

STRENGTHENING COMMUNITY-BASED ENTREPRENEURSHIP

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ABSTRACT

Community based entrepreneurship development program have the potential to provide local entrepreneurs the required skills and network to grow their businesses. The Nepali government, various civil society actors, and donor agencies have many programs that focus on commercializing agriculture and providing training for local entrepreneurs. Such programs, though, cannot be stand-alone programs and must be integrated with local communities in order to be sustainable. The report examines possible business models for community-based entrepreneurship development programs, and recommendations based on the analysis of Naya Ghar and its pilot program in Tansen, Palpa.

NOTES

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1. INTRODUCTION

Community based entrepreneurship development program¹ have the potential to provide local entrepreneurs the required skills and network to grow their businesses. The Nepali government, various civil society actors, and donor agencies have many programs that focus on commercializing agriculture and providing training for local entrepreneurs. Such programs, though, cannot be stand-alone programs and must be integrated with local communities in order to be sustainable. If said programs are to sustain, they must utilize existing networks and mechanisms of collective effort.

This report stems from my participation in the Dayitwa public service fellowship that has allowed me to collaborate with Hon. Som Prasad Pandey, Nepal Constituent Assembly (CA) member from Palpa-2. Additionally, Daayitwa Foundation, which organized the Dayitwa fellowship, also works on this very issue of community-based entrepreneurship development under another program, Naya Ghar. Much of the content in the following report, possible business models for community-based entrepreneurship development programs, and recommendations follow my analysis of Naya Ghar and its pilot program in Tansen, Palpa.

The recommendations in this report are based on field visits to Palpa, where I interacted with entrepreneurs and local partners of Naya Ghar's entrepreneurship competition. Data were collected from local government offices, desk research, and conversations with individuals who work in entrepreneurship and local development. The views expressed in the report are my own.

¹ In the following report, entrepreneurship development programs/ enterprise facilitation programs, etc. are used interchangeably.

2. BACKGROUND

2.1. PALPA

Palpa district lies in the Western Development Region of Nepal, in the lower Chure hills. It has a rich history, having been ruled for almost 300 years by the Sen dynasty. It was one of the biggest and most powerful of the Chaubisi states and was a linked with the major trade hub of Butwal.

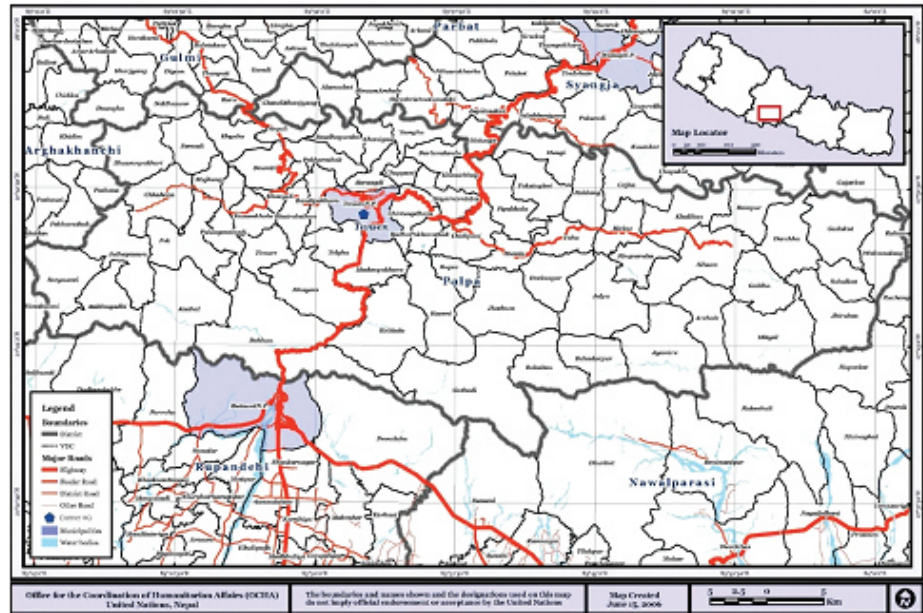


Figure 1: Palpa map (UN OCHA, 2006)

The district covers an area of 1366 sq kilometers and varies from 152 to 1996 meters (Palpa DDC, 2013), while the headquarter and the biggest market, Tansen, sits at 1372 meters. Year wide temperature ranges from 4 °C to 32 °C. Average rainfall in the district is 1903 mm (ibid).

Palpa has a tropical climate that supports diverse agriculture. People in Palpa are engaged in vegetable and fruit production, dairy farming, bee and silk-worm keeping, and mango grafting. The district also has many community forests and amreso, cinnamon, and ginger are exported internationally. Villages of Mandapokhara, Rampu, Argali and Chherlung even attract many agricultural tourists (ibid).

3. ENTREPRENEURSHIP DEVELOPMENT PROGRAMS AND NAYA GHAR

Entrepreneurship development programs provide useful services to an entrepreneur. Such programs try to simulate the services provided by a venture capital firm.² The program organizers provide services such as mentoring, consulting, networking, financing, etc. that an entrepreneur may need at a growing stage of their business. Many programs in Nepal, today, also focus on providing skills training and motivation exercises to entrepreneurs.

Nepalko Yuwa’s pilot program in Palpa, called Naya Ghar, is also looking to do something similar like other entrepreneurship development programs. Naya Ghar’s current efforts seeks to create entrepreneurship facilitators by partnering with a local NGO. Currently, it partners with a recently formed NGO in Palpa called Innovation Action Palpa (IAP). It is Naya Ghar’s goal to train IAP members to become entrepreneurship facilitators, and also help them set up an ‘innovation lab’³ in Palpa. Naya Ghar is currently undertaking an ‘Innovation Challenge’⁴ to launch its pilot program.

There are many programs in Nepal that deal with enterprise facilitation, agriculture commercialization, and local development. The complete institutional landscape for those working in enterprise (agribusiness) facilitation is included in a recent World Bank study (World Bank, 2013). My report does not mimic already completed work, and instead includes a gap matrix to summarize the World Bank’s findings (Annex 1).

3. 1. CURRENT MODELS OF ENTREPRENEURSHIP DEVELOPMENT PROGRAMS

Many enterprise facilitation programs have the following model (Figure 3). They target individual entrepreneurs, as they should, but then bunch them together to achieve cost effectiveness from the services they provide. Again, this is what Naya Ghar is also looking to promote with the help of IAP.

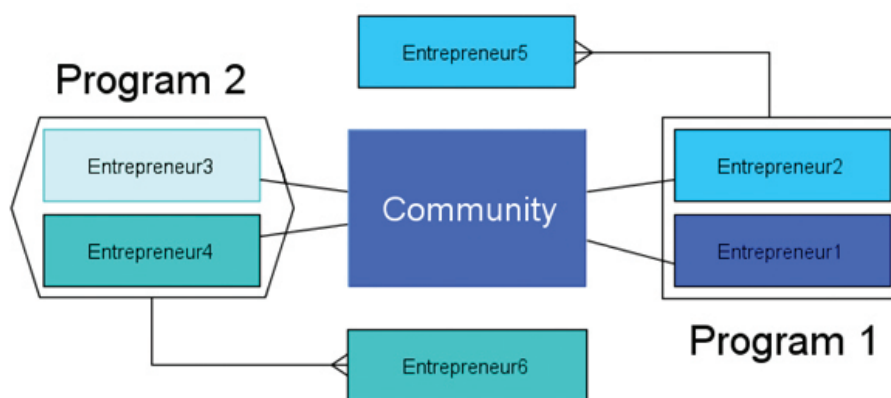


Figure 2: Current model for enterprise facilitation

² What are the services provided by a traditional venture capital firm?

³ What is an innovation lab?

⁴ What is the Innovation Challenge?

Moreover, because most programs are either donor projects or government sponsored, they provide service as or through not-for-profit institutions and social enterprises. Theoretically, social enterprises, such as IAP, may be able to have flexible financial structures, but Nepal's laws prohibits investment in not-for-profit institutions, and bar them from having any equity structure. Table 1 illustrates the flexibility that social enterprises may have, in theory, depending on how they are set up:

Continuum of options for social enterprises

| | Purely Philanthropic | Hybrids | Purely Commercial |
|--|------------------------|--|--------------------------|
| General Motives, Methods, and goals | Appeal to goodwill | Mixed Motives | Appeal to self-interest |
| | Mission driven | Balance of mission and market | Market driven |
| | Social value creation | Social and economic value | Economic value creation |
| Key Stakeholders | | | |
| Beneficiaries | Pay nothing | Subsidized rates and/or mix of full payers and those who pay nothing | Pay full market rates |
| Capital | Donations and grants | Below-market capital and/or mix of full payers and those who pay nothing | Market rate capital |
| Workforce | Volunteers | Below-market wages and/or mix of volunteers and fully paid staff | Market rate compensation |
| Suppliers | Make in-kind donations | Special discounts and/or mix of in-kind and full price | Charge market prices |

Table 1: The social enterprise spectrum (Dees et al., 2001)

3. 2. POSSIBLE SOURCES FOR FINANCING

If the enterprise facilitation program is set up as a social enterprise, there are quite a number of ways to finance it. Especially in Nepal, where a lot of domestic and international interest is towards incubating entrepreneurs, an organization can find enough resources if it thinks creatively. Following are possible sources of financing (Dees et al., 2001; Elkington & Hartigan, 2013):

Will and personal commitment

It is essential for social enterprises to have volunteers. An enterprise facilitation program may ask its salaried employees to contribute some volunteer time as work. Civil society entrepreneurship projects, even Naya Ghar's local partner, IAP, asks its members to volunteer. The enterprise may even have volunteers from the community, those it is aiming to serve.

Start-up capital from friends/family and self

To cover start-up expenses, social entrepreneurs may have to dip into their own pockets, or their relatives. Doing so may also add credibility to the social enterprise and its entrepreneur's resolve.

Public fundraising

Public fundraising may be easier for those with established networks and a panache for online social networks. However, funding for entrepreneurship development programs should come from the community whom it is looking to serve. Private companies and BFIs may be seeking appropriate areas to contribute their CSR funds.

Foundations and Angels

If the social enterprise's actions and goals resonates with foundations and individuals

doing similar work, foundations and individual angels may become a reliable source of finance.

Government grants

The government may also provide the social enterprise with direct grants. These are, however, limited to certain countries. Social enterprises in Nepal are unlikely to get government grants.

Sales and Fees

The social enterprise may charge a fee for the services it provides. If it has other products, the enterprise may also earn income through sales. In Nepal, getting local communities to value the work of the social enterprise and get them to pay for it is a long process. There are many entrepreneurship development service providers, thus, getting individuals to pay for the services is difficult.

Franchising

The social enterprise's successful model may be sold to other enterprises looking to emulate. The franchisor may charge the franchisee for training, management, etc. In some entrepreneurial development programs, incubated entrepreneurs are allowed to sell their products through the social enterprise's retail store.

Partnerships

The social enterprise may also partner with other agencies doing similar work. As evident in Figure 2 with the Gap Matrix, government, civil society, and international agencies work in the area of enterprise development. The social enterprise could partner with anyone of them for knowledge and cost-sharing.

If the enterprise facilitating organization were set up as a for profit company, it could explore additional revenue sources through equity structures and financial intermediation.⁵

⁵ How is this like private equity firms and cooperatives?

4. PITFALLS FOR SUSTAINABILITY OF NEPAL'S MODELS

Even if the enterprise development program were set up as a private company in Nepal, i.e. similar to a private equity firm, it may still be difficult to have a reliable source for finance. Firstly, there aren't enough high-risk high-return entrepreneurs here, gains-sharing hasn't permeated through in expanding businesses, existing enterprise facilitation programs reduce risks thus preclude the option for entrepreneurs to use equity.⁶

However, a deeper problem lies with current models of enterprise facilitation. Many try to motivate people to become entrepreneurs, either directly through training programs, or indirectly by subsidizing risk. This shouldn't be the goal of entrepreneurship programs. Their goal should be to facilitate high potential entrepreneurs to scale and grow beyond the micro scale. If such programs want to just provide people with skills to join the workforce, or teach farmers how to grow and sell produce at lower costs than market price, they should say so; development programs and enterprise facilitation programs have to be separated because they have different goals.

Another major problem is that entrepreneurship facilitation programs are not run by entrepreneurs, as they should be. Often, they are run by people who think they know about development. Not only does this make the services of the enterprise facilitation program less credible, but also makes it difficult for that program to become financially sustainable due to a lack of an entrepreneurial way of thinking.

Enterprise facilitation, especially in Nepal, can be done in smarter, cheaper ways, such that communities and entrepreneurs learn to become self-sufficient and stop developing a 'dependency syndrome'.⁷

Local facilitators

Entrepreneurship development programs should use local facilitators who have local knowledge, are entrepreneurs, and understand the needs of the community and its individuals. Below, I elaborate on three different efforts that utilize facilitators to achieve local development and facilitate entrepreneurship. Creating a nexus between the three will make future entrepreneurship development programs more agile, financially flexible, effective, and cause fewer side effects.

The Sirolli Institute

The Sirolli Institute is built over Dr. Ernesto Sirolli, whose method, honed through 28 years of experience, is to develop enterprises and strengthen communities from within, one individual at a time. The Institute's methodology is to recruit a local (ex)entrepreneur as an Enterprise Facilitators (EF) who provides free, confidential, and competent services to entrepreneurs to help them start, strengthen, and scale their businesses. EFs provide services based on the Institute's Trinity of Management® (Sirolli Institute, 2014).

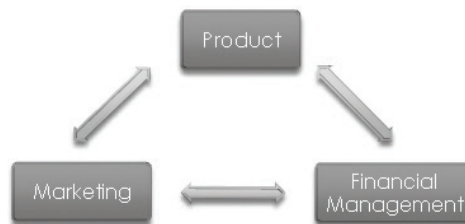


Figure 3: The Trinity of Management®

⁶ Illiquid capital markets is a bigger issue

⁷ What is the dependency syndrome?

The local EF is funded by the community. The revenue model for this individual could be anything as listed above in the section on financing. However, this method is much more cost effective than other entrepreneurship development programs because it doesn't provide money or subsidies to entrepreneurs, which could cause side effects; it doesn't require any physical infrastructure because employees work from home; an enterprise facilitation project can have its return on investment up to 7 to 1 in the first year of activity (ibid).

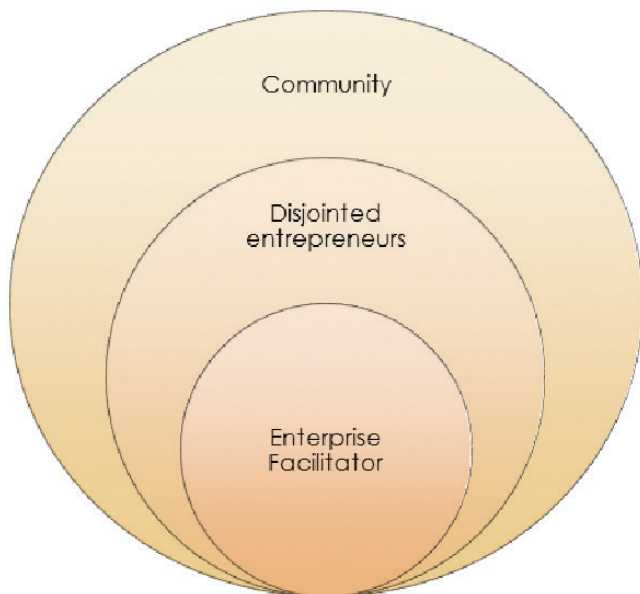


Figure 4: Sirolli method and the community

The Sirolli method is agile, flexible and built into the community (Figure 6). Because of its strict rule of engaging with entrepreneurs only once called upon, the methodology is able to filter dedicated entrepreneurs who themselves see a requirement of external advice for their businesses. Moreover, the EF makes limited intervention; they help the entrepreneur link with other members of society to make sure the business uses the Trinity of Management[®]. Sirolli Institute's founder, Dr. Sirolli, is open to invitations for expanding the Institute's successful work in Asia and in Nepal.

Rural Self-reliance Development Centre (RSDC)

RSDC is a non-profit making independent non-governmental organization affiliated with the Social Welfare council, which aims to lift poor and disadvantaged communities out of poverty by establishing sustainable and self-reliant cooperatives (Figure 7 provides a simplified illustration of this). RSDC works on a small scale level, with individual households and communities, with the help of facilitators. They have development motivators at the VDC level, senior motivators at a cluster level (4/5 VDCs), and self-reliance promoters at the district/region level (RSDC, 2012).

RSDC's current focus is to promote the idea of Swabalamban using the Self-reliant Development of the Poor by the Poor (SDPP) approach which is operative in 168 VDC across 11 districts, using financial support from various donors. RSDC has four program components: social capital formation/institutional development, resource mobilization, capacity building, and coordination/complementarity. It first helps communities form income generating groups (IGGs); helps such groups mobilize resources by setting up local funds comprising of admission fees, monthly savings, interest from lending, and donations; helps build capacity, for example, by strengthening Savings and Credit Cooperatives (a form of IGGs); and finally, helps IGGs build relationships with other line agencies and the local government (ibid).

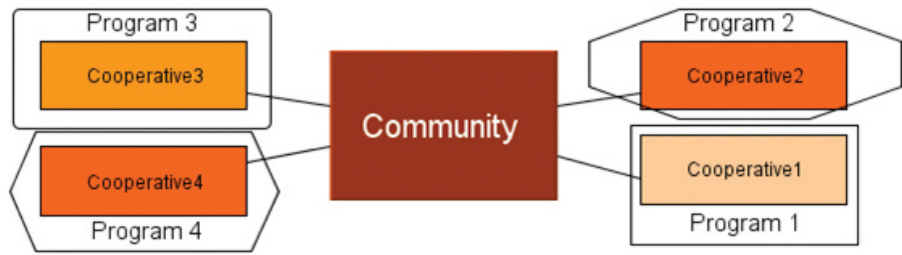


Figure 5: How RSDC engages with communities

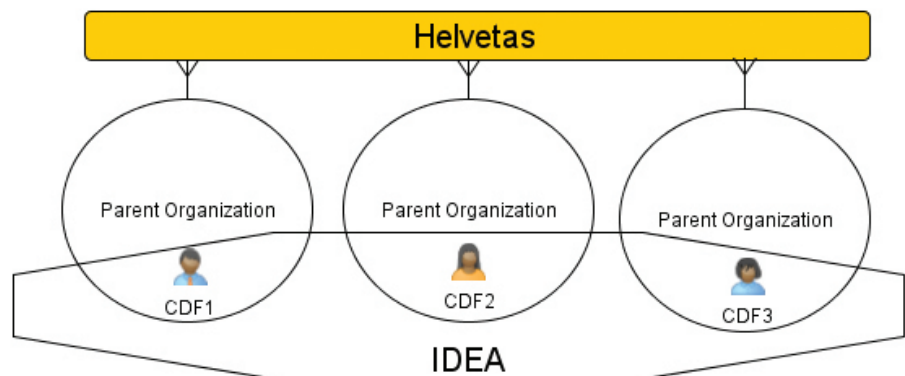
RSDC has recently completed a study to gauge the impact of their efforts on SSCCOs (Bhimendra, 2014). Out of 172 cooperatives they have been working with, RSDC sampled and surveyed 18 cooperatives, 9 from Tarai and 9 from the hills. They also surveyed 360 individuals from those cooperatives. The table below, summarizes the outcome of RSDC's efforts on household income, one measure of development:

RSDC also reports positive results in terms of confidence of members, lower migration rates, higher food security, higher literacy rates, higher resilience to threats of climate change, etc. among its cooperative members.⁸ However, the study also recommends that their efforts in strengthening SSCCOs have to be complemented with other activities:

“An overall business approach to support members to initiate commercial farming (high value crops), microenterprises and other income generation activities by facilitating training and linking to service providers is lacking at present. Such an approach is deemed critical to add value to credit provided by the SSCCOs to the members. SSCCOs have tremendous potential to transform the agriculture system, improve livelihoods, and build resilience of communities in the face of the looming threat of climate change that could adversely affect the production systems as they are functioning at present.” (Bhimendra, 2014, Pg 72)

Helvetas

Helvetas Nepal has been promoting and implementing the concept of Community Development Facilitators (CDFs) through its Local Initiative Support Program (LISP) started in Palpa in 1996. They have even funded RSDC in their SDPP program in Palpa and Kalikot; and the Self-reliant Poverty Alleviation (SPA) program in Banke, Bardiya, Surkhet and Dailekh (RSDC website). “Helvetas’ objective is to build the capacity of CDF within its partner organizations to strengthen their self-reliance and sustainability, and to support complementary institutional innovations” (Helvetas, n.d.). CDFs help in the following areas (ibid):



⁸ Recent negative news about Nepali cooperatives, especially regarding their finances, have been limited to city/town cooperatives. These cooperatives are controlled by a few people and used to circumvent stringent rules of BFIs. Rural cooperatives do not suffer as much from such problems.

Making available skilled human resources within the partner organization and for the district being the link between other community groups and executive level of partner organization contribute their insights of the local context when applying their newly developed skills and knowledge provide regular, reliable, and cost-effective services to community help partner organizations attract new opportunities and tap new resources CDFs across various organizations and districts have also registered an NGO named Institutional Development Extension Alliance (IDEA), creating a loose network. The following diagram illustrates the institutional setup.

The CDFs still need further training and development, while IDEA needs alignment with other resource organizations. Integrating elements of entrepreneurship facilitation, for institutions and individuals, is bound to be among the next steps for Helvetas as well.

FUTURE ENTREPRENEURSHIP DEVELOPMENT PROGRAMS

Future entrepreneurship development programs in Nepal can have a variety of sources for financing, most of which are not even used today. However, to make an effective and flexible model, such programs will have to be smarter on how they manage their costs. If they manage to reduce costs, then the programs can be seen as much more useful to the local communities whom they support.

Future programs should consider adapting the Sirolli Institute's model into Nepal, using RSDC's and Helvetas' experiences and knowledge about local facilitators. The program may, for example, try and integrate Enterprise Facilitators into Helvetas and RSDC programs, which currently support cooperative and local NGO facilitators at various levels. These facilitator programs in Nepal are very cost effective, and furthermore, many have sources of financing within the community. Getting cooperatives to pay for such facilitators themselves is the next step towards self-sufficient local development.

Given the success of local facilitators, if enterprise facilitators are able go and work at the level that Helvetas and RSDC facilitators already do, entrepreneurship development programs can become a lot cheaper and local financed.

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ANNEX 1

| Stakeholder Domain | Agribusiness Development Stages | | | | |
|---|---|--|---|---------------------|-------------------|
| | R&D and Idea Development | Demonstration and Development | Micro-enterprise Development | Scale Up and Growth | Commercialization |
| Government Agencies | | MOAD, DOA, MOI, DCSI, DFTQC, NARC | | | |
| | | Focused on poverty alleviation, facilitating smallholders, producers & farmers, commercialization at producers level | | | |
| | | Wealth creation, processing entrepreneurs development, agribusiness promotion, growth orientation, innovation, competitiveness enhancement | | | |
| R & D Institutes | NARC, ICIMOD, NARF | | | | |
| | Technical expertise, lab facilities, knowledgebase, fund | | | | |
| | Innovation & IP, commercial technology transfer, budget | | | | |
| Universities Academia | Agriculture and forestry, Tribhuvan, Kathmandu, Pokhara, and Purbanchal University | | | | |
| | Student projects, innovation, lab, knowledgebase, technology transfer | | | | |
| Professional Communities | NEFOSTA, Society of Agricultural Scientists Nepal (SAS-N), Nepal Veterinary Association | | | | |
| | Technical expertise, knowledge base | | | | |
| | Innovation and entrepreneurship promotion | | | | |
| Business Communities | | | FNCCI, FNCSI, CNI, NCC, CCIs, NBI, NYE | | |
| | | | B2B Linkage, business promotion, lobbying, policy influence | | |
| | | | Program design, reach to critical mass, over politicized, continuity of projects | | |
| INGOs Informal Groups | AEC, IDE, ICIMOD, CEAPRED, ANSAB, LI-BIRD, Sambridhi – The Prosperity Foundation, Birewa Venture, Change Fusion Nepal (Social Entrepreneurship Bazaar, Youth Action Fund Program, Social Entrepreneurship Award), Entrepreneurs for Nepal (E4N), Udhayami Seed Fund – USF, Kalpasala (IOE), NIMBUS Young Entrepreneurs Summit (YES 2012), Entrepreneurs Lab - KUSOM | | | | |
| | Innovation and entrepreneurship promotion and facilitation | | | | |
| | Critical mass—scale up and growth | | | | |
| Projects Programs | | PACT, CADP, HIMALI, NEAT, HVAP, MEDEP, OVOP | | | |
| | | Donor support—value chain development—B2B linkages—potential for growth orientation | | | |
| | | Innovation - growth orientation—up-scale commercialization, focused on small holders and producers | | | |
| Consulting / Business / Enterprise Development Services | | | IEDI, CSIDB, Beed Management, Lead International, PAC, Business Age, Lotus BizPort, Future Now, Panos, Saadhya, Center for Business Development, Birewa Venture | | |
| | | | Business development consulting services | | |
| | | | Focus on start-ups—Young entrepreneurs—Comprehensive Service Packages—Growth—Limited access—Affordability | | |

| Stakeholder Domain | Agribusiness Development Stages | | | | |
|---|---------------------------------|-------------------------------|--|---------------------|------------|
| | R&D and Idea Development | Demonstration and Development | Micro-enterprise Development | Scale Up and Growth | Commercial |
| Agribusiness Promotion, Innovation and Incubation | | | AEC-FNCCI, IDE, CAA, BIP—GON, Birewa Venture, Change Fusion Nepal, Sambridhi | | |
| | | | Commitments—Resources (though limited) | | |
| | | | Growth orientation—not to the scale—Strategic partnership | | |
| Financiers | | | MFI – Savings and Credit Cooperatives, Agriculture Development Bank, Bank of Kathmandu, Commercial Banks | | |
| | | | Micro finance, BFI - Physical Collateral focused Business Oxygen, the IFC—Bank of Kathmandu: SME Venture Fund—very early stage | | |
| | | | Growth finance—Angels Network, Other Private Venture funds | | |
| LEGEND | | Institutions | Capacity/Strength | Gap/Shortcoming | |

