives	<ul style="list-style-type: none"> J To create a strong industrial environment by developing industrial policy and institutional structures. J To support poverty alleviation by putting emphasis on social inclusion through micro, cottage and small industries.
Quantitative Targets	<ul style="list-style-type: none"> J To create 150,000 additional jobs in the industry sector (50,000 in big industries and 100,000 in micro, cottage and small industries).
Strategies	<ul style="list-style-type: none"> J To make the selection mechanism effective in order to ensure the participation of women, <i>Dalit</i>, <i>Adibasi Janajatis</i>, the poor and backward groups and those affected by the conflict, in trainings related with micro, cottage and small industries, and to be conducted in different districts. J To promote micro, small and traditional cottage industries, which have the involvement of the marginalized and socially dejected groups, and <i>Dalit</i>, women, <i>Madhesi</i>, Muslim, <i>Adibasi Janajatis</i>, and people with disability. J To run capacity enhancement programs in order to provide assistance to the development of micro, cottage, small and traditional industries. J To campaign like, “Be Entrepreneur, Reduce Youth Unemployment” and “One Village One Production” for employment generation.
Policies & Working Policies	<ul style="list-style-type: none"> J Necessary policy framework will be established for making the establishment, management and operation of micro, cottage and small industries simple, convenient and organized, along with the ensuring compatibility, clarity and coordination in policy and legal provisions developed by agencies associated to the industrial sector. J Micro enterprises development programs will be implemented in all districts. J The development of industrial business clusters will be promoted in order to facilitate the creation, promotion and development of micro enterprises. J Programs related to micro, cottage and small industries will be implemented by targeting the extremely deprived and socially excluded groups, and those below the poverty line, selected from the designated rural communities. J Emphasis will be given to industries based on the local availability of raw materials, traditional skills and geographical specialties.
Programmes	<ul style="list-style-type: none"> J Regional offices will be opened for an easy entry of small investors to the

	<p>capital market along with simplification of company administration.</p> <p>) Micro enterprise development program will be expanded to all 75 districts.</p> <p>) Skill oriented, income oriented, and employment oriented programs will be implemented targeting the women, <i>Dalit, Adhibasis Janajatis, Madhesis</i>, conflict affected and displaced people.</p> <p>) Various programs targeting the needs of those interested in industry and business, potential entrepreneurs and those engaged in the industrial activities, as well as organizations involved in industry and commerce like new and micro enterprises creation training, business management training, training of trainers programs and consulting services, explorative studies and research, etc., will be carried out.</p> <p>) Programs to provide skill development training to 80,000 people in all the districts of the country will be carried out through skill development for employment project, cottage and small industry office and cottage and small industry development committee as approved by Council for Technical Education and Vocational Training (CTEVT).</p>
Budgets	<p>) Micro enterprise development program to be expanded to all districts districts 189.0 millions</p> <p>) Micro, cottage and small industry Credit Development Fund 35.0 millions</p> <p>) Micro, Cottage and Small Industry Development Fund 40.0 millions</p>

Source: NPC, 2007

The Three Year Interim Plan has highly emphasised in micro-enterprise. The government has taken micro-enterprise as a poverty alleviation technique to emphasis on social inclusion. And another hand, different types trainings and other kinds of support to micro-entrepreneurs to be given from the government.

Table 2.4: Basic objectives and features of Micro-enterprise Policy, 2064

Objectives	<ul style="list-style-type: none">) To Provide opportunities of employment and self-employment by way of the micro-enterprise and entrepreneurship to the hard core poor people, people below the poverty line, women, Dalit, indigenous nationalities, Madhesi or classes who are backward economically, socially or culturally, the disabled, oppressed, marginalized class and the communities specified by the Government of Nepal as the targeted class and thereby improve their level of income.) To encourage the maximum use of the local resources, means, technologies and skills, while improving, modernizing and diversifying the traditional occupation or sector.
Policy	<ul style="list-style-type: none">) To make and build such legal and institutional mechanisms and infrastructures as required for the inclusion of the micro-enterprise in the formal sector of economy of the country.) To simplify, facilitate and systematize the establishment, management and operation of micro-enterprises.) To establish the micro-enterprise development fund in order to enhance market access and expansion by increasing the competitive capacity of the micro-enterprise.) To get the micro-enterprise promotion program to be included by the local bodies (District Development Committees, Municipalities and Village Development Committees) in their respective plans and operated with priority.) To accord special priority to the targeted group specified by the Government of Nepal, while promoting and operating the micro-enterprise.) To build the capacity of the targeted group to select and promote appropriate enterprises based on the feasibility of means and resources, demand and interest of the targeted group and the demand of market, through the availability of training, technology and capital and motivation.) To render support to identify and promote the products of micro-enterprise through the use of collective marks.

Source: MOICS, 2008

2.6 Micro-enterprise Development Programme in Nepal

The Micro-Enterprise Development Programme is a multi-lateral donor funded poverty reduction initiative supported by the Ministry of Industry (Nepal Government) and the United Nations Development Programme in Nepal since 1998. To support Nepal's poverty reduction efforts, the Micro-Enterprise Development Programme has been identifying the poorest of the poor. The programme has been working with poor people, especially women, Indigenous Nationalities, Dalit, Muslim, Other Madhesi groups and involving them in micro-enterprises. The programme's objectives and goals have been to translate the broader vision of the government Interim Three Year Plan, which is to address poverty through the development of micro-enterprises and generating employments among low income families. This programme is a multi partnership initiative between state institutions and the private sector to promote micro-enterprises amongst the poor for economic empowerment. It has been witnessed that micro-enterprises have become increasingly popular in the new development agenda across the globe and more so in the developing world to address income and employment opportunities.

To meet the economic necessities of the rural masses and in particular to cater to the needs of those living below the poverty line, the government of Nepal and the UNDP entered into technical collaboration to promote off farm employment and income generating opportunities. It has been witnessed that micro-enterprises have become increasingly popular in the new development agenda across the globe and more so in the developing world to address income and employment opportunities. The partnership between the Nepal Government and the UNDP saw the setting up of Micro-Enterprise Development Programme in July 1998 in 10 districts of Nepal covering two districts each from the five development regions. Initially designed as a five year programme, interest in the

programme by funding agencies saw the extension of the programme for another four years to cover an additional ten districts until December 2007.

(a) Objective

The aim of the programme has been to help low-income families become entrepreneurs, promote the development of their enterprises, and then create a strong partnership between consumers of micro-enterprise products and services and local service delivery institutions for micro entrepreneurs to create a new and dynamic business sector in rural areas of Nepal. The development aim of the programme was to contribute in the government's efforts to reduce poverty in the country. Having these aims as the central theme of the programme, its goals are two folds; one to reduce poverty among low-income families in rural areas and the other is to ensure the institutional development and capacity building of local service delivery organisations to work as catalysts in the development of rural micro-enterprise sector. To give direction to the pilot initiative, the programme set out with three distinct goals and objectives.

- J The main purpose of the project has been to address issues of rural unemployment and lack of economic opportunities for the poor. In this reference, the programme set out to establish six thousand micro-enterprises between July 1998 to December 2003 during phase I of the programme. The programme exceeded the target to set up 6,690 micro-enterprises. Likewise, during phase II the programme has set a target to set up more than 13,000 micro-enterprises until December 2007 and the programme is on course to achieve the target. The objective of the programme has been to help support the promotion of micro-enterprises on a sustainable footing.
- J In the process of creating income and employment opportunities, the programme's objective has also been to build the capacity of state and

private institutions that provide necessary services that are needed for setting up micro-enterprises.

There are strong arguments that micro-enterprises could be the foundation for rural economic development. And against this backdrop, the programme has set out to advocate for policy change and formulation, which could support the development and strengthening of the micro-enterprise sector. Facilitating in setting up a conducive policy environment for rural economies to be linked to national private sector businesses has been one of the core objectives of the programme.

(b) Target Group

When the programme set out to implement its activities in 1998, its target group and beneficiaries were clearly defined to specifically include those living below the country's poverty line. According to the National Planning commission's National Living Standard Survey those whose per capital income was less than 4,404 according to market prices of 1995/1996 were classified as those below the poverty line. With the progression of time, the figure was adjusted to 6,400 according to market prices of 2003/2004. Likewise, rural women were a sub sector of the poor target group and the programme set out with an objective to have at least 70% women participation in its programme. The selection of the target group was within the larger framework of the United Nations Millennium Development goal to reduce poverty by half by 2015. However, with the country traversing through political instability and conflict, the scopes of the programme's target group had broadened. To act as a catalyst in the country's peace and development process, new target groups were identified under the UNDP's Crisis, Prevention and Recovery (CPR) initiative. In addition to those living below the poverty line and women, the programme identified its new beneficiaries to include the following:

- J Hardcore poor families or ultra-poor (those having annual income of less than 4,000)
- J Poor scheduled caste (Dalit - there are 26 different scheduled castes in Nepal)
- J Poor Indigenous groups (there are 59 different indigenous groups of which 12 are ethnic minority groups amongst which 8 have been listed as endangered ethnic groups).
- J Differently Able (Physically and mentally challenged)

Deprived women (divorced women, women headed households)

(c) Vision

As part of the programme's broader objective to promote the development of the micro-enterprise sector to help reduce poverty in rural Nepal, the vision of the programme in achieving its objective rests on low income families acquiring the skills necessary to develop and sustain micro-enterprises. Likewise, the vision of the programme is to ensure that poor people have access to secure and easy financing and access to business development services.

On the onset of programme implementation, the vision of the programme was to provide enterprise development services to people living below the poverty in Nepal to incorporate poor people living from diverse cultures and social classes. However, as the programme gained maturity against the backdrop of political instability and conflict, people from indigenous and ethnic minority groups, and in particular very poor people became MEDEP's target groups of beneficiaries.

Rural life is difficult for both men and women but women in particular have a higher workload than their male counterparts and face various forms of discriminations based on social and cultural values. To address the gender imbalance with reference to women's access and ownership of resources, the

programme's vision has been to have women account for at least 70 % of the total beneficiaries.

And in the process of trying to support the country's poverty alleviation effort, the vision of the programme has been to promote micro-enterprises, which would use local resources and indigenous knowledge to help local people capitalise their local assets.

(d) Funding Sources

The UNDP in Nepal provided technical support and mobilized resources for the programme through its TRAC code fund during the first phase June 1998 - December 2003. A multiple number of international agencies have extended their support during the current second phase of the programme. Major resource contributors to Phase II of the programme are the Department for International Development (DFID) of UK government, Australian Agency for International Development (AUSAID) and New Zealand Agency for International Development (NZAID). Likewise, UNDP in Nepal has been supportive of the programme to cover overhead expenses until.

(e) Partners

Many government institutions and NGOs have been providing services necessary for micro-entrepreneurs and their enterprises such as skills, micro-credit and business development. However, the services provided by state institutions are either provided in isolation or independent of other services needed by micro-enterprises. Like for example, Micro Finance Institutions providing micro-credit to an entrepreneur does not ensure the success of an enterprise or the skills provided by a government department does not ensure that the skills gained will turn an individual into an entrepreneur. Similarly, the product or service of an entrepreneur does not necessarily mean they will be consumed in the market even though an NGO has helped an entrepreneur to

produce a product. To ensure that services needed to set up micro-enterprises, which are provided by state institutions, are coordinated, the Micro-Enterprise Development Programme has set up partnerships with local governments, state institutions and the private sector. Listed below are state institutions and private sector organisations that were or are currently partners in the programme.

- J District Development Committee (DDC) of 20 districts.
- J Agriculture Development Bank/Nepal (ADBN)
- J Cottage and Small Industries Development Board (CSIDB)
- J Federation of Nepalese Cottage and Small Industries (FNCSI)
- J Cottage and Small Industries Office (CSIO)
- J District Chamber of Commerce and Industries (DCCI)
- J Industrial Enterprise Development Institute (IEDI)
- J District Federations of Indigenous Nationalities and Dalits Organizations
Relevant line agencies such as District Forest Office (DFO), District Agriculture Development Office (DADO), District Livestock Service Office (DLSO), Women Development Office.
- J Business Development Services Providing Organisations (BDSPO)
- J MFI Partners - District wise breakdown

Cottage and Small Industries Development Board (CSIDB)

The CSIDB was established in 1982 with an aim to develop, expand and strengthen cottage and small industries in the country. With the main activity as providing skill development training, it has also been engaged in other promotional activities such as exhibition of CSI products, industry and industry sub-sector development study and so on. The CSIDB, at present, operates 50 different types of skill training programmes in about 48 districts of the country. While the services of CSIDB is concentrated in hills and mountain regions of the country, the Department of Cottage Small Industries (DCSI) provides skill development training services in 27 districts mainly located in the Terai region.

Federation of Nepalese Cottage and Small Industries (FNCSI)

The FNCSI was formed in 1990 with the aim of protecting and promoting the interest of cottage and small industries (CSI) entrepreneurs by providing various promotional and industrial extension services. Its main focussed areas are providing trainings, conducting seminars, symposiums and rendering consultancy services, information and business services and sale's promotion services. FNCSI has conducted various programmes on entrepreneurship development, management and technical skill for CSI entrepreneurs. At present, FNCSI has over 20,000 general members grouped under district committees in 60 districts and 13 institutional members.

Industrial Enterprise Development Institute (IEDI)

IEDI, a semi-autonomous body under the Ministry of Industry has developed out of the Small Business Promotion Project (SBPP), a joint project of HMG/N and the GTZ in 1984, with a view to promoting entrepreneurship and small businesses in the country. The SBPP project has developed several approaches towards introducing effective methods of micro, cottage and small industries development in the country. Few to mention are entrepreneurship development training, industrial potential study and research and technical advisory and consultancy services. With the development of IEDI, it has given a new dimension to improving the service delivery in the small enterprise sector based on the SBPP approach to enterprise development. The IEDI, in fact has gained the status of a national level institution in the field of entrepreneurship and management skill development.

(f) Strategies

The Micro-Enterprise Development Programme takes a longitudinal approach while promoting the development of micro-enterprises for the poor. The longitude approach means delivering a package of services needed by

entrepreneurs in a sequential order leading up to the establishment of sustainable enterprises operated and managed by the poor. Service providers in Nepal have in the past tried to address poverty by providing their assistance independently of other service providers. However, not correlating their services with other services, which are of paramount importance for the success of micro-enterprises; have resulted in micro-entrepreneurs being wedged from expansion and have been disorganized in terms of markets and management. The foundation of the enterprise development model promoted by MEDEP therefore based on the programme's strategic approach to inter-link and coordinate local resources, low-income people's interest in enterprise development and entrepreneur's access to local and national markets. The approach taken by the programme in Nepal in an innovative initiative and has opened up new debate in the development and private sector on the effectiveness of micro-enterprises to promote local economies, utilize natural resources, create economic and employment opportunities in partnership with the private sector.

Demand Driven Approach

The market-led, integrated approach taken by the Micro-Enterprise Development Programme to promote micro-enterprises is by all indications a stunning success. One striking fact is that due to the advance market surveys, the enterprises created thus far have no difficulty in marketing their products. This is in strong contrast with the common situation where donor assisted; production-oriented micro-entrepreneurs are unable to sell their products. Also important is the surprising sophistication of these new entrepreneurs regarding marketing strategies. Many are already actively diversifying their products and market outlets. This bodes well for the survival and expansions of the new enterprises in the future.

Demand-driven approach is central to the implementation strategy of the programme where all programme activities are embedded on the potential and needs of micro entrepreneurs and their markets. The starting point for all programme initiatives is thus based on the demand of the low income families (target group) to improve their sources of income and the demand of the market for their products.

The demand-driven strategy has, thus, two-pronged demand strategies, that is Interest and potential of the community to acquire the skills for enterprise development - the demand/needs of the target groups, market opportunity based on district potential - market demand, and resource potential including natural, financial, skills, etc.

Along the line of demand-driven strategy, the program has adopted the "Area Potential, Socio-economic and Market Survey" approach and "Selection of Programme Centers and Programme Locations". The selection of programme centers and locations focused on the spatial development approaches which is to say that following issues are considered:

Growth Corridor Approach

the alignment of road has encouraged corridor development concentrating population along the roadside. Concentration of population in these corridors has created demographic potential for developing micro-enterprises.

Rural Growth Centre Approach - rural growth centres encourage rural industrialization due to rural-urban linkages, demographic movements, and changes in the nature of demand and markets.

Resource Area Approach

Location varies in terms of the nature, quantity and quality of locally available natural and human resources.

Similarly, four main selection criteria are looked into while identifying programme locations which are as follows:

Resource Potential

Development potential of the micro enterprise sector is increased when the sector utilizes local resources not only in terms of employment but also in terms of mobilizing other inputs like raw material and dormant capital. Generally, rural regions export surplus agriculture and forest produce in raw form with little value addition, and import finished product. The development of micro enterprise tends to reverse the process benefiting rural regions. Therefore, the resource potential of the possible project area is assessed in terms of its agriculture, forest, mineral and human resources.

Level of Functions

Settlements of different sizes and functions help diffuse innovations, generate new economic activities and stimulate social changes. Economic efficiency increases with the increase of the urban population. If there are no urban places near to rural areas, certain articulated settlements, in general, offer urban functions to their hinterlands. Range of services and concentration of economic activities in a settlement show its level of specialization. As goods produced in one community are assembled at some local collection points for distributed to consumers through markets, spatial centrality of the selected rural centers need to be assessed in terms of the degree of presence of such functions for the development of micro enterprises.

Demographic Potentials

The size of population, and its consumption pattern and effective demand are keys to the success of micro-enterprises. The occupational caste groups having traditional skills in the rural areas are mostly engaged in the traditional off farm activities. The existing traditional skills of such groups and their concentrated

settlements in certain locations provide opportunities for micro enterprise development. Therefore, feasible centres are assessed in terms of population size and concentration of occupational cast groups.

Physical Integration

Better integration into the existing transportation system lowers the cost of production and facilitates the efficient movement of goods, services, information and technology. Therefore, the feasible centers are assessed in terms of their proximity to transport network and access to the next higher urban center. Programme intervention and entry are based on the thorough understanding and study of the resource potential, people's need and market demand for products and services. MEDEP intervention is focused on the intersection of these three broad areas as shown in the figure.

Service Delivery Mechanism

Many income generating programmes have been executed in Nepal. Some programmes have been credit-driven and rely exclusively on the provision of micro-credit. In this approach, credit provision works out on feasible projects. This approach assumes that credit is the most powerful stimulant of micro-enterprise creation and thus a very little attention is given to the subsequent technical assistance to the borrower.

Some programmes are training-driven. Even though training is a necessary condition to start a micro-enterprise, it is not sufficient to take-up micro-enterprise as a business. There ware needs of subsequent services on non-technical matters like financial management, access to raw materials and credit, and so forth.

Some programmes rely more on social mobilisation for the creation of micro-enterprise. However, they must be connected with the rural market system for income generation. From the lessons learned form different approaches of

micro-enterprise development, it has been proven in many parts of the developing world that market-led approach to micro-enterprise development combined with the sequenced delivery of an integrated package of training and services is the most effective way to create enterprises. However, it has not previously been widely applied in Nepal, and MEDEP is a pilot programme to test the applicability of this methodology in rural Nepal. MEDEP has adopted a well-integrated approach in sequencing a set of services in micro-enterprise creation. The Micro-Enterprise Development Programme has demonstrated that the approach works to create micro-enterprise. The sequencing of activities and services promoted as part of its strategy is as follows:

Sequencing of activities and services

-) Market analysis
-) Entrepreneurship training and entrepreneurial competency development
-) Skill training and technology transfer
-) Credit (if required)
-) Appropriate technology and product development
-) Quality control and compliance to rules and regulations
-) Market promotion and business counselling
-) Regular follow-up
-) Monitoring and Evaluation

The key features of the Micro-enterprise Development Programme in delivering its services are as follows.

-) **Community Mobilisation:** Community sensitization (information sharing - PRA), Target participant Selection, Group formation (potential entrepreneurs), Group promotion.
-) **Enterprise Creation Methodology:** The approach to micro-enterprise development is based on the needs of the market combined with the sequenced delivery of different components - community mobilization,

entrepreneurship development, skill training, micro-credit, appropriate technology and marketing linkages. In previous programmes, similar elements adopted were mainly piecemeal, fragmented and implemented in isolation. Entrepreneurship development, technology and business counselling were often not integrated. The net result was often ineffective and expensive.

- J) **Implementation point of Entry:** The programme's point of entry is focused on districts where the District Development Committees have already instituted a district planning and development process with the support of successful decentralization programmes. The DDCs, as the elected apex local bodies, have a compelling interest in ensuring that enterprise development support activities are continued within the jurisdiction and framework of the decentralization act of 1999.
- J) **Institutional Delivery Mechanism:** The programme has avoided creating new institutions but rather seeks to make maximum use of available national institutions, public and private, that already exist. The rationale in using existing institutions was to demonstrate that the district level partnership approach can be effective in utilizing existing institutional resources to deliver the components necessary for micro-enterprise development. The existing public and private sector district-level organizations, under the coordinated guidance of the DDCs, have today proved that the programme has been able to deliver the needed services to both new and existing micro-entrepreneurs. Participatory planning processes have been initiated in all districts to establish functional partnerships among implementing partner organizations and create synergistic effects for sustainable micro-enterprise development.

The programme was initiated in July 1998 and has completed two years and half years implementation in December 2000. This programme has been implemented under phase covering ten districts across Nepal.

The programme has been implemented in a phase-wise manner covering ten districts in the five development region of the Nepal.

1998 First Phase I – Nawalparasi, Nuwakot and Parbat

1999 Second Phase II – Dhanusha, Sunsari, Tehrathum and Baitadi

2000 Third Phase III – Pyuthan, Dang and Dadeldhura (MEDEP, Annual Report, 2000).

MEDEP whose main objective is to create off-farm employment and income opportunities for the rural communities in then districts, initiated based on the government's Ninth Five-Years Plan, which advocated promoting self-employment opportunities in the informal sector to reduce the level of poverty amongst those living below the poverty line by engaging them in the micro-enterprise sector. The programme was further expanded form 10 to 20 districts in the second phase, covering from 2004 to 2006 with support from the same funding source along with DFID and NZAID. This Phase II has built on the experiences and lessons of MEDEP Phase I.

Due to the success of this model in poverty reduction of the low-income families and based on the recommendations of Mid Term Evaluation Mission in 2006 the programme has further been extended for one year as no cost extension in 2007. In the mean time, Australian Aid for International Development (AusAID) also provided financial assistance to continue some of the programmes carried out by previous Nepal Australia Community Resource Management and Livelihoods Projects (additional one district). The AusAID support also covers Pine forest plantation management and other forest based enterprise development. Now the number of district has increased to 25 districts. Four new Terai district namely: Saptari, Siraha, Siraha, Sarlahi, and Kapilvastu

has been selected for development of micro-enterprise under Quick Impact and Community Based Peace Initiative Programme, which is being funded by UNDP.

The goal of MEDEP Phase II is to improve the socio-economic condition of the low-income families of Nepal. Similarly, the objective of the programme is to diversify the livelihoods and increase the average income by at least 50 percent of 23,340 low-income families through micro-enterprise development and employment generation.

Ministry of Industry, Commerce, and Supply (MOICS) is the main implementing agency where as Ministry of Forest and Soil Conservation (MOFC) is the co-implementing agency. In each district, District Enterprise Development Committee (DEDC), which is chaired by District Development Committee (DDC)-chair person and backed by other district level government and non-government organizations, takes care for the implementation of the programme at district level. Several other organizations at centre and district level are playing their respective roles.

CHAPTER III

RESEARCH METHODOLOGY

This chapter deals about the methodology employed by researcher, to obtain, relevant qualitative and quantitative data. Similarly, other methods of methodology techniques i.e. research design; data collection, interview, sampling etc. are used under the following topics.

3.1 Research Design

The study has followed explorative and descriptive research design. Data from the primary and secondary sources were collected. Primary data from the field study examined to observe current situation and measure their capacity in performing different functions, so as to meet the objectives of the research.

3.2 Nature and Sources of Data

In this study, both primary and secondary sources of data have been used. The primary data were collected from the field visit. The secondary data was collected from governmental and non-governmental (NGOs) sources and other relevant literature such as books, journal, articles, and dissertations.

3.3 Sampling Procedure

A random sample method has been adopted to conduct the household survey. From the 152 registered enterprises in the study area only 15 percent respondents are purposively selected for household survey. Similarly, 3 key persons have been purposively selected for key informant interviews.

3.4 Data Collection Techniques/instruments

The data for this study were generated from the following tools and techniques.

3.4.1 Household Survey

Households survey was conducted to obtain required data and a questionnaire is a formal list of questions designed to gather responses form entrepreneurs and other concerned people.

3.4.2 Observation

Participant observation of the researcher was key tool to find out the current situation of their enterprises. Observation was done to obtain the primary data about the condition of micro-enterprises in Birendranagar Municipality Surkhet. Thus the observation by hearing, seeing and feeling about the overall information of enterprises in this Municipality was clearly taken and observed from different aspects.

3.4.3 Key Informant Interview

Key informants, interview was conducted to obtain the relevant information about the condition of micro-enterprises in study area.

Key informants, interview was conducted by the checklist to those people applicable to literate and professionals, intellectual matured persons both involved and non-involved in the field of micro-enterprises. Three persons were selected as key informants and took detail interview and suggestions about different aspects on micro-enterprises.

3.4.4 Secondary Data Collection

Secondary data were collected from different sources like books, journals and other articles.

3.5 Data Processing and Data Analysis

3.5.1 Data Entry and Editing

The completed questionnaires were checked and coded before entering data into the software programme for the analysis.

3.5.2 Statistical Analysis

After cleaning and editing the data, descriptive statistics such as frequency, percentage, cross tabulation were utilized by using the Data Analysis Software like Microsoft Office.

3.6 Ethical Consideration

Firstly this study is a mini-research work, which is prepared for the partial fulfilment of the Master Degree course in Rural Development, and this study has not covered the whole condition of micro-enterprise. The respondents had right to accept or reject to be an interviewee for this study. Consent to participate was voluntary for all respondents. They were able to stop completing the questionnaire or during undergoing an interview at anytime without any obligation.

CHAPTER IV

ANALYSIS AND INTERPRETATION OF DATA

4.1 Study Site Description

Surkhet District lies in the Mid-Western Development Region of Nepal and spans over 2451 square km of area. It extends from 28°20' to 28°58' north latitude to 80°59' to 82°2' east longitude. The district comprises of fifty village development committees and one municipality.

Geographically, 84 percent of the area is covered by hills, and the valley plains cover 16 percent area. The altitude ranges from 192 meters to 2800 meters. The district has very diverse topography in terms of geomorphology, altitude and geological formations. Based on these, the district can be divided into three geographical areas, low hill area (Churia range), high hill areas (Mahabharata range) and valley plains. Sub tropical climate is found in lower altitude areas whereas warm temperate climate prevails in high altitude areas. Most of the settlements are confined to valley plains and lower foothills. Socio-cultural and economic environment of the district is the outcome of all these diverse geographic.

District profile Surkhet (2002) stated that, the total population of the district according to 2001 census is 288691, which comprises of 142886 males and 145805 female. Chhetri is the dominating ethnic group followed by Magar and Kaami. Nepali is the dominant language. Around 99 percent people are Hindus, and the rest are Buddhists and others. Subsistence agriculture is the major occupation of most of the people.

4.2 Economic Structure

According to the CBS (2001), agriculture is the main occupation, employing 54.57 percent of the total population are involved in agriculture and another 45.43 percent of the people are involved in non-agriculture. Majority people (54.38%) of this district are economically active among them 45.15 percent female and 63.92 percent male. Industrial and service sectors are growing in the market centre, there are many micro and small scale industries and service enterprises engaged in diverse activities. There are very few numbers of medium or large-scale industries in the district.

4.3 Infrastructure Facilities

Surkhet is developing district. There are motarable roads that link the other districts Banke, Dailekh, Achham, Kalikot, Salyan and Jajarkot. Most of the VDCs are accessible by motarable roads. On the other hand, there air link with hilly districts of Karnali, Nepal Airlines has two flights to surkhet in a week and Sita Air has three flights in a week from the Kathmandu. Electricity is available in Birendranagar and its neighbour VDCs. There are sufficient phone facilities, NTC and Spice Nepal has provided different phone services.

4.4 Land Resource and Land Use

According to district profile of Surkhet (2002), the total area of Surkhet is 2471 sq.km. Forest extends over 1640.54 sq. km. And covers the maximum area (66.37 percent) of the district. It is followed by cultivation area (463.68 sq. km.), which covers 18.76 percent.

Table 4.1: Land Resource and Land Use in Surkhet District

S.N.	Land Use Category	Area (Sq.Km)	Percent
1.	Forest	1640.540	66.37
2.	Cultivation	463.682	18.76
3.	Bush	236.133	9.55
4.	Grass land	59.942	2.42
5.	Sand	51.255	2.07
6.	Others	20.08	0.83
Total		2471.632	100

Source: District Profile, (2002).

4.5 Crops, Cropping Patterns and Crop Yield

The main crops grown in Surkhet are Paddy, Maize, Wheat, Millet, Potatoes, mustard etc. and cereals, fruits, vegetables are also produced in this district.

Table 4.2: Cropping Patterns and Crop Yield in Surkhet District

S.N.	Crops	Area (hec.)	Production (M. ton)
1.	Paddy	8600	22360
2.	Maize	16093	30577
3.	Wheat	6292	9800
4.	Millet	2515	2515
5.	Barley	193	212
6.	Potatoes	588	5890
Total		34281	71354

Source: District Profile, 2002.

4.6 Population

The total population of Birendranagar Municipality is 31381, among the total population male and female comprises 15890 and 15491 respectively. The age wise population of the Birendranagar Municipality is shown in the table.

Table 4.3: Distribution of Population by Age in Study Area

S.N.	Age in Years	Population		
		Male	Female	Total
1.	0-4	1832	1781	3613
2.	5-9	1973	1870	3843
3.	10-14	2004	1920	3924
4.	15-19	1830	1806	3636
5.	20-24	1682	1762	3444
6.	25-29	1339	1393	2732
7.	30-34	1207	1152	2359
8.	35-39	970	937	1907
9.	40-44	831	669	1500
10.	45-49	632	575	1207
11.	50-54	500	477	977
12.	55-59	374	344	718
13.	60-64	262	294	556
14.	65-69	203	207	410
15.	70-75	121	142	263
16.	75 over	130	162	292
Total		15890	15491	31381

Source: CBS, 2001

4.7 Castes and Ethnicity

Birendranagar Municipality has a very diverse population of various ethnic backgrounds. Brahmin and Chhetri dominate the Population of Birendranagar Municipality and followed by Magar, Kami, Thakuri, Damai, Sarki, Sanyasi and others etc.

Table 4.4: Caste/Ethnicity in Study Area

S.N.	Caste/Ethnic Group	Population	Percent
1.	Brahmin	7734	24.65
2.	Chhetri	6694	21.33
3.	Magar	4095	13.05
4.	Kami	1821	5.80
5.	Thakuri	1777	5.66
6.	Damai/Dholi	1500	4.78
7.	Sanyasi	1273	4.06
8.	Sonar	1162	3.70
9.	Sarki	1003	3.20
10.	Unidentified Dalit	976	3.11
11.	Gurung	829	2.64
12.	Newar	622	1.98
13.	Tharu	453	1.44
14.	Muslim	436	1.39
15.	Others	1006	3.21
Total		31381	100

Source: CBS, 2001

4.8 Education Status

Education is the backbone of development. It is an important factor for social and economic, transformation of a society. People as means of development require knowledge and skill for the production of goods and services. Definitely, education is a vehicle for radical change of the society. Literacy is a basic step towards the education, which is quite essential for development. It enables the person to improve the knowledge and skill necessary to conduct the daily life easily. Without education no one can expect overall development of the society. From the CBS (2001), there are 503 different level schools two TU affiliated Education and Multiple campus in Surkhet District. The literacy rate is 62.7 percent, among them 73.9 percent male and 51.7 percent female, which is higher than national literate rate. Population six years of age and over by literacy status and sex in Birendranagar is presented in the table below.

Table 4.5: Population by Literacy Status and Sex in Study Area

S.N.	Literacy Status	Male	Female	Total	Percent
1.	Cannot Read & Write	1727	4356	6083	22.70
2.	Can Read Only	587	722	1309	4.89
3.	Read & Write	11152	8153	19305	72.06
4.	No Stated	48	46	94	0.35
Total		13514	13277	26791	100

Source: CBS, 2001

From the above table, the 22.70 percent of people of Birendranagar Municipality still cannot read and write and 4.89 percent people can read only. The majority of the people, which covers 72.06 percent can read and write. And other 0.35 percent of the people did not stated their literacy status.

4.9 Economic Activity

Economic activities are the major sources of income. Economic activities increase the income of a person as well as contribute in GDP of national economy. On the other hand, economic activities create the environment of entrepreneurship, which is important to economic development of the certain places. Development of economic activity of a certain places depends on the activeness of the people. There may be more probability of development of economic activities where people are economically active. Population ten years of age and over by usually economic activities in Birendranagar Municipality is presented in the table below.

Table 4.6: Population by Economically Active in Study Area

S.N.	Status	Male	Female	Total	Percent
1.	Economically Active	7918	5209	13127	55.24
2.	Economically Inactive	4056	6582	10638	44.76
Total		11974	11791	23765	100

Source: CBS, 2001.

According to the above table, 55.24 percent of the total people in Birendranagar Municipality are economically active, which is majority of the people. On the other hand, 44.76 percent of the people are still economically inactive, which is not good for the economic development of the nation. There are close differences between male and female in the field of economically active and inactive.

4.10 Employment Status

Employment is the major issues in the country. Economic activities promote the entrepreneurships, which creates the employment. The employment status in the Birendranagar Municipality, usually economically active population ten years of age and over are given in the table below.

Table 4.7: Population by Employment Status in Study Area

S.N.	Sex	Employer	Employee	Self Employee	Unpaid Family Workers	Total
1.	Male	213	4034	2442	475	7164
2.	Female	73	969	2079	1296	4417
3.	Total	286	5003	4521	1771	11581

Source: CBS, 2001

Fig 4.1 Employment Status



From the above table, most of the people works as a employee, large number of women works as unpaid family workers. Women work as self-employee, which is quiet satisfied, apart from that there are very small numbers of entrepreneurs in Birendranagar Surkhet among them women are very marginalized as an entrepreneur.

4.11 Micro and small enterprises Registered in Surkhet District from 2003 to 2008

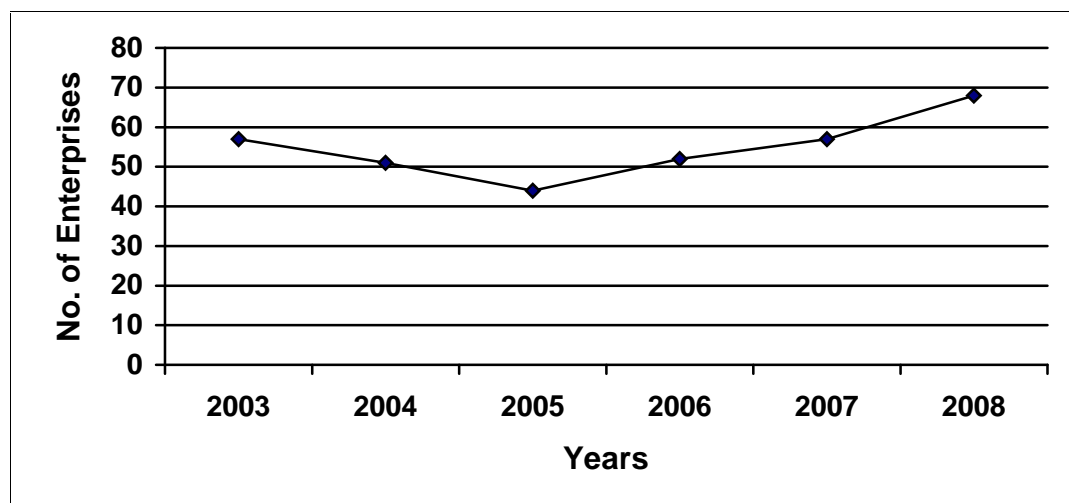
The 936 micro, cottage and small industries are registered in the Department of Micro, Cottage and Small Enterprise in Surkhet District till the date. The last ten years are the worst period for the industries sectors due to the conflict between the government and Maoist. Even though, the micro and small enterprises registered in surkhet district in few numbers. The numbers of enterprises registered at that period are given in the table below.

Table 4.8: Enterprises Registered in Surkhet district from 2001 to 2008

Year	2003	2004	2005	2006	2007	2008	Total
Enterprises	57	51	44	52	57	68	329

Source: Industrial Promotion Report, 2064

Figure 4.2 Enterprises Registered in Surkhet district from 2001 to 2008



4.12 Types of Micro-enterprises Registered in Surkhet

Table below presents the different micro-enterprises registered with the District Cottage and Small Industries Development Committee till the date 2063/64. It shows that micro-enterprises are non-homogeneous and involved in diverse products.

Table 4.9: Types of Cottage & Small Industries in Surkhet

S.N.	Enterprise	Numbers	Percent
1.	Production based	355	37.93
2.	Energy	1	0.11
3.	Agriculture & Wildlife	65	6.94
4.	Tourism	0	0.00
5.	Mineral	2	0.21
6.	Service	513	54.81
7.	Construction	0	0.00
Total		936	100

Source: Industrial Promotion Report, 2064

4.13 Sex Distribution of Entrepreneurs

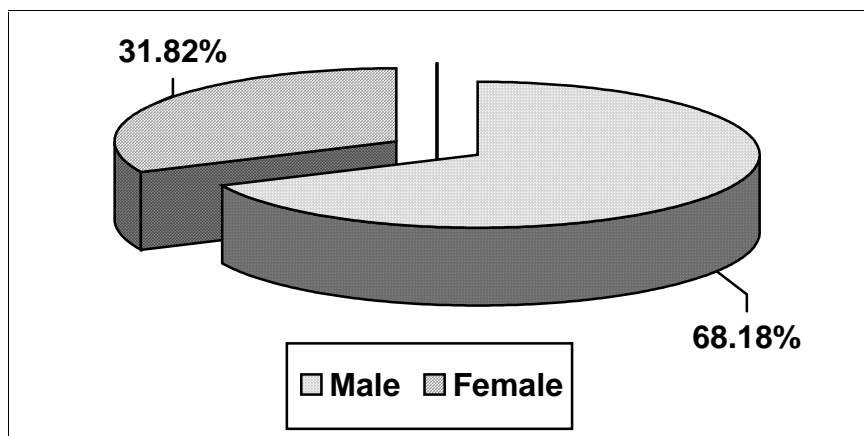
Gender is main debating issues in the recent years. In the context of the Nepal gender mainstreaming is a major problem. We have observed the sex distribution in the previous table; among the total population half of them are women in the study area. The sex distribution of the entrepreneurs, which is found by the researcher in the study area, is tabulated in the following table.

Table 4.10: Sex Distribution of Entrepreneurs

S.N.	Sex	No of Enterprises	Percent
1.	Male	15	68.18
2.	Female	7	31.82
Total		22	100

Source: Field Report, 2008

Figure 4.3: Six Distributions of Entrepreneurs



The table shows that out of the total 22 respondents, 15 respondents were male and rest of 7 were female. Male are actively participated in most of the enterprises. Female are almost absent in Bee farming, furniture work and male are very few involved in tailoring and *Achar udog*.

4.14 Age of the Respondents

The Entrepreneurs started their business in different ages, to find out the their age at starting the business, the researcher inquired the respondents which is tabulated in the following table.

Table 4.11: Age Distribution of Entrepreneurs

S.N.	Age of Respondent	No of Respondents	Percent
1.	10-20	0	0.00
2.	21-30	4	18.18
3.	31-40	7	31.82
4.	41-50	7	31.82
5.	51-60	3	13.64
6.	60+	1	4.54
Total		22	100

Source: Field Survey, 2008

According to the table above, 31.82 and 31.82 percent of the entrepreneurs from the age groups 30 to 40 and 40-50 respectively which is the majority of the entrepreneurs. From the table, there are no entrepreneurs in the age group 10 to 20 from the selected respondents in the study area. 18.18 percent of the respondents are in the age group 20 to 30, while 13.64 and 4.54 percent are in the age group 50 to 60 and 60 above respectively.

4.15 Caste and Ethnicity of Respondents

The researcher found that the different caste and ethnicity are involved in the different types of micro-enterprises, from the selected respondents; the caste and ethnicity are given in the table below.

Table 4.12: Caste and Ethnicity Distribution of Entrepreneurs

S.N.	Caste Group	No. of Respondents	Percent
1.	Brahmin	4	18.19
2.	Chhetri	6	27.27
3.	Magar	2	9.09
4.	Newar	2	9.09
5.	Kami	2	9.09
6.	Others	6	27.27
Total		22	100

Source: Field Report, 2008

The table shows that 27.27 percent of the entrepreneurs are Chhetri and followed by Brahmin by 18.19 percent in the study area, where the Magar, Newar and Kami are 9.09 percent each respectively. There are few entrepreneurs in the study area, they are Gurung, Muslim, Bhote and other, and those who did not stated their caste.

4.16 Educational Status of the Respondents

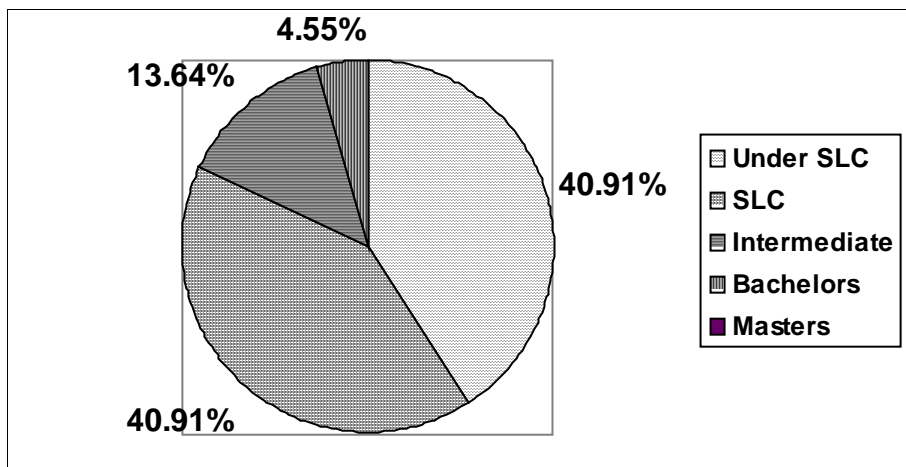
Education plays crucial role to become a good entrepreneurs because it helps to boost ones knowledge, skill and capacity. The education status of the respondents that is inquired by the researcher is given in the table.

Table 4.13: Educational Status of the Respondents

S.N.	Education	Male	Female	Total	Percent
1.	Under SLC	6	3	9	40.91
2.	SLC	7	2	9	40.91
3.	Intermediate	2	1	3	13.64
4.	Bachelor	1	0	1	4.54
5.	Master	0	0	0	0.00
Total		16	6	22	100

Source: Field Survey, 2008

Figure 4.4: Educational Status of Respondents



From the above table and figure, most of the entrepreneurs are just literate. 40.91 percent of the entrepreneurs are literate and same numbers of the entrepreneurs are just passed SLC. On the other hand 13.64 percent of the entrepreneurs are passed intermediate, 4.55 percent of the entrepreneurs have passed Bachelors Degree and no one has passed Masters Degree from the selected respondents in the study area.

4.17 Distribution of Respondents by Types of Enterprises

The researcher has randomly selected different entrepreneurs for household survey and key informant interview in the selected area. During the research following enterprises are observed and interviewed the related entrepreneurs.

4.14 Distribution of Respondents by Types of Enterprises

S.N.	Enterprises	No of Enterprises	Percent
1.	Dairy	3	13.64
2.	Bee Farming	2	9.09
3.	Handicrafts	2	9.09
4.	Wood work	2	9.09
5.	Chocolate	1	4.54
6.	Hand Paper	1	4.54
7.	Allo Product	1	4.54
8.	Poultry Farming	3	13.64
9.	Tailoring	2	9.09
10.	Sirf Udog	1	4.54
11.	Achar Udog	1	4.54
12.	Bio-Brigade	1	4.54
13.	Spices Udog	1	4.54
14.	Others	1	4.54
Total		22	99.96

Source: Field Survey, 2008

From the above table, the researcher has taken the fourteen different types of entrepreneurs for the study. Among them three dairy udog, Poultry Farming and two of each Bee farming, handicraft, woodwork, tailoring were taken and other single enterprises were taken.

4.18 Per month Income Generated by Micro-enterprises

Micro-enterprises help to reduce poverty by generating employments and increase income level of poor people in the rural Nepal. Enterprise, which utilised local resources and fulfilled the local peoples' demand can help to uplift the economic status of the local people. Per month income generated by the micro-enterprise in the study area is shown in the table below.

Table 4.15 Per month Income Generated by Micro-enterprises

S.N.	Income in Rs. (000)	Entrepreneurs	Percent
1.	0-10	6	27.27
2.	11-20	8	36.36
3.	21-30	5	22.73
4.	31-40	3	13.64
5.	40+	0	0.00
Total		22	100

Source: Field Survey, 2008

According to the above table, 27.27 percent of the entrepreneurs have the income level up to ten thousands. 36.36 percent can earn up to twenty thousands similarly 22.73 and 13.64 percent of the entrepreneurs can earn up to forty thousands and forty thousands above respectively. From the table most of the entrepreneurs can earn up to twenty thousands per month from their business.

4.19 Initial Financial Sources of Enterprises

Finance is the one of the essential source to start enterprise. In the study area, the researcher has found that the entrepreneurs have operated their enterprises from the different financial sources, which is tabulated in the following table.

Table 4.16: Initial Financial Sources of Enterprises

S.N.	Sources	No of Enterprise	Percent
1.	Self Invest	13	59.09
2.	Loan	8	36.36
3.	Others	1	4.55
Total		22	100

Source: Field Survey, 2008

From the above table, 59.09 percent of the entrepreneurs have started their enterprises with self invest. 36.36 percent of the entrepreneurs have started their enterprises by taken loan with different institutions. During the research, the researcher has found that the entrepreneurs have taken loan from agriculture bank and co-operatives. On the other hand, only single entrepreneur has encouraged by local community forest to start bio-briquette in the research area.

4.20 Constraint Faced by Entrepreneurs

The researcher has found different types of problems of entrepreneurs in the study area, which is presented in the following table below:

Table 4.17: Constraints Faced by Entrepreneurs

S.N.	Constraints	No of Entrepreneurs	Percent
1.	Finance	6	27.27
2.	Market	4	18.18
3.	Technology/Infrastructure	4	18.18
4.	Raw Materials	2	9.09
5.	Logistic Support/Training	3	13.64
6.	Others	3	13.64
Total		22	100

Source: Field Survey, 2008

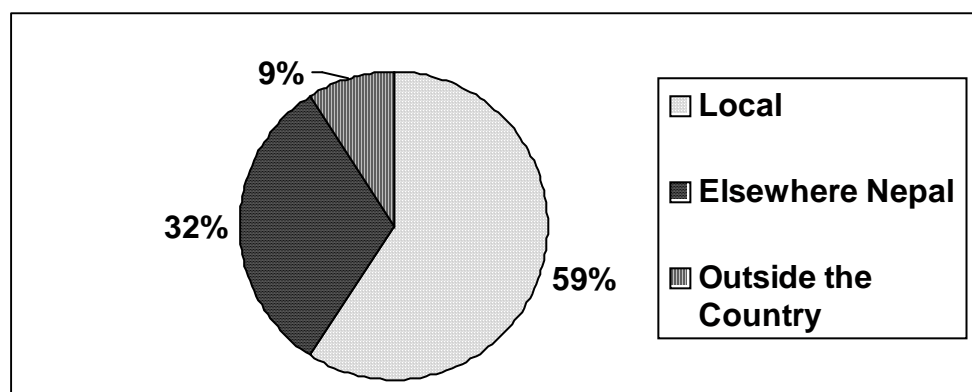
From the above table, most of the entrepreneurs (27.27) were faced financial problems. 18.18 percent of the entrepreneurs are afraid of instable market; they

are unable to sell their handmade products. On the other hand, 18.18 percent of the entrepreneurs demand for the technology and other infrastructure to conduct properly their enterprise. Specially, *Allo* products have very high potential but they can sell its refine threads only. 9.09 percent entrepreneurs faced raw materials in the study area, among the 4 hand paper *udog* only one is survive due to the raw materials insufficient. And other 13.64 percent of the entrepreneurs have faced other skilled labours.

4.21 Proximity of the Raw Materials

From the chart below, most of the micro-enterprises utilise local resources from the research 59 percent of the enterprises uses local raw materials, 32 percent enterprises uses raw materials from other parts of the country and only few enterprises import from the neighbour country.

Figure 4.5: Proximity of the raw materials



Source: **Field Survey, 2008**

CHAPTER V

FINDINGS AND DISCUSSION

Based on the analysis of survey data, informal discussion with entrepreneurs and participant observation of the researcher at different enterprises, some major findings are revealed and discussions have been made.

According to the Department of Cottage and Small Industry Surkhet, there are 936 micro, cottage and small industries are registered in the surkhet district till the date. The last ten years were the worst period of the industrial sectors due to the conflict between government and Maoist. Around 152 different kinds of micro, cottage and small enterprises were registered from 2003 to 2008 to operate in the Birendranagar Municipality.

Researcher has surveyed twenty-two entrepreneurs and observed other non-formal and formal types of micro-enterprises in the study area. Most of the enterprises were closed within two and three years facing different problems. Very few of them are surviving till today. Rural vendors sell brooms, bamboo products, rope, mat, stool and *allo* products, which fulfil small market demand, these type of business are mostly seasonal.

On the other hand, more than 50 percent of the enterprises are service oriented like tailoring, shoe making, repairing and other etc. *Allo*, *handi* craft are facing market problems, large numbers of urban products making serious threat to those typically local products.

Most of the entrepreneurs are working on subsistence level, 59.09 percent of entrepreneurs have started their enterprise with self-investment. The researcher has found that most of entrepreneurs have low educational qualification. Most of them are under SLC and SLC passed. From the research educated personals are not engaging in this sectors.

On the other hand, youths are also not interested in the field of micro-enterprises, from the study; most of the entrepreneurs are from the age group 30 to 50.

Owner of most enterprises are male, from the study area 68.18 percent enterprises and 31.82 percent enterprises are handled by male and female respectively.

Micro-enterprises are playing crucial role in increasing income level of the people, 64 percent of the entrepreneurs are earning up to 20 thousands per month in the study area. But the researcher has found that they don't have any clear database of their income and expenditure ledger.

Micro-enterprises are facing different types problems in the study area. 27.27 percent of the existing enterprises are facing financial problems. 18.18 percent of the enterprises of the study are facing market problems, and inadequate technology, unskilled manpower, raw materials are the major problems of the enterprises in the study area. Majority of the enterprises (59%) uses the local raw materials, which is significant for the local development.

Majority of entrepreneurs and other related personals in this survey have focused on the need of secured market, development of infrastructure, finance support on new technology, administrative/managerial guidance and other entrepreneurship training and counselling.

Micro-enterprises in study area are mostly based on locally available raw materials and they sell their products in the local market.

Government has given special attention to initiate micro-enterprises from 9th plan. In the three years Interim Plan, the government has clear strategies and policies to promote micro-enterprises. Government is planning to create more than one lakhs jobs from micro, cottage and small industry and plan to involve marginalized and socially dejected groups. "Be Entrepreneurs, Reduce youth unemployment" and "One village One production" is the main slogans of government for employment growth.

The researcher has found following weakness of the existing entrepreneurs and their enterprises:

-) Inadequate entrepreneurship and management skills/capacity of entrepreneurs.
-) Subsistence type of enterprise
-) Inadequate appropriate technology
-) Unskilled manpower
-) Inadequate capital
-) Trade oriented
-) Market instability
-) Seasonal Business
-) Small number of youths and educated personals' involvement
-) Government negligence
-) Inadequate network and coordination among entrepreneurs.
-) Growing threats from urban products.

CHAPTER VI

CONCLUSION AND RECOMMENDATIONS

6.1 Conclusion

The promotion of micro-enterprises in Nepal is essential for rural development. Micro-enterprises create off farm income and employment opportunities in rural Nepal, such enterprises are considered more important for the country like Nepal because of its geographical condition, small size of market, such kind of enterprises are suitable because they utilize locally available resources, local technology, create employment, mobilize domestic capital so such enterprises are the most suitable means of economic development of the least development countries like Nepal.

Poverty is a major challenge of the developing country, where the micro-enterprise could be the milestone of the poverty reduction programme. Micro-enterprises have greater potential in the study area for available agro and forest based resources, small market size, semi skilled manpower, small capital, and underdeveloped technology.

On the other hand, micro-enterprises play a crucial role in the rural-urban linkage, which is important for both rural and urban prosperity.

Micro-enterprises utilize locally available resources with local skilled targeting the local market demand, which helps to preserve local culture and social values and promotes localization. Micro-enterprises produce entrepreneurs as well as help to create an environment for big industry, so to escape from the rural poverty, top priority should be assigned in the micro-enterprise.

6.2 Recommendation

In recognitions of the importance of the role of micro-enterprises, the government through its relevant agencies and NGOs/INGOs should bring promotional programmes.

Training is a major area for assistance wherever its need is felt for the micro-entrepreneurs. Both vocational and management training are necessary such as administrative, managerial, skill development etc.

Department of Cottage and Small Industry Surkhet conducts training in different subjects of micro-enterprises but the impact is not very positive so the government should regularly conduct follow up and counselling support programme to trained entrepreneurs.

Finance is a vital aspect for the micro-enterprises. Most of the entrepreneurs have faced financial problem to upgrade new technology and their business so credit programmes should be launched and made easy access of credit to entrepreneurs.

Market is most important for producer's product and service so product should be market oriented. Market should be secured for their product. On the other hand, new market centre should be developed around the study area and tax-free *haat bazaar* should be operate in Birendranagar.

To maintain Social and ecological harmony for the sustainable development, cultivation of *Kurilo, Allo, Amriso, bomboo* etc could be better.

Entrepreneurial Motivation programmes should be launched from radio broadcast, magazine and other programmes. Governments/NGOs make efforts for quality products and sustainability of the enterprises.

REFERENCES

- Thapa, A. (2007), *Micro-Enterprises and Household Income: A Case Study of Parbat District*, The Journal of Nepalese Business Studies, Vol IV, No 1 (2007), Faculty of Management Prithvi Narayan Campus, TU, Pokhara.
- Central Bureau of Statistics (2003), *The Population Census 2001*. Kathmandu: Central Bureau of Statistics, National Planning Commission Secretariat.
- (2007), *Statistical Year Book of Nepal*. Kathmandu: Central Bureau of Statistics, National Planning Commission Secretariat.
- (2008), *Four-Monthly Statistical Bulletin*. Kathmandu: Central Bureau of Statistics.
- (2004), *Nepal Living Standards Survey 2003/04*, Kathmandu: Central Bureau of Statistics.
- DDC (2002), *Resource, Development and Profile Maps*. District Development Committee (DDC) Birendranagar, Surkhet District, Nepal.
- DC, L.K. (2007), *Micro-enterprise Development Programme as a Poverty Alleviation Programme*, A Case Study of MEDEP in Hapur VDC of Dang District, An Unpublished MA Dissertation of Central Department of Rural Development, Kathmandu,
- Department of Cottage and Small Industry (2008), *Industrial Promotion Bureau*, Government of Nepal Industry, Commerce and Supply, Department of Small and Cottage Industry, Tripureshwor, Kathmandu.
- Economic Survey, (2003), Ministry of Finance: Kathmandu, Government of Nepal.
- (2007), Ministry of Finance: Kathmandu, Government of Nepal.
- FNCSI (2008), *Federation of Nepal Cottage and Small Industries 2008 Official Bulletin*, Chabahil, Kathmandu, Nepal.
- Harper, M. (1984), *Small Business in the Third World*, Guidelines for Practical assistance London: Intermediate Technology Publications.

Industrial Act, 2049 and Industrial Enterprises Act, 2057

Kharel, K.R. (2005), *Current Status, Opportunities and Challenges of Cottage and Small Scale Industries*, The Economic Journal of Nepal, vol. 28, No.4. p. 239-255): Central Department of Economics.

Maskey, B.K. (1999), *Small and Medium Enterprises Promotion, Through Local Capacity Building*, Center for Development and Governance, Kathmandu, Nepal.

----- (2001), *Small and Medium Enterprises Development in Nepal*, Proceedings of National Conference and Federations of Nepalese, Chamber of Commerce and Industry, Kathmandu.

Ministry of Industry, Commerce and Supplies (2008), *Micro-Enterprise Policy 2064*, Ministry of Industry, Commerce and Supplies, Singh Durbar, Kathmandu.

MEDEP, (2000), Annual Report, 2000

MEDEP, (2001) Annual Report, 2001

National Planning Commission, (1997), *9th Five Year Plan 1997-2002*, Kathmandu.

----- (2003), *10th Five Year Plan 2003-2007*, Government of Nepal, Singhdurbar, Kathmandu.

----- (2007), *Three Year Interim Plan 2007/08-2009/10*, Government of Nepal, NPC, Singhdurbar, Kathmandu.

Nepal, Usha (2004) *An Overview of Micro-enterprises in Nepa*, Eastern University School of Leadership and Development Micro-finance Institute 2004.

Pradhan, P.K. (2003). *Manual for Urban Rural Linkages and Rural Development Analysis*, New Hira Books Enterprises, Kirtipur Kathmandu

Rijal N. (2007), *Role of Micro-enterprise in Development*, A Case Study of Carpentry & Tailoring of Bhaktapur District, An Unpublished MA Dissertation of Central Department of Rural Development, Kathmandu.

Shrestha, C.L. (2008), *Allo Based Micro-enterprises for Self-employment: A Case Study of Bala AND Sisuwakhola VDCs of Sankhuwasabha District, Nepalese Journal of Development and Rural Studies*, Vol 5, No 2 (Jul-Dec, 2008), Central Department of Rural Development.

Vendenberg, P. (2006), *Poverty Reduction Through Micro-enterprise, Small Enterprise*, Development Programme, Job Creation and Enterprise Development Department, International Labour Office, Geneva.

<http://www.medep.org.np>

<http://www.undp.org>

<http://www.en.wikipedia.org/wiki/micro-enterprse>

<http://www.oecd.org/dataoecd/2/40>

<http://www.webapps01.un.org/nvp/frontend!plicity.action?id>

<http://www.nespecudp.org.np>

<http://www.usaid.gov>

<http://www.nepal.usembassy.gov/sp>

APPENDIX I

Questionnaire

Date:.....

Ward no.....

Village/Municipality.....

VDC.....

District.....

Zone.....

1. Name of the Respondent.....

i) Age.....

ii) Sex.....

iii) Occupation.....

iv) Marital Status.....

v) Family Size.....

vi) Religion.....

vii) Education.....

2. Family Profile:

S.N	Name	Age	Sex	Education	Occupation	Marital Status	RwFH
1							
2							
3							
4							
5							

3. What is your religion?

i) Hindu ii) Buddha iii) Muslim iv) Christian v) Others

4. How much land do you have?

i) Landless ii) less than one Bigha iii) 1-2 Bigha iv) 3 Bigha above

5. What and how many livestock do you have?

Description	Number	Description	Number
Buffalos		Goat	
Cows		Chicken	
Ox		Ducks	
Sheep		Others	

6. What is your land holding size and annual production?

S.N.	Crops	Land Size	Production/yr
1.			
2.			
3.			
4.			
5.			

7. Types of Enterprises

- a) Formal b) Informal

8. Types of ownership

- a) Single b) Family c) Other, Specify.....

9. When do you start this business?

.....

10. How did you invest in first?

.....

11. What are the initial sources of financing your business?

- a) Self Invest b) Loan c) Other, Specify

12. What are the per month expenditure and income of your enterprises?

.....

13. Do you involve another business except this enterprise?

- a) Yes b) No

If Yes, Specify

14. Proximity of location to either raw materials or market

.....

15. How do you manage your labour?

- a) Family b) Hired c) Other, Specify

16. What types and Number of labour do you have?

- a) Skilled b) Unskilled c) Other.....

17 Do you pay tax?

- a) Yes b) No

18. Who inspired you to operate micro-enterprise?
 a) Friend b) Family c) Other, Specify.....
19. Where do you manage your raw materials?
 a) Local b) Elsewhere Nepal c) Outside the country
20. Where do you sell your products?
 a) Local Market b) Elsewhere Nepal c) Other, Specify.....
21. Have you taken any type of training?
 a) Yes b) No
 If Yes, Specify
22. What types of Problems do you face in this sector?
 a) Raw materials b) Market c) Credit d) Others, Specify
23. What are your recommendations for improvement in this sector?

24. Any Suggestion that you have?

APPENDIX II PHOTO GALLERY



Allo thread in Deepak *Allo* refine Centre, Surkhet



A glance of Pande Bee Farming in Surkhet



A worker Preparing Hand Paper in Surkhet



Rural Products on Sale in Surkhet