Enabling Growth of MEDEP Micro-Entrepreneur into SME

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Daayitwa Summer Fellow 2017

Abstract

Governments and various development partners have given a priority to Micro Enterprise Development Program (MEDEP) in developing countries for some decades. The same is true in Nepal was MEDEP as initiated in technical collaboration between the Government of Nepal (GoN) and the United Nations in 1998 to promote off-farm employment and income-generating opportunities as pilot project in 10 districts of Nepal. Interest in the program by funding agencies resulted in the extension and expansion of the program to cover additional 15 districts, and later with the success of the program, MEDEP was extended for the third phase to cover 35 districts. The impressive effectiveness of the program has eventually led to the government to allocate $3 million to 45 districts to gradually replicate the MEDEP model as Micro Enterprise Development for Poverty Alleviation (MEDPA) across Nepal's 75 districts. However, although Micro-enterprise identification and creation has been more than impressive, their support for creating resilience and ability to graduate into SME (Small and Medium Scale Enterprise) has seen less progress.

As the last year of the MEDEP/MEDPA phase IV rolls out in 2018, the Government is looking to incorporate the shortcomings into the new MEDPA-II. As such this fellowship research aims to identify inadequacies in the implementation of MEDEP/MEDPA program and recommend them to the Ministry of Industry for inclusion in the next phase of MEDPA.

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List of Acronyms

APSO	Area Program Support Office
BDSPO	Business Development Service Providers Organization
CFCs	Common Facility Center
CSIDB	Cottage and Small Scale Industry Development Board
CREAM	Clear, Relevant, Economic, Adequate, Monitorable
DCSI	Department of Cottage and Small Industries
DMEGA	District Micro Enterprise Group Association
EDF	Enterprise Development Facilitators
ILO	International Labor Organization
MEDEP	Micro Enterprise Development Program
MEDPA	Micro Enterprise Development for Poverty Alleviation
MEG	Micro Enterprise Group
MEGA	Micro Enterprise Group Association
MSME	Micro, Small and Medium Enterprise
MOI	Ministry of Industry
MSE	Micro and Small Enterprise
PCI	Per Capita Income
OCR	Office of Company Registrar
SMART	Specific, Measurable, Attainable, Relevant, Time-bound
TOEE	Training of Existing Entrepreneurs
TOGE	Training of Growing Entrepreneurs

TOPE	Training of Potential Entrepreneurs
TOSE	Training of Selected Entrepreneurs
UNDP	United Nations Development Program
VDCs	Village Development Committee

I. Introduction

I.1. About MEDEP

Micro Enterprise Development Program (MEDEP) was initiated in technical collaboration between Government of Nepal (GoN) and the United Nations in 1998 to

promote off-farm employment and income-generating opportunities in 10 districts of Nepal. Interest in the program by funding agencies resulted in the extension and expansion of the program to cover additional fifteen districts, and later with the success of the program, MEDEP was extended for the third phase to reach coverage of 35 districts. The impressive effectiveness of the program has eventually led to the government to allocate $3 million to 45 districts to gradually replicate the MEDEP model as Micro Enterprise Development for Poverty Alleviation (MEDPA) across Nepal's 75 districts.

I.2. MEDEP Model

The **MEDEP Model** adopts a longitudinal approach, where the entrepreneurs are identified and categorized into 4-stages of Entrepreneurial Development. Different package of services are then provided by MEDEP to the entrepreneurs in a sequential order relative to stage they are in, to lead up to the establishment of sustainable enterprise operated and management by poor people.

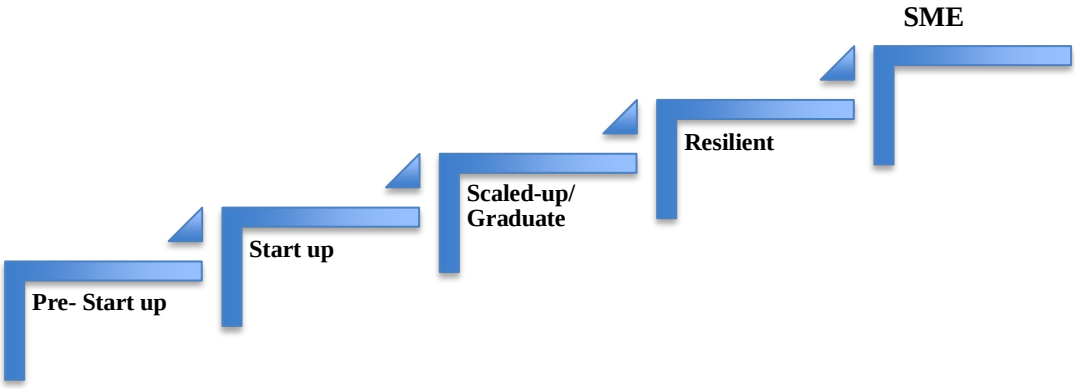

Figure 1: MEDEP Model

The MEDEP Model identifies differing needs of the enterprise at varying levels of growth and the paramount importance of organizing and integrating services at every stage. The foundation of the enterprise development model is based on the program's strategic approach to interlink the stages through compressive service delivery to reach desired expansion, business and market (Micro-Enterprise Development Program).

I.3. Importance of Indicators

MEDEP has defined a set of attributes and indicators to classify an entrepreneur as either Pre- Startup, Start up, Graduate or Resilient.

These indicators act as the prime tool for Monitoring and Evaluating the performance and status of the micro entrepreneurs. Based on their performance status, the entrepreneurs are categorized into the 4 categories and are then deemed eligible for the support system and activities provided to an enterprise at that stage to scale to the next stage.

The integrated system of sequential service delivery to enterprise development therefore lays foundation on the program's ability to appropriately identify and categorize enterprise in 4 development stages.

It is imperative therefore that MEDEP implements indicators that best provides information about the attribute of the enterprise, desirable at each stage. The indicators, hence referred for this study must fulfill the following purpose:

1. Must appropriately measure/be indicative of the attribute desirable at a particular stage
2. Must be practical and applicable for implementation at ground level.

I.4. Problem Statement

MEDEP provides a plethora of development programs tailored to the various levels of micro-enterprise, from creation to expansion and graduating of them to SMEs. Elaborate evaluation assessment of each phase and program is conducted to ensure the effective implementation of development program and efficient transference of knowledge and technical know-how. The evaluation/ impact analysis is considered to be an integral part of the entire MEDEP program for it is the source for data for further development of the existing and potential micro-entrepreneurs. For the purpose of comprehensive evaluation of the program, MEDEP employees three type of evaluation vis-à-vis, Internal impact analysis, Evaluation by the National Planning Commission (NPC) and Third Party Evaluation.

The rich research database indicates 'ME Creation' as one of the most successful areas of the program Both MEDEP and MEDPA are on track of achieving their ME

Creation target. The program has done excellently at supporting potential micro-entrepreneurs reach the 'Start up' stage.

However it is alarming that there is very little literature and knowledge on the scaling-up aspect of the program. The MEDEP database also lack proper information on 'Graduated' and 'Resilient' enterprises.

From conversations with relevant personnel, it could be inferred that with the project focus primarily centered on ME creation (first and second stage), the support for scaling up the existing enterprise was suffering.

Further one research conducted on the assessing the effectiveness of MEDEP's support in creating resilient entrepreneurs, stated that only **7.53%** of the 385 entrepreneurs considered for study could be considered as 'Resilient', and only **33.77%** considered as 'Graduate' (potential to become resilient) (Institute for Policy Research and Development, 2014).

The findings of this research is alarming considering the main aim of MEDEP IV for the concluding year is to develop more resilient enterprises. Further, with the future plans of integrating MEDEP into the government policy as a nation-wide initiative, MEDPA-II, it has become even more impertinent to have the indicators ready. The former MEDEP team is looking into making the indicators smart in terms of its reliability and practicality before the end of the final year of the program in 2018.

I.5. Rationale

In MEDEP's experience, a start- up is typically supported with prescribed activities and support system to 'Graduate' into profitable businesses. From experience, 'Start-Ups'

that are already 2 years in operation and have taken the subscribed support are considered to be ‘Graduate’ enterprise.

Then the enterprise still in operation after 2 years of being categorized as ‘Graduate’ come to be labeled as ‘Resilient’.

There is an obvious gap in the process of identification and categorization of the different stages of entrepreneurial development.

In concurrence to the understanding of the aforementioned problem, the MEDEP team aims to find resolution through baseline research and critical analysis of the indicators.

Back tracking several previous studies and based on personal expert judgments, MEDEP considers the need to refine the service model to incorporate activities and targets that contribute more in terms of economic growth than just in terms of poverty alleviation.

This report takes the first step to achieving the overall aim of MEDEP team by evaluating and critiquing the existing indicators on their relevance against the ‘CREAM ‘model and their contribution to developing more ‘Graduated’ and ‘Resilient’ ‘SME’ entrepreneurs.

I.6. Objective

The objectives of this study are:

- To investigate the present condition of MEs under MEDEP/MEDPA and identify and categorize them into the pre-defined stages of ME Development.
- Conduct baseline investigation, with the aims at providing critical analysis on the practicality and reliability of the recognized indicators.

- Provide recommendations on refining the indicators used for categorizing the MEs and for planning of further development activities by MEDEP/MEDPA.

By the process of understanding the current status of the MEDEP entrepreneurs, this report also provides a brief recollection of the barriers to scaling up for the enterprises.

I.7. Limitations

Given the scope of the study the following are few key assumptions and limitation of the study:

- The data collected for the analysis of existing indicators pertain to those Micro-entrepreneurs belonging to Dang. As such this might limit the generalization capacity of the results and conclusion
- Due to time and resource constraints, the numbers of respondents contacted for interview are limited.
- For the purpose of this study, the micro-entrepreneurs have not been categorized across different sectors, although it is an important criteria for growth indicators.

II. Literature Review

Definition of poverty

Onibokun and Kumuyi (1996) defined poverty as "a deprivation of entitlement through lack of access to economic and social resources, as well as to political participation and consultation." Former Secretary- General of the UNO, quotes, "poverty manifests itself in the sphere of economics as deprivation, in politics as marginalization, in sociological issues as discrimination, in culture as ruthlessness and in ecology as vulnerability."

Definition cited by **World Bank** has been adopted in the report that defines poverty as *pronounced deprivation in well being and comprises many dimensions. It includes low income and inability to acquire the basic goods and services necessary for survival with dignity. poverty also encompasses low levels of health and education, poor access to clean water and sanitation, inadequate physical security, lack of voice and insufficient capacity and opportunity to better one's life.*

Appeal of WB definition, firstly it adequately captures the multi-dimensional nature of poverty. Secondly, it highlights the consequences of poverty, with most being amenable to measurement. Finally it stresses lack of income as the underlying factor of poverty.

Definitions of Micro, Small and Medium Enterprises

Conceptually business may assume any of the following sizes:

1. Micro-enterprises
2. Small Scale Enterprises
3. Medium Scale Enterprise and
4. Large Scale Enterprises

The multiplicity and lack of consensus in defining micro, small and medium enterprises has been observed across countries and among international organizations, and it does not exempt Nigeria. Various organizations and government bodies have given different definition of these enterprises at different times.

One of the most recent definition in Nigeria is the outcome of the 13th meeting of the National Council on Industry (NCI) in Markudi, Benne state in July 2001:

- A micro/cottage Industry is an industry with capital not more than N1.5 million including working capital but excluding cost of land and/or a labour size of not more than 10 workers.
- A small-Scale industry is one with total capital employed of over N1.5million but not more than N50 Million including working capital but excluding cost of land or a labour size of 11-100 workers.
- A medium-scale Industry: is an industry with a total capital employed of over N50 Million but not more than N200 Million including working capital and a labour size of 101-300 workers

Appeal for the use of the definition is that firstly, it is most recent and is important in terms of importance of **time value of money in capital specification.** Secondly, the highest organ on commerce and industry authorizes the definition. Finally, two parameters in business size classification (Capital and Workforce) are included. Research stratifies the respondent using the criterion of 'workforce'. Using capital criterion will require a sound knowledge of what constitutes business capital and a resolution of whether it is 'start-up' capital or 'working capital' that should be used.

There is high probability that the potential respondents may lack the ability to distinguish the one from the other, use of workforce is less controversial.

Ascarya & Rahmawati (2015) in their research that analyses the determinants of micro-enterprise graduation, show that main determinants of graduation are

- Standard Operating Procedure and Information Technology (Management Know-how)
- Market (Business Characteristics)
- Infrastructure and Macroeconomic Conditions (External)
- Family support (Support)
- Others: Visionary, Entrepreneurship and Business experience (Owner of business), Skilled Human Resource (Resources)

Further, they provide the following policy recommendation:

- Price Stability and Infrastructure (External)
- Capital Financing support (Support)
- Easy and cheap way of doing business and strategic location (Business Characteristics)
- Easy and cheap access to finance and raw material and availability of appropriate technology (Resources)

Adebayo and Lanrewaju, in their paper, highlight the importance of 'political will and commitment, policy stability and involvement of the beneficiaries of the programs for a sustained program impact (Adebayo & Lanrewaju, 2014). The research addresses the question of identifying factors that inhibit optimization of micro and small business

enterprises as effective agents of poverty reduction. In this process, the research provides the following recommendation to increase the effectiveness of the MEs:

- Strengthening of youth entrepreneurship
- Increases publicity of govt. Business Development and Support Services
- Liberalization of access to and usage of business premises
- Reduction in cost of production
- Improvement of infrastructural facilities among others

Kuzmin (2012), in developing evaluation as a profession worldwide familiarizes the concept of CREAM model for selection of good performance indicators as opposed to SMART Model. This model was introduced by Kusek and Rist in their book "Ten Steps to Result Based Monitoring and Evaluation System". Kuzmin in response to the most comprehensive evidence based consequence of using SMART model to identify indicators presented by Ordóñez, L. D., Schweitzer, M. E., Galinsky, A. D., & Bazerman, M. H. in their article Goals Gone Wild: The Systematic Side Effects of Over-Prescribing Goal Setting (2009), advocate the use of CREAM model to devise better performance indicators.

III. Methodology

III.1. Sample Frame

The study includes two sets of populations namely the 'graduate' micro-entrepreneurs and the 'resilient' micro- entrepreneurs located in the district of Dang. The sample frame for this particular research is defined as the individual who are registered as a MEDEP

entrepreneur and preferably have operated their business for a period of 2 years or above. The sample was selected from the list of entrepreneurs created and supported by MEDEP/MEDPA and acknowledged as being 'graduated' and 'resilient'. This section of the population was selected since they are already aware of the different dips and highs of business cycle and therefore will be able to provide useful information needed for the research. The survey was conducted to reflect the status of micro-entrepreneurs created and supported by MEDEP/MEDPA.

Convenience sampling was used to identify the entrepreneurs. The MEDEP officials identified the entrepreneurs based on their knowledge of the enterprise and proximity of the entrepreneurs to each other.

III.2. Instrumentation

The research was conducted with the aim to establish the status of the micro-entrepreneurs decided to be 'graduated' and 'resilient'. Given the population and sample frame, 'questionnaire' was used as the instrument of investigation. For the purpose of validity, the variables used to measure the status of the entrepreneurs were selected only after careful analysis of previously conducted research of similar genre.

As per the requirement of the research, to understand the criteria that set the different entrepreneurs apart as graduate and resilient, a set of closed ended questions were consulted, edited and finalized.

To understand the judgmental basis on which the MEDEP members categorized the entrepreneurs, a short interview with personnel at various levels of service delivery was conducted. The questions were open-ended without the constraints of presumptions

pledged by a closed questionnaire, so that it would facilitate a good direction to such assumptions.

III.3. Questionnaire Design

A self administered, closed questionnaire was used for the survey that would facilitate in the analysis of the respondent's review about their enterprise status. The questionnaire was segregated into four sections; Demographics, Enterprise Details, Market details, and Future Aspirations. The first section of the study required respondents to provide general information about themselves and their family. The second section of the questionnaire addressed the state of the enterprise, from inception to the present. The third section of questionnaire addressed the state of market for the output of the enterprise, to understand the growth prospect for each of the enterprise sector. The fourth and final section of the questionnaire provided insights on the aspirations and tenacity of the micro-entrepreneurs.

The questionnaire was structured in simple English and was translated into Nepali to facilitate better understanding for the MEs. Given the nature of the research, the survey was conducted in person to better assess their social and economic dynamics.

To enhance a 360-degree understanding of the situation, various personnel at different levels of MEDEP/MEDPA service were interviewed with a set of unstructured questions in an informal setting.

All respondents of the research were promised confidentiality and anonymity during the course of the research and were encouraged to provide un-biased answers, to the best of their abilities.

III.4. Conduct of Survey

With respect to time and resource constraints, the population size of the research was decided as 25 individuals who are registered as MEDEP/MEDPA entrepreneurs. Of the 25 surveys administered, 21 surveys were deemed as being eligible for further analysis.

The questionnaire was self-administered, and any queries and doubts regarding the questions were cleared on the spot. For the purpose of gaining access to the micro-entrepreneurs and identify their status, an EDF (Enterprise Development Facilitator) was hired. A total of 10 days was spent on the process of collection of data.

III.5. Analysis of Data

The data received from the questionnaire were analyzed using both quantitative and qualitative methods. The data were coded and entered into Microsoft Excel to be used for analysis. Tools such as cross-tabulations, hypothesis testing were used in addition to the general statistical observations.

The analysis is conducted in three parts; in the first part, the data were categorized, tabulated and inferred to assess the present status of the micro-entrepreneurs as per the pre-established indicators for graduate and resilient MEs defined in the MEDEP guideline.

In the second part of the analysis, the present status as defined by the indicators was tested in terms of its applicability and practicality with the help of evidence. For the second part of the data, both qualitative and quantitative analytical methods have been used to identify the relevance of the indicators.

Finally in the third part of the analysis, barriers for MEs to scale from ‘Graduate’ to ‘Resilient’ are explored to recommend activities and support systems to the MEDEP programs.

Based on all three parts of the analysis, recommendations for re-editing the indicators prescribed by MEDEP are provided.

IV. Policy Context

At present, MEDEP carries out a resource/Market potential study to determine the most feasible entrepreneurship activity in the local area. MEDEP approach supports a potential micro entrepreneur through six steps that offer a mix of training and service provisions (Micro-Enterprise Development Program). The steps are represented as follows:

i. Social Mobilization: Use of Participatory Rural Appraisal for identification of target candidates, formation of micro-entrepreneur groups to provide basic support to entrepreneurs, socialization of ideas and basis for impact measurement.

ii. Entrepreneurship training: Provision of Start and Improve Your Business (SIYB) and Micro Enterprise Creation and Development (MECD) training.

iii. Technical skill development: Provision of basic technical training according to the type of enterprise that the candidate intends to start.

iv. Access to financial services: Establishment of linkages between financial institutions (MFI, cooperative) and start-up enterprises.

v. Access to appropriate technology: provision of low cost technology to start a business through the so-called Common Facility Centers.

vi. Market Linkages and business counseling: Consolidation of production by micro-entrepreneurs and linkages with wholesale buyers and market.

In MEDEP's experience, an entrepreneur needs on average 12 months to start-up a business; however, starting up is not sufficient to guarantee resilience. Therefore MEDEP IV will also aim to develop resilient enterprises, or micro-entrepreneurs that are

sufficiently connected to services and output market so that they may grow their business and overcome economic shocks. The following diagrammatical representation of MEDEP's MED process that summarizes the stages of micro-entrepreneurship creation:

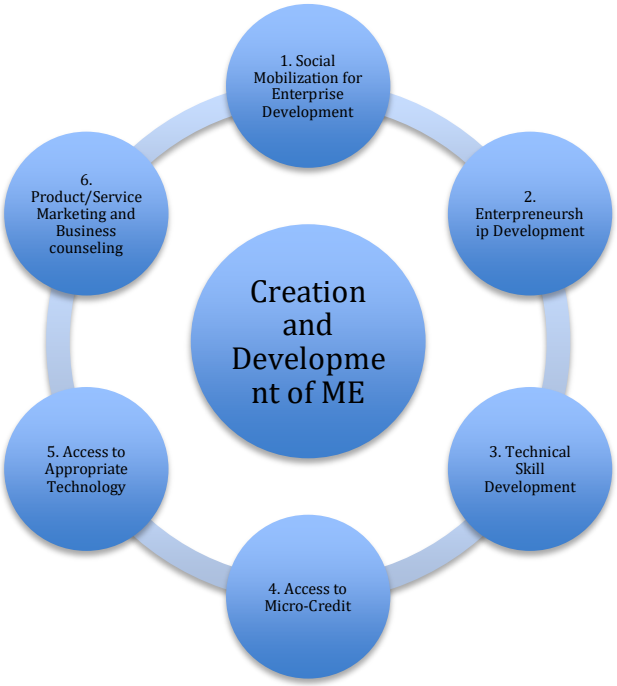

Figure 2: Enterprise Development Model

For each of the stages of Micro Enterprise development, MEDEP has further identified 'Indicators' and developed Activities/Support System to facilitate delivery of appropriate services for promotion of the enterprise to SMEs. The indicators for the first two stages, Pre- startup and Startup, have been successfully administered and the support system and activities for the same have been developed in detail to match the needs for grass-root growth. As for the latter two stages, only tentative indicators have been identified and a study to determine 'nice-have' and 'must- haves' of MEDEP's methodology in MEDPA implementation has been carried out.

At present the following Indicators for 'Graduated Micro-Enterprise' and 'Resilient Micro- Enterprise' have been presented to the MEDEP project board by the Task Force (members of DCSI, CSIDB, UNDP, DFAT, MEDEP) (Task Force, MEDEP, 2015).

Table 1: Indicators for Graduated Micro-Enterprises

Attribute	Indicators	Means of Verification	Remarks
PCI/Profit	PCI increased by 100% of the national average	Recalculated PCI	Must have
Employment	Additional 1 employment created	Status update through business counseling	Must have
Age of Enterprise	At least two years of its operation since startup	Years of establishment	Must have
Registration	Enterprise registered at either CSIDB, DCSI, Company Act, Cooperatives or in local governance bodies (VDC, DDC)	Registration Certificate	Must have
Training	Enterprise Expansion and Growth Training received (TOEE/TOGE)	Training report	Nice to have
Investment	At least MRS. 50,000 fixed capital investment	Review of Business status	Nice to have*
	Initial investment recovered		Must have
Entrepreneurs Technical Skills Quality	Entrepreneurs developed their skills to transfer their skills to Potential and new entrepreneurs	Skill test certificate	Nice to have

Source: Program Document, MEDEP

**Depending on the nature of enterprise*

Activities and support system identified for helping enterprises reach graduate stage include:

1. Scale up support: Product and Development/ Diversification
2. Support to develop backward forward linkages
3. Accounting training
4. Technology support
5. Cooperative Management

Enterprises that have recovered its initial investment with earnings more than its opportunity cost and running on profit are considered to me Graduated Micro Enterprise.

Table 2: Indicator for Resilient Micro-Enterprise

Attributes	**Indicators**	**Remarks**
Disruption	Able to resist disruption caused either by natural calamities or other shocks (floods, earthquakes, fire, economic shock, theft)	Must Have
Savings	Have bank balance equal to initial investment to restart	Must have
Employment	Employee more than two employee	Must have
Registration	Registered in government	Must have

	system	
Insurance	Enterprise are insured	Nice to have
Profit	Profit are in increasing trend two years after its graduation	Should have
Market linkages	Market linkages expanded beyond local market	Must have

Source: Program Document, MEDEP

The support system proposed by MEDEP to be provided on a cost sharing basis include:

1. Scale up support for Resilient Micro-Entrepreneurs moving towards Small and Medium Enterprises
2. Facilitate to establish sales outlets: to enhance ME's products access to market
3. Formation of product association: To strengthen and promote trade/occupation
4. Market linkages: To expand market outreach beyond local market
5. Support in developing quality of products
6. Support to establish sales outlet to promote products produced by Micro-Entrepreneurs

Resilient enterprises are not considered the target group of MEDEP, as they are already uplifted above the poverty line. The program specifies that MEDEP will only facilitate the 'resilient' micro-entrepreneurs with specific activities on their own cost to upgrade them from ME to SMEs

V. Findings

V.1. Demographics

Table 3: Summary of background information

Demographics	Sub Headings	Number of Respondents	Percentage
Gender	Male	10	48%
	Female	11	52%
Age	Below 40	8	38%
	41-59 yrs	10	48%
	Above 60 yrs	0	0%
	n/a	3	14%
Sector	Bee-Keeping	5	24%
	Livestock	2	10%
	Agriculture	7	33%
	Goods	3	14%
	Services (Tailor)	4	19%
Occupation	Primary	11	52%
	Secondary	10	48%
Member	MEG	18	86%
	Cooperative	19	90%
	Association	11	52%

Source: Data Collection

Table 3 provides data about the participants' demographic profiles. The data shows almost equal composition of male (48%) and female (52) MEDEP micro-entrepreneurs. The total population of MEDEP micro entrepreneurs however shows a 77% of women entrepreneur existence in the valley of Dang. Assuming that this sample is representative of the population, one possible reason for a lower number of graduate and resilient female micro-entrepreneurs is the social barriers posted on women of the Nepalese society that hinder them from performing the more rigorous activities required by a business to scale up.

In terms of age, it is clearly evident that maximum number of entrepreneurs lies in the age range of 41-59, suggesting that graduate and resilient micro-entrepreneurs are predominantly of the older population. Further a distinct lack of younger population from ages 18-30 poses an alarming situation in the entrepreneurial eco-system. It may be suggestive of either the fact that the micro-entrepreneurial hemisphere does not attract a younger crowd or that it takes significantly long time to establish an enterprise as a graduate or resilient. Both indications are a grave matter to the industry, however it requires a separate in-depth research for any concrete judgment.

MEDEP has categorized the enterprises into seven sectors, which include: Agro-based, Forest based, Tourism based, Artesian based, Service based, IT based, and newly included Construction based. Of the seven categories, the research includes three categories: Agro, Service, and Forest based. Due to the constraints of time and resources, all categories were not included. Of those present, the table shows that 67% of the MEs are employed under Agro-based businesses.

Of the total sample size, 52% of the MEs identified the enterprise as being their primary occupation while 48% stated it was still secondary source of income. Although there are no definitive indicators regarding the level of commitment, having enterprise as their primary source of income is associated to the seriousness of the entrepreneur towards his/her business. Further ‘Operation Status’, measuring the moving of entrepreneurs from ‘part-time’ engagement to ‘full-time’ engagement in business, has been used by MEDEP as a sign of business resilience. Ascarya & Rahmawati (2015)

mentions ‘Individual drive’ as being an important indicator for success and sustenance of a business enterprise.

Finally, the last column highlights the participatory nature of the entrepreneur. Since network and associations are an important factor in the success of business and are key components for market development, their associations with various groups of same and different community having similar business interest is important to understand and catalogue. As shown by the table, almost all MEDEP entrepreneurs are involved as members or executive members of co-operatives beside them being a part of the mandatory MEG groups. However only a handful of individuals (52%) identify themselves as being associated with local or national level associations.

V.2. Present Status of Entrepreneurs as per Existing Indicators

V.2.1. Graduate Micro-Entrepreneurs

The final goal of the MEDEP program in providing the Activities and Support Activities to the ‘Start-Up’ micro-enterprise is to move them towards becoming ‘Graduate’ micro-enterprise. The following indicators define the ‘desired’ status of an enterprise after receiving the support activities as defined in the program manual.

1. PCI/Profit

MEDEP targets a 100% increase in the PCI (Per Capita Income) of the National Average. As per the data provided by MEDEP on micro enterprise of Dang, the PCI change can be observed as follows:

Table 4: Indicator: PCI

Indicator	Sub Heading	Number of Respondents	Percentage
PCI Increment (%)	Less than 100%	5	36%
	More than 100%	9	64%
	n/a	7	n/a

The profit has been used as an alternate indicator for PCI. Based on the data collected the profit shown by the sample population is as follows:

Table 5: Indicator: Profit

Indicator	Sub Heading	Number of Respondents	Percentage
Profit	Below 1 Lakh	7	33%
	1 Lakh to 5 Lakhs	8	38%
	5 Lakhs to 10 Lakhs	4	19%
	Above 10 Lakhs	2	10%

'Profit' by itself as in indicator is not enough to determine any significant detail or insight on the status of the enterprise.

2. Employment

The program document recites 'additional 1 employment create' as one indicator for a Graduated Micro enterprise. Number count done based on data collection show that a total of 123 direct employments have been created and more than 1500 individuals have been employed indirectly by 21 micro entrepreneurs in Dang.

50% of the entrepreneurs included in the study stated that they have increased employment in the years of operation as per the need of the business. It is however difficult to distinguish between direct and indirect employment, and also between

fulltime and part time nature of the work provided to the employees in the organization. As such categorization as per employment is difficult for this study.

3. Age of Enterprise

Table 6: Indicator: Age of Enterprise

Indicator	Sub Heading	Number of Respondents	Percentage
Age of enterprise	Less than 2 years	3	14%
	2-5 years	4	19%
	5-10 years	2	10%
	Above 10 years	12	57%

Source: Data Collection

The age of the enterprise/ business has been used as a proxy for 'Business Continuity', which is center for business resilience. As per the data set, 86% of the respondents 'picked' as graduated or resilient enterprise can be considered as such.

4. Registration

Registration with Government (national and local) is considered to assist in the growth and sustainability of an enterprise since registered enterprises get legal assistance to access support provided by the government. Further, it builds credit for any of the private party support. Registration also brings the operation and business into regulation by concerned authorities and thus supporting good governance.

Registration is the first and most important step to formalizing an enterprise.

Table 7: Indicator: Registration

Indicator	Sub Heading	Number of Respondents	Percentage
Registration	Yes	11	52%
	No	10	48%
Registration Office	Local Government Bodies	2	10%
	CSIDB	8	38%
	Company Act	1	5%

Source: Data Collection

Data shows that almost half of the enterprises considered for the study admit to not being registered in any formal organization. Of those that have registered themselves into local and other government agencies, only 1 organization stated that they have administered proper registration with the OCR (Office of Company Registrar), under the Company Act.

5. Training

MEDEP provides multitude of trainings that cater to the need of the micro-enterprise at various levels of enterprise development. Trainings are indicative of the level of knowledge, technical and managerial, that an entrepreneur has to do proper business and to take business further.

Further, the principle of MEDEP program of creating sustainable enterprise hinges on its ability to provide need-based trainings that enhance the capabilities of the micro-entrepreneurs to improve their business and therefore improve their living standards.

Table 8: Indicator: Training

Indicator	Sub Heading	Number of Respondents	Percentage
Technical Training	Basic Skill Training	21	100.00%
	Advance Skill Training	16	76.19%
	Refresher Training	5	23.81%
	Special Skills Trainings	7	33.33%
	Others	4	19.05%
Business Development Training	Basic	21	100.00%
	Advance	3	14.29%

Source: Data Collection

The data is incongruence to the MEDEP policy since 100% of the respondents confirm that they were provided with the Basic Skill training and Basic Management trainings during the start-up phase.

The lower participation of entrepreneurs in attaining Advance and Special trainings are indicative that the entrepreneurs lack the necessary training and development support to reach the graduate or resilient stages. Further, participation is lowest for the Advance Business Development trainings, which means that entrepreneurs do not have formal knowledge on operating scaling/expanding businesses.

6. Investment

Increased investment is a sign of business growth; as such MEDEP uses 'Investment' as an indicator for 'Graduated' enterprise. Under Investment, it is nice for a graduated enterprise to have:

- At least Rs. 50,000 in fixed capital investment
- Initial capital recovered

Table 9: Indicator: Investment

Indicator	Sub Heading	Number of Respondents	Percentage
Fixed Capital Investment	Less than 50,000	3	14%
	More than 50,000	18	86%
Present Investment	Less than 50,000	2	10%
	More than 50,000	19	90%

Source: Data Collection

Based on the first set of data collected, it is clear that majority of the micro-entrepreneurs (86%) have more than Rs. 50,000 in fixed capital investment. The second set of data, comparing 'Present Investment' against the standard shows that only 2 enterprises fall outside the mark.

While 'Fixed Capital Investment' calculated total investment in fixed asset of the organization, 'Present Investment' includes working capital injected by the enterprise. During the data collection process, it was found that entrepreneurs were confused with the usage of the word 'Investment'. As such two different types of questions were phrased to get the correct information.

7. Entrepreneurs Technical Skills Quality

Table 10: Indicator: Entrepreneurs Technical Skills Quality

Indicator	Sub Heading	Number of Respondents	Percentage
Transfer of Skills	Yes	12	57.14%
	No	9	42.86%
Medium of Transfer	MEDEP	3	14.29%
	Other Organization	4	19.05%
	Personal Association	6	28.57%

Source: Data Collection

Entrepreneurial sustainability is dependent on the co-habitation and collaboration between the entrepreneurs that result in a progressive ecosystem. As an aim of the MEDEP program to alleviate poverty through micro-enterprise development, promoting such collaborative environment is a necessity. As such, the quality of the skills of existing entrepreneurs and their ability and willingness to transfer their knowledge has been selected as an indicator by MEDEP.

Data shows that increasing number of entrepreneurs engage in knowledge and skill sharing with new and potential entrepreneurs. However, they are more engaged in knowledge sharing via personal connections than professional, the entrepreneurs show an enthusiasm in having the opportunity to share knowledge and technique with fellow enterprises, they consider it to be a matter of pride.

V.2.2. Resilient Micro- Entrepreneurs

With the support activities provided to the 'Graduated' Micro-entrepreneurs, MEDEP assumes that the micro-enterprise have now reached the 'Resilient' stage. Present status of micro-enterprises as per 'resilient' micro-enterprise indicators is as follows:

1. Disruption

Resilient micro enterprises are identified as those that have the ability to resist disruption caused either by natural calamities or other shocks (Floods, earthquake, shock theft).

Based on qualitative questions asked to the respondents, 7 micro enterprises have mentioned that they had had to start from scratch due to a major hit to the business. Of the 7 enterprises, 2 entrepreneurs mention that their business was disrupted due to their

livestock being ruined to disease. At present all 6 micro enterprises involved in mushroom farming mention big loss because of crop failure due to bad seed. Each of the enterprise mentions their plans for recovering their business by injecting investment to pull up business.

2. Savings

Table 11: Indicator: Savings

Indicator	Sub Heading	Number of Respondents	Percentage
Savings	Yes	18	86%
	N/a	3	14%
Institution for savings	MEG	11	52%
	Cooperative	1	5%
	Commercial Bank	4	19%
	N/a	3	14%

Source: Data Collection

By comparing the data presented in the table and the qualitative questions presented to the entrepreneurs, the reason presented for lesser saving habits in more formal financial institution among the entrepreneurs were:

- Lack of easy access to the formal institution
- Lack of knowledge on the advantages of having greater saving habits
- Satisfied with the convenience provided by MEG group saving mechanism

Based on observation, the enterprises showed hesitation at approaching a formal institution, which is possibly fueled by the sense of intimidation provided by these institutions. Further they perceived that the services of commercial banks were not for them and that they were better off with smaller saving mechanisms.

3. Registration

Referring to the table presented in the graduated stage, only 1 enterprise is mentioned to have registered with the OCR as a formal company.

Qualitative question inquiring about the lack of formalization of enterprise highlights two major problems:

a. The lack of knowledge about formal procedure or lack of contact with informant to conduct proper registration
b. The lack of knowledge for the need for formal registration with the OCR.

4. Insurance

Insurance is considered a mechanism that assists in the revival of business in case of harm due to risks associated with the business. Further, having in insurance also indicates a sophisticated knowledge about business and operation and the general will of the entrepreneur to continue business operations.

Table 12: Indicator: Insurance

Indicator	Sub Heading	Number of Respondents	Percentage
Insurance	Yes	3	14%
	No	15	71%
	Previously	3	14%
Aware business risk	Yes	14	67%
	No	7	33%

Source: Data Collection

The data presented on the table suggests that although 67% of the entrepreneurs are aware of the possible risks association with their business, they have not taken an insurance to protect their enterprise against it. One noteworthy reason presented by the non- insurance takers was that the insurance procedures, both for taking the policy and for claiming insurance money were big hassles and time consuming. Further the

enterprises mention their grievances about the access to insurance companies and the lack of access to information about the benefits of different services provided in insurance.

5. Market Linkages

Table 13: Indicator: Market Linkages

Indicator	Sub Heading	Number of Respondents	Percentage
Current Market	Local Area	14	67%
	Surrounding VDCs	4	19%
	City	6	29%
Means of reaching market place	From place of production	9	43%
	Personal delivery to market place	9	43%
	Through middle-men	4	19%
	Help of Cooperative	1	5%
Awareness of demands in other markets	Yes	12	57%
	No	3	14%
	Don't know	6	29%

Source: Data Collection

The table above suggests that although majority of the enterprises are aware of the demands in market outside the ones they are currently supplying to, only a handful have been able to access and cater to the demands. 67% still playing in the local markets suggest that that market linkages are weak and that for reasons yet to be distinguished, the enterprises have not been able to capitalize their knowledge in market demands.

Inabilities of the enterprise to produce the quantity adequate for inter-market supply and lack of proper communication between producers of the same product to accumulate and enter wider market have surfaced as the possible reasons for the weak market linkage from qualitative questions.

6. Employment

As presented in the Employment section for Graduate enterprise, the employment generation is hard to measure for current data set due to lack of distinguishing technique between part-time/full time employment and direct/indirect employments.

7. Profit

Resilient enterprises are defined as those enterprises operating with an increase in profits for a period of at least 2 years since graduation stage.

The data set shows that all the entrepreneurs have been working in profit for more than 2 years. Of the enterprises mentioned as being less than 2 years of age in terms of being registered with MEDEP, two are traditional businesses that have operated in profit in the past. However for all enterprises of varied age the percent increase in profit for each of the enterprise is wildly varied for comprehensive categorization.

V.3. Critical Analysis of Indicators

In the section above, each indicator was analyzed in isolation, however in practicality, the verdict on the level of the enterprise development can be given only after evaluation against all the criteria simultaneously.

To understand the practicality and applicability of the indicators on the field, the quantitative data presented above has been compared with insights collected from qualitative portion of the questionnaire and general observations made in the field. Further, the indicators are tested against the CREAM (Clear, Relevant, Economic, Adequate, Monitorable) model of selecting good performance indicators.

The analysis will also try to identify and put importance on some indicators as opposed to others, in the case where results from two indicators may indicate different stages of entrepreneurial development.

V.3.1. Indicator: PCI (100% increased of the national average)

Pros:

- Aligned with the broad vision of MEDEP
- It measures the overall impact of enterprise on the growth of the life/living standard of entrepreneur
- The MEDEP preliminary data collection and potential test necessitates collection of PCI information, PCI recalculation can be done economically
- The PCI is calculated once at the end of the year to evaluate the overall impact of the program on the lives of the entrepreneurs and is therefore easily monitored
- Based on the data, majority of the enterprise do show more than 100% increase in PCI

Cons:

- Measures only overall impact of the program on the lives of the entrepreneur and not the impact on the enterprise
- Does not necessarily indicate the state of the enterprise or enterprise need for scaling up (Relevance)
- Based on the data, there are enterprises that have yet to achieve 100% increase in PCI but require activity and support system provided to Graduated entrepreneurs.

Similarly, there are enterprises that cross the 100% increment mark and yet require more support activities provided to the 'Start-up' enterprises. (Adequate)

Suggestions:

- Although PCI calculation is an important component of the MEDEP program, it should not be used as a marking standard for identifying 'Graduate' Enterprise
- Continuous increase in PCI should always be targeted by the program while delivering the support systems and activities, and instead of a specific percentage, 'Increase in PCI' should be used as an indicator.
- To assess the impact of the program on the poverty alleviation of micro entrepreneur, proxy indicators such as 'Profit' can be used. Assuming that the profit generated adds to the income of the entrepreneur's family, increased PCI could be calculated accordingly.

V.3.2. Indicator: Profit (*For Resilient: Profit are in increasing trend two years after its graduation*)

Pros:

- Measures the actual performance of the enterprise (Clear)
- The profit calculation is done as per standard rule of accounting and is therefore measurable and comparable across business entities (Monitorable)
- Profit can be used as a round-about indicator to identify organizational progress through increased production or efficiency (Adequate)
- Further, profit directly relates to ability of the organization to sustain operations (Relevant)

Cons:

- Based on the observations made on the field, there is a tendency of the entrepreneurs to hide or lie about actual profit (Monitorable)
- The profit of enterprises varies across various sectors, level of investment and age of business. Simply defining a number or describing an increasing trend is not enough data to distinguish the level of development. (Adequate)
- Entrepreneurs have very limited knowledge in basic accounting and bookkeeping. Although MEDEP prioritizes providing basic management trainings, entrepreneurs fail at practicing the skills and treat them as a hassle than as an important process of business.

Suggestions:

- 'Profit in increasing trend' as an indicator is not enough to determine the state of an enterprise. Instead other profit-centered indicators could be utilized. For instance:
    - For 'Graduate' entrepreneurs: Profit in increasing trend for two continuous years and/or not less than threshold of national absolute line can be used. This incorporates the importance of using 'Profit' as
        - An indication for business success and
        - As a tool to measure impact of program on poverty alleviation
    - For 'Resilient' entrepreneurs, profit centered ratios such as **Return on Investment (ROI)** or **Return on Equity** (**ROE)** should be used to generate more information in the enterprise status

- To overcome the problem of inaccurate narration of profit, other demographic characteristics that measure expenditure of the family should be taken. Data for expenses for Education, Health, Marketing etc. and savings and bank balance should be taken for confirmation.
- Sales and turnover ratio can be used as proxy to analyze the purpose measured by 'Profit'. Sales and turnover ratios can act as a multi-fold indicator assessing the growth of enterprise.
    - Increase of sales/ turnover is indicative of increasing efficiency and therefore profit
    - Increase sales is indicative of increased market reach
    - Turnover
- Sub-indicators should be defined to measure the different facets of 'Profit', such as growth percentage, profit retention, investment scopes and decisions, profit distribution etc.
- Cross analysis with other indicators such as expenses and the nature of increase, changes in spending behavior and areas of investment should be done to get actual information of profit made by the business

V.3.3. Indicator: Employment (*For Graduate: 1 additional employee; For Resilient: 2 additional employee)*

Pros:

- 'Employment' as an indicator is consistent with the international practices for categorizing different levels of enterprise.

- It is one of the easiest, convenient and accurate measures for identifying growth since increased employment has link to increased business operation.

Cons:

- In context of Nepal, the use of 'Employment' as an indicator needs to be adapted. There is still a controversy over labeling family member formally as an employee
- Further, there has been no distinction between how to measure 'Employment'. Data collection showed that enterprises employed both direct and indirect labor. Further, part-time employment also varied in terms of days in employment and daily hours clocked for work.
- It is hard to provide formal employment by enterprises that are not registered, and most micro-enterprises are not registered with the central government

Suggestion:

- Provide an operational define 'Employment' in terms of its measurability
- Utilize definitions provided by international and national institution for a measure of 1 unit of Employment
- Limit definition of employment for whether or not to include family member as an additional employee.

V.3.4. Indicator: Age of the enterprise (*For Graduate: At least two years in Operation)*

Pros

- The use of 'Age of Enterprise' is based on the assumption that the enterprises would require this time for getting, utilizing the support system and activities

provided by MEDEP. In assuming that the start ups would require a minimum of two years to fully put into practice the support, the use of 'Age' as an indicator is relevant

- Age is an indicator that is easy to collect and monitor and also helps in tracking the growth process/path and milestones of enterprises

Cons

- Based on the findings of the data, using 'Age' of the enterprise to understand growth is inadequate and irrelevant, since it does not provide information on the core activities of the organization. Further, statistics (refer annex 1) from the study showed that profit growth and ROI for certain younger enterprise were better than older ones.
- Age of the enterprise here refers to number of years after 'Start-up' phase and therefore the definition fails to incorporate those enterprises that are traditional in nature and therefore do not have specific start dates. The assumption is that traditional enterprises would not need 2 years for leveraging the MEDEP support system to grow exponentially.

Suggestions:

- Use of other indicators that can proxy for Age of Business: Age of the business here is defined as the years of operation after being in the start-up phase of enterprise development. Although this indicator is measurable and specific it provides limited insights on the growth potential. Further, the age of the enterprise becomes insignificant when the business in question is a traditional one.

- One possible alternative could be use of 'Registration'. Registration as opposed to age provides better information about the progress of business as a formal enterprise. It is to the additional advantage to analysts to use registration since more details about a legal enterprise can be obtained. Legal enterprises are also at a better position to gain access to various private/public services available in the market. Subtraction
- 'Break-even point' may be used as proxy, or a 'pay-back' period to analyze the status of enterprise development.

V.3.5. Indicator: Registration (*For Graduate: at local governance bodies; For Resilient: in the government system)*

Pros:

- Registration is the first step to formalization.
- Enhances the government and program's ability to collect reliable data from the entrepreneurs
- Legalization of the enterprise ensures higher chances for the enterprise to gain access to various government and private facilities and services
- Registration/ legalization allows for proper employment generation

Cons:

- Registration facility is not easily available in rural parts of Nepal

- Legalization of a firm requires rigorous accounts keeping and other administrative tasks to be conducted, which are considered tedious and for which the entrepreneurs do not have necessary skills
- Registration is not considered as an important asset of the firm
- Enterprises register with the local government rather than with the central government.

Suggestion:

- Making registration with the central mandatory and provide assistance with the process of registration from the graduate phase
- Creating one-stop shops to assist in registration process.

V.3.6. Indicator: Training *(For Graduate: TOEE/TOGE)*

Pros:

- The indicator 'Training' is used in reference to the trainings provided to the entrepreneurs prior to being considered 'Graduate'. Having taken these trainings ensure that the entrepreneurs have the necessary basic training for expanding and growing their enterprise
- Trainings are important part of enterprise development, ensuring that entrepreneurs have relevant training is a necessary indicator
- This indicator not only measures the status of the enterprise but also the status and impact of the entire program

Cons:

- Receiving trainings alone does not ensure the effectiveness of the trainings

- Basic/ preliminary trainings are not enough for graduating
- This indicator disregards the familial/traditional trainings that entrepreneurs have
- Duration of trainings provided and frequency are limited

Suggestions:

- Trainings should not be used as a hard and fast rule for determining the status of the enterprise development
- Trainings delivered should be categorized into Technical and Management related trainings
- Means of verification should be more in lines of effective use of the training received rather than just number of enterprises receiving the training.

V.3.7. Indicator: Entrepreneurs Technical Skills Quality *(For Graduate: Entrepreneurs developed skills to transfer their skills to potential and new entrepreneurs)*

Pros:

- This indicator measures how effectively the entrepreneurs have learned and utilized the skills they were given or had acquired from family.
- It is important that the skills of an entrepreneur has improved enough to be taught, this is a sign of good entrepreneurial capacity
- Formal knowledge sharing can be one possible methods of product diversification and alternative source of income

- It contributes to the bigger goal of MEDEP program, fostering a large collaboration of various stakeholders that promotes knowledge sharing and associations.

Cons:

- There is no definite way of measuring the quality of skill
- Transfer of knowledge and skills alone cannot be used a means of measuring quality of skill, since there exists many entrepreneurs capable but unwilling to train others due to personal reasons
- Not all entrepreneurs will be able to teach/ train, further MEDEP also does not have the capacity of taking/recognizing all entrepreneurs as a viable trainers.
- Many entrepreneurs provide non-formal consultations to members of their group, formal definition for transfer of knowledge and skills is not available

Suggestion:

- The main objective of measuring the quality of technical skills is to ensure its effective use in the promotion of their enterprise. Therefore, an indicator that measures the applicability of skills training provided should be utilized
- Indicators such as increased production, efficiency, use of new/innovative techniques of production, can be used as proxies for measuring the quality of entrepreneurs technical skills
- Transfer of technical skills can be more appropriately used for more resilient enterprises where the focus is on fostering networks and building associations
- Business skills in addition to technical skills should be analyzed
- Operational definition for quality must be provided as well as a means of measuring the transfer of the skills.

V.3.8. Indicator: Investment

Pros:

- Investment or growth in investment is a direct indicator of business growth and expansion.
- It is a necessary facet of scaling up, further it suggests that the enterprise is making enough money to grow, either through profit retention or through ability to pay back of loan amount
- It is clear as an indicator, measures the growth in the physical assets that assist in generating revenue

- The indicator has been sub categorized into ‘amount of fixed capital’ and ‘Initial investment recovered’, which makes the definition more operation and suitable for measurement

Cons:

- Entrepreneurs require knowledge/literacy in financial terms, therefore it might require more effort in collection of the data. From the data collection, it was found that entrepreneurs often mentioned the amount of working capital investment when calculating Investment of the enterprise
- Because it is matter of money, entrepreneurs may practice hesitation in openly expressing their investment amount
- While initial capital investment recovery is relevant, ‘Rs. 50000 in fixed capital’ does not appropriately capture the state of the entrepreneurs, because the fixed capital investment varied based on the nature of the enterprise and in case of enterprise with leasing contract, equity investments become even less
- There is no consideration or importance provided for the different source of funds that generated the investment money

Suggestions:

- Investment is an important indicator, however it must be categorized with subheadings and be provided with more operational definitions
    - Investment increased by the amount of initial investment every year, as a sign of constant growth

- Means of financing the investment must also be observed, such as providing different importance to different sources; borrowing, retained earnings and equity injection
- Along with investment, profit retention should also be observed to assess the health of the enterprise
- Growth of investment in percentage from the initial investment should be used rather than just use of a fixed amount as a standard
- Separate 'Investment' indicator should be used for measuring the status of both 'Graduate' and 'Resilient' enterprise
    - Investment in 'Resilient' enterprise can be used a sub-category to measure ability to resist/restore business back to previous conditions

V.3.9. Indicator: Disruption *(For Resilient: Ability to resist disruption caused either by natural calamities or other shocks)*

Pros:

- Appropriately characterizes the attributes that MEDEP identifies as desirable in a resilient enterprise

Cons:

- Confusion in operational definition; whether it is to measure the preparedness adopted by an enterprise prior to disaster, or the ability of the enterprise to recover to previous business operation after being struck by disaster
- Means of measuring the attributes are ambiguous

- Does not take in consideration the long-term impact of certain disasters that cannot be recovered from. For example; Land rendered unsuitable for agriculture due to flood
- Can only be measured or observed in hindsight

Suggestions:

- Provide operational definition of the word disruption, and ability to resist disruption
- Use of sub-headings to define 'Disruption'; such as the amount of time, in months or years, taken by an enterprise to recover to previous state of operation
- Definition of types of disasters, the impact of it and desirable state of the enterprise

V.3.10.Indicator: Savings *(For Resilient: Have a bank balance equal to initial investment to restart)*

Pros:

- Appropriate measure for assessing resilience, savings as the source of necessary funds to restart the business
- Savings in relation to profit/ revenue would also provide indication of business growth and expansion
- Data about company savings can easily be obtained from a registered company

Cons:

- It is only resourceful if savings are done in banks, however most micro-entrepreneurs have savings in their MEG groups and cooperatives or even at homes
- Amount equal to only the initial investment does not fully measure the ability of resistance or restoration of an enterprise, since it would mean an enterprise would have to start from scratch with only initial investment
- Savings are not the only means of assessing sustainability of an enterprise

Suggestions:

- To better measure ability to resist disaster or restore an enterprise back to previous status, definition of 'Saving' should be changed to 'an amount that is equal to initial investment times number of years in operation, or years after graduation'. This would suggest an enterprise with enough investment to restore their business operation to the state prior to the disaster or somewhere near.
- Savings should be assessed against investment and product diversification of the enterprise, to better assess the ability of the enterprise to generate the required funds to restore business or resist from disruption
- Savings as an indicator should also be used to assess the status of 'Graduate' enterprises as well

V.3.11. Indicator: Insurance *(for Resilient: Enterprises are insured)*

Pros:

- It is relevant as a precautionary measure to resist disruption

- Insurance policies are easy to track and collect data against
- Insurance is indicative of intention for a long life of the business institute and is indicative of enhanced knowledge about the enterprise and the risks associated with it.

Cons:

- Insurance is not explicitly advocated by the MEDEP program or its members
- Insurance is a technical financial tool that only protects against specific risks, it however does not increase resilience against unforeseen natural or man-made disasters

Suggestions:

- The correct usage and effectiveness of 'Insurance' as an indicator can only be determined after definition of the 'Disruption' and 'ability to resist disruption'

V.3.12.Indicator: Market Linkage *(For resilient: Market Linkages beyond local markets)*

Pros:

- 'Market Linkages' as an indicator measures the expansion of business which is indicative of growing business and therefore resilience
- Increasing market is an indirect indication or increased production, sales and therefore revenue which matches with the definition of 'Resilient' enterprises as per MEDEP

- Increasing market outreach contributes to the greater goal of MEDEP to build a larger network of business associations and improving lifestyle of the rural entrepreneurs

Cons:

- 'Beyond local market' is ambiguous.
- There is no quantitative means of measuring the market linkages presented in the document
- Unclear about forward or backward linkages
- Uncertainty about use of various marketing tools; especially packaging and labeling and increasing market presence

Suggestions:

- Use more quantitative means of measuring increased market linkages such as number of vendors increased, number of geographical area coverage increased, increase in number of unit sold to one particular market.
- Personal association measures can also be used to quantify the increase in market linkages such as membering with national or international level associations, partnership with entrepreneurs beyond local boundaries etc.

V.4. Barriers to Scaling Up

Based on the qualitative questions asked to the MEs and informal conversations, following were identified as potential bottlenecks in Micro- entrepreneurs ability to scale up to next phase in enterprise development:

1. Funds

As identified by many literatures, problems related to access to funds was found extensive among Nepalese Micro-Entrepreneurs as well. For 'Graduate' enterprises looking to increase production capacity to improve business operations and profit and for 'Resilient' enterprises looking for business expansions through forward or backward integrations, problems related to access to funds centered around the following common issues:

- Adequate monetary funds not available: A common complaint among the graduate and resilient entrepreneurs was that they had no means to access required amounts of funds. Financial services designed for micro enterprises have neither the provision nor the capacity for extending large amount of money as loans that match the need of these scaling enterprises. Further they have a hard time accessing the financial services provided by commercial banks due to lack of know-how or contact with informant.
- Mismatching financial services: Another concern of the scaling enterprise was that they felt that the loan services did not match their needs. For instance, they would have to take same kinds of loans with similar repayment schedules for both fixed capital needs and working capital needs.
- Missing middle: Resilient entrepreneurs concur one another when they say they reach a sort of limbo after reaching a particular state in growth, where theirs needs are too big for small financial institutions yet not credible enough for bigger organizations

2. **Trainings**

Another common grievance mentioned among the scaling enterprises was that, they could not access specialized or advanced trainings they desired for scaling up. This problem was most prominent for graduated enterprises that were looking in increase their production, line or scope. Their inadequate trainings refrained them from increasing their business to reach the resilient stage.

Problems related to technical trainings mainly centered around:

- Unavailability of experts in their fields to take trainings from
- Lack of means of communication to know about such trainings taking place elsewhere

As enterprises reached resilient stage, entrepreneurs faced acute lack of management skills to expand their business further. These skills included basic/ advanced accounting skills, marketing skills/techniques, strategic planning for the future of the business.

Further, maximum trainings were basic and designed to be targeted for all types of entrepreneurs. It was identified via research that there is an ever increasing demands for customized/tailored trainings; customized in terms of its target audience, customization based on the gender, based on geographic variations and others.

3. **Market**

Another important area presenting as a barrier to enterprises aspiring for scaling was related to the Market and its accessibility. Their concerns mainly comprised of the problems caused by overcrowding. Graduate enterprises faced the problem of acute competition from both fellow local entrepreneurs and imports in their local markets. Lack

of proper Market management had lead to overcrowding of same products in the local markets, which initiated price wars and heavy losses for all enterprise competing in the same product category.

Further, 'Graduate' enterprises complained that they had no means of contacting bigger markets outside of their VDCs, because their produce individually was not enough to be supplied in the national market. In this reference, they faced acute need of a proper value chain/ supply chain system that linked their produces with appropriate markets at fair prices.

For resilient entrepreneurs, market problems came in terms of establishing brand presence and recognition. Their incapacity for attractive packaging and labeling cause them serious losses in the bigger markets where cheaper attractive products give them competition.

'Networking' was prominently Graduate enterprise problem and 'Marketing' was found to be prominently Resilient Enterprise problem.

VI. Summary, Discussions and Implications

Indicator	Clear	Relevant	Economic	Adequate	Monitorable
PCI	Yes	No	Yes	No	Yes
Profit	Yes	Yes	Not Much	Yes	Not Much
Employment	Yes	Yes	Yes	Yes	Yes
Age of the Enterprise	Yes	No	Yes	No	Yes
Registration	Yes	Yes	No	No	Yes
Training	Yes	Yes	No	No	Yes
Entrepreneurs Technical Skills Quality	No	Yes	No	No	Yes
Investment	Yes	Yes	Yes	Yes	Yes
Disruption	No	Yes	No	No	No
Savings	Yes	Yes	Not Much	Yes	No
Insurance	Yes	Yes	Yes	No	Yes
Market Linkage	No	Yes	No	Yes	Not much

From the findings presented in the previous section, the table above may be developed. Matching with the CREAM Model for selecting good performance indicator, it becomes clear that some of the indicators currently in use for identification and categorization of entrepreneurs are not practical or relevant.

Several indicators failed to generate the desired data and knowledge about the attributes and characteristics of the enterprise that are important to determine their status. The probable reasons for failure includes the inability to understand usage of words, unwillingness to share information, or irrelevant use of indicator.

Cross analysis between different indicators indicated a lack of cohesiveness among the indicators selected for each category. While the indicators could be analyzed in isolation, together the data sometimes to portrayed different inferences.

The CREAM principles are becoming popular in selecting good performance indicators and are considered useful for constructing project M&E systems. Comparing the existing indicators against the CREAM model show that several indicators failed to meet the important criteria of the model.

Qualitative questions addressed the subjective constraints in collecting information against the indicators.

The MED service providers depended mainly on a single and most convenient indicator “Age of the Enterprise” to categorize MEs in accordance to the undue importance provided to this indicator in the program document. As such other important indicators were being dismissed.

The critical analysis of the indicators opened perspective on the shortcomings of the program to adequately identify the enterprises’ state of development. Given that the identification finds basis for providing further support, it is impertinent that the indicators are revised.

VII. Policy Recommendation

Based on the findings and discussions presented in the sections above, following revisions are recommended.

VII.1. Indicator Recommendation

VII.1.1. Adaptation in reference to:

1. Re-testing the compatibility and relevance of existing indicator against the attribute it is set to measure.
2. Aligning all the indicators of a single category to enhance the relevance of the standards
3. Aligning indicators with the activities/support system provided in the previous stage
4. Using indicators that comply more to the CREAM model
5. Using multivariate variables as indicators to assist comparison between seemingly different enterprise.

VII.1.2. Proposed Indicators

Tentative Indicators for Graduate Micro Enterprises

Table 14: Tentative Indicator for Graduate Enterprise

Attribute/ Indicator	Change	Justification	New Indicator	Measure
PCI	Remove	Improvement in PCI due to enterprise operation can be observed through increase in profit of enterprise	Profit Increase/ Use Profit related indicators as proxy	% Increase in Profit
Profit	Improve	Profit should include more sub- headings to measure the impact on enterprise growth	% increase in Profit	Profit in increasing trend for two continuous years and/or not less than threshold of national absolute line
		To verify the truthfulness of the information provided	Changes in Household Spending Behavior	Changes in composition of Household expenditure
		To assist with assessing investment behavior	Retention of Profit	% Retention of profit in the enterprise
		Measure the point at which enterprise becomes profitable	Break-even point	Years for breakeven
Employment	Improve	Need for a common measure to count employment generated	Yet to be discussed	Count of attendance/ number of hours worked per week as per ILO measures
Age of Enterprise	Remove	Redundancy	Registration year	Year Registered with the government body
Registration	Improve	First step to formalization	Formal and Legal Entity	Registration with the OCR
Training	Improve	To measure the effectiveness of training	Technical Training effectiveness	Use of training in enterprise/ Increase in production
			Management Training effectiveness	Use of Management training in enterprise/ Improvement in

				documentation
Investment	Improve	Investment should represent growth capabilities	Growth of investment	% Increase in Fixed capital from initial investment
		Linkages already made with credit providers	Source of Funds	Weights assigned to Retained Earnings, Loans, Equity injection
			Pay-back period	Years to recover initial investment
Entrepreneurs Technical Skill Quality	Remove	Certification for transfer of skills not adequate measure of quality	Turnover/increase in production	Increase in production due to use of skill training
Market Linkages	Add	Market linkage trainings provided prior to being Graduate	Sales/ Unit of sales or production	% Increase in sales or units sold
Savings	Add	Aligned with other indicators and overall definition of Graduate enterprise	Balance in Bank	

Indicators for Resilient Micro Enterprises

Table 15: Tentative Indicators for Resilient Enterprise

Attribute/Indicator	**Change**	**Justification**	**New**	**Measure**
Disruption	Improve	Operational definition require to assist in effective measuring	Ability to restore to a stage prior to disruption	Yet to be defined
			Ability to resist disruption	Yet to be defined
Savings	Improve	Definition not adequate to measure the resilience of enterprise	Amount of savings in bank	Amount equal to initial investment times number of years of operation
Employment	Improve	Need for a common measure to count employment generated	Yet to be discussed	Count of attendance/ number of hours worked per week as per ILO measures

Registration	Remove	Redundant with previous stage	n/a	n/a
Insurance	Remain	Insurance as per need of the organization	n/a	n/a
Profit	Improve	Data should generate more information on the status of the enterprise	ROI and ROE	% Growth in ROI/ROE over the years
Market Linkages	Improve	Need for a quantitative measure for assessing improved market linkage	Market expansion	Increase in number of vendors/ increase sales or geographical area coverage
			Use of Marketing techniques	Use of packaging and labeling techniques and improving market presence
			Networking	Membership in national federation/association
Asset Turnover	Add	Use of multipurpose ratios to assist in overall indicator alignment, efficiency, profitability	Sales and Asset Turnover	% Increase in Sales(revenue) and improvement in turnover
Sales	Add	Multi purpose indicators to assess efficiency, market outreach, profitability, resilience	Increase in Sales	% Increase in sales
Product Diversification	Add	Proxy indicator for measuring Resilience	Product Diversification	Number of investments made in new products
Investment	Add	Improved investment and source of funds for scaling is critical in this stage	Growth of investment	% Increase in Fixed capital to support business plan
			Source of Funds	Weights assigned to Retained Earnings, Loans, Equity injection

VII.2. General Recommendation

To address the qualitative problems, social and economic, identified in the research, following areas of discussions should be pursued:

1. Policy for addressing the Missing Middle

As discussed in the previous section, there is a glaring gap in policies that addresses the needs of the enterprises that are too big to be considered Micro yet do not have enough to be called a Small-scale enterprise.

These gaps are present in term of missing financial policies or facilities that cater to the needs of such scaling enterprises, in terms of missing mentoring and governance required from the management team to pull the organization forward, in terms of keen drive to take risks and fall forward.

Such issues may be resolved with a breakthrough in network building between Private sector and Education sector. A good networking with the private structures that deals exclusively in providing capital and managerial assistance would resolve the problem related to the need of **capital injection** for growth of the 'Graduate' enterprise. A strong collaboration with educational institute, on the other hand would provide access to knowledgeable and to some extent expert manpower required by the 'Resilient' enterprise to strategically plan business further. This would enhance the managerial capacity, governance and planning aptitude of the entrepreneurs.

2. Shifting focus to building and development of 'Enterprise' from 'Entrepreneurs':

At one point it must be realized that not everyone can or will be an entrepreneur and that a large majority of the participants would have to become employees to a larger

association. This realization of acute problems can be solved through proper **Networking and Market Management.**

Effective Networking with the correct stakeholder would ensure a creation of golden value chain for a product. Market management would in turn contribute to market creation and mobilization such that individuals at every level of the value chain would benefit from association with the value chain. Proper marker management would mitigate the problem of overcrowding of products in a single market place in particular while contributing to the bigger aim of being leading producers in any product.

3. Upgrading training modules

Owing to the importance of trainings, both technical and business management, the training models currently in place should be revised in terms of:

1. Time and duration: Both frequency of training and the duration of the trainings should be increased/extended
2. Content: The content in terms of the level of advance knowledge transferred should be incorporated into the training systems. Tailored trainings as per the need must be devised and disseminated
3. Sensitivity: Social sensitivity, i.e. difference due to gender, caste, ethnicity, and race should be fitted into various trainings sessions. Capacity building of the organization to develop understanding for the need of these special types of trainings and techniques. From research it was evident that the trainings were basic and could be disseminated between larger masses. Gender

sensitive trainings, disability sensitive trainings should also be developed to increase efficiency in performance.

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