Private Enterprise Development in Low-Income Countries

Microenterprise Development as a Poverty-Reduction Strategy in Nepal: A Multidimensional Analysis of the Factors Determining Microenterprise Performance

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Using the data enumerated from 501 randomly-sampled micro-entrepreneurs, and several case studies, interviews, and focus groups discussions across three ecological belts in Nepal, this study revealed a significant increase in profit, sales and assets of microenterprises over the period, and identified several entrepreneur-, enterprise-, and environment-related factors determining microenterprise performance in Nepal.

Background

Microenterprise development strategy has been used as a tool to combat poverty in developing countries since 1970/80s. Nepal is no exception as its Government, with the financial and technical support of several national and international organizations, has been implementing a microenterprise development program (MEDEP) since 1998. The program aims to combat poverty through creating and developing microenterprises, generating self-employment, and increasing household income among low income families in rural areas of Nepal. The program's microenterprise development model comprises six components: (1) social mobilization for enterprise development, (2) entrepreneurship development, (3) technical skills development, (4) access to micro-credit, (5) access to appropriate technology, and (6) marketing and business counselling (Micro-Enterprise Development Program, 2013). It targets the population below the poverty line, especially focusing the disadvantaged groups such as women, dalit, indigenous nationalities, religious minorities, other madhesi castes, differently-abled people, conflict-affected families, and so on. Until now, the program has expanded to over 36 rural districts (out of 75 total districts) and has created over 50,000 micro-entrepreneurs across the country. In this context, this study primarily aimed to identify the factors determining microenterprise performance in Nepal.

Methodology

The study adopted the mixed methods research approach, which includes both quantitative and qualitative methods. The quantitative method was the main method of the data analysis. The qualitative methods were used to supplement the quantitative results with qualitative information. To collect the primary quantitative data, the survey questionnaire was administered to 514 randomly-sampled micro-entrepreneurs stratified according to gender, caste/ethnicity, and enterprise categories across three ecological belts in Nepal. A list of the micro-entrepreneurs was obtained from the MEDEP office records. The micro-entrepreneurs in the three districts were further stratified as per enterprise type, caste/ethnicity, and gender. After stratifying the microenterprises into different strata, a proportionate-to-size sampling method was adopted to determine the final respondents for the study. However, due to the incomplete data provided in the survey questionnaire, the data of 13 survey questionnaires were excluded from the study; therefore, the total number of samples included in the analysis in the study was 501[1].

Furthermore, the qualitative data/information was collected through case studies, interviews, and focus group discussions (FGDs). The researcher collected a number of mini case studies representing different

[1] The results of the study were analyzed in three steps: univariate analysis (descriptive statistics), bivariate analysis (cross tabs, correlation and paired-samples T-test), and multivariate analysis (multiple regression and path analysis). The primary data were scrutinized, entered into SPSS, and the outliers and missing cases were handled carefully.

types of enterprises such as agro-based, forest-based, service-based, and so on in three districts (Sindhupalchok, Parbat and Nawalparasi), each representing an ecological region; namely, mountain, hill and Terai (plain) region. Micro-entrepreneurs were asked to briefly tell their life story, including their demographics, personal information, detailed information about their microenterprise both before and after the programme and their opinion of the program.

The researcher conducted the interviews in two rounds with micro-entrepreneurs and microenterprise development program facilitators. The first round of interviews was conducted during the primary data collection. The main objectives of the first-round interview were to obtain key information about the overall situation of the microenterprises in the district and to explore useful case studies. The second round of interviews was conducted after producing the preliminary results of the study. The main objective of the second round was to explore the contextual rationale of certain quantitative findings of the study.
Similarly, FGDs also were conducted in two rounds by the researcher with micro-entrepreneurs and microenterprise development program facilitators and the members of District Microenterprise Groups Associations (DMEGA) in the study area. The dynamics and the scope of the FGDs follow those of the interviews.

Findings

The major findings of the study with reference to the specific objectives are presented below.

Finding 1: Microenterprise performance

- The levels of employment, profit, sales, and asset had increased over the period. Among employment, profit, sales and assets, profit had the highest percentage of growth followed by sales, assets and employment. Table 1 illustrates the growth in the measures of microenterprise performance.

Table 1: Microenterprise performance

Measures of Performance (Annual average)	2068/2011-12	2069/2012-13	Growth rate
Employment (Number)	1.70	1.85	8.82%
Profit (NRs)	40194.47	61047.23	51.88%
Sales (NRs)	79980.48	114152.60	42.73%
Assets (NRs)	31471.06	36017.84	14.45%

Finding 2: Entrepreneur-related factors determining microenterprise performance

- The microenterprises owned by female micro-entrepreneurs had relatively higher performance.
- The educational attainment of the micro-entrepreneurs influenced the microenterprise performance (sales and asset growth rates) positively through managerial foresight.
- The microenterprises owned by the micro-entrepreneurs with higher managerial skills (i.e. searching and gathering enterprise related information, identifying business opportunities, dealing with risk and adverse situations, establishing relationship with customers and suppliers, etc.) tended to have higher performance (profit and sales growth rate).

- The microenterprises owned by the micro-entrepreneurs that were motivated more by need for achievement in the absence of managerial foresight (i.e. an entrepreneur who is more oriented towards future) appeared to have relatively lower performance (sales growth rate). The microenterprises owned by the micro-entrepreneurs that were motivated more by need for autonomy exhibited relatively lower performance (profit and sales growth rates).
- The microenterprises owned by the micro-entrepreneurs with higher creative tendency had relatively higher performance (profit, sales and asset growth rates).
- The microenterprises owned by the micro-entrepreneurs that were dictated by own internal locus of control had relatively lower performance (profit and sales growth rate).
- The microenterprises owned by the micro-entrepreneurs with higher managerial foresight had relatively higher performance (sales and asset growth rates).
- The age and prior experience of the micro-entrepreneurs, and the calculated risk taking traits of the micro-entrepreneurs, did not appear to have significant effects on the microenterprise performance.

Finding 3: Enterprise-related factors determining microenterprise performance

- The older microenterprises owned by the micro-entrepreneurs with higher managerial foresight exhibited relatively higher performance (asset growth rate).
- The bigger microenterprises in the absence of managerial foresight in the owners had relatively lower performance.
- The microenterprises that experienced financial constraints in starting their business had relatively higher performance than those that did not have such constraints.
- The owners of microenterprises that had financial constraints in starting the business seemed to have relatively higher managerial foresight, and this affected the microenterprise performance positively.
- The enterprise sector did not appear to have a significant effect on microenterprise performance.

Finding 4: Environment-related factors determining microenterprise performance

- The microenterprises owned by the micro-entrepreneurs having a stronger social network (i.e. stronger relationship with trade partners, family, institutions, etc) generally exhibited higher performance. However, if the social network resulted in overconfidence among the micro-entrepreneurs concerning the future of their business, this might result in a lower managerial foresight, thereby leading to relatively lower microenterprise performance.
- The micro-entrepreneurs that had a greater perceived environmental hostility tended to have relatively lower managerial foresight, thus experiencing relatively lower microenterprise performance (sales and asset growth rates). Family environment, perceived environmental dynamism and environmental heterogeneity did not appear to have significant effects on the microenterprise performance.

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Moving Forward…

The present study can trigger further investigations on microenterprises creation and development in Nepal and encourage future qualitative analyses to identify the factors determining microenterprise performance in a given context.

Respondents for this study were the micro-entrepreneurs that were supported by the microenterprise development programme of the government of Nepal with special assistance from several international organizations. There might be several other microenterprises across the country not created and/or supported under the microenterprise development program or that were supported by other organizations and programs. Future studies are suggested to focus on the self-initiated microenterprises or the microenterprises supported by other organizations and programs. The nature of a self-initiating micro-entrepreneur may have different motivation and entrepreneurial traits than those initiated under a program with a particular goal, thus being influenced by different factors.

Moreover, the conceptual framework of this study was developed based on the existing related theories and empirical findings. The study has focused on examining the effects of the factors, identified by previous studies, in the context of Nepal. For this reason, the factors included in the study were limited to the available literature. There might be several other distinctive factors determining the microenterprise performance in different contexts. Therefore, the study further suggests future studies to carry out qualitative studies exploring the distinctive factors determining microenterprise performance in a particular context.