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Micro enterprise development (MED) model: A holistic approach of start-up enterprise support and performance evaluation

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Abstract

This article is about Micro Enterprise Development (MED) model which was implemented in 1998 in Nepal under the Ministry of Industry to promote micro-enterprises. The MED model aims to alleviate poverty through income and employment generation by promoting micro-enterprises in Nepal. The article also analyses and presents data on created micro-enterprise under the MED model as well as benefits realized by the micro-entrepreneurs from the different components of the MED model.

Keywords: Micro-enterprise, MED model, MEDEP, entrepreneurship, holistic approach

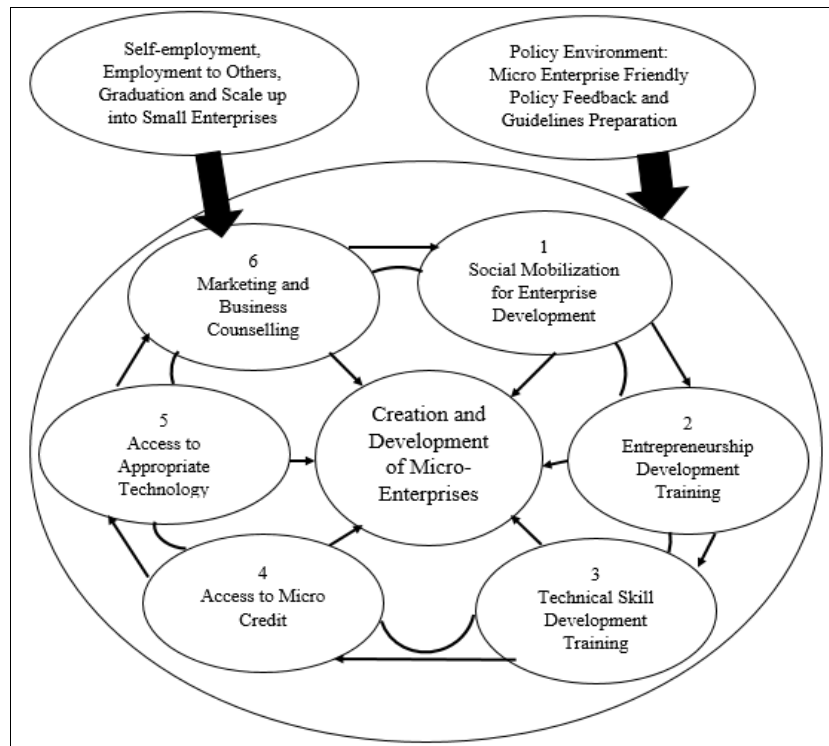
1. Introduction

Micro-Enterprise Development Program (MEDEP) was a program under the Ministry of Industry to promote micro-enterprise in the country for supporting poverty alleviation (Thapa and Mathema, 2001) ^[11] aimed in the Ninth National Plan. With a similar objective, MEDEP had implemented Micro Enterprise Development (MED) model in 1998 in 10 districts of Nepal. The promoted micro-enterprises were supposed to assist in income generating activities, especially for the rural people. Therefore, MEDEP has targeted grass-root people having with lower levels of income as its beneficiaries. The program's strategic priority was unemployed and semi-employed youths, women, men, and existing micro-entrepreneurs who were facing a growth trap.

Each project period of MEDEP was funded for 5 years with the support from donor countries. The program was successful in proving its utility since its first phase therefore causing it to be extended for four phases till the year 2018. Since then, the program was phase-wise extended in all districts to implement the MED model for creating and developing micro-enterprises till 2018 ^[6] (Rai, Chapagain & Shrestha, 2018) ^[10]. Program expansion was inspired by the successful outcomes in the implemented districts as well as guided by learnings of earlier phases. As per MEDEP (2018) ^[7], this program is fully internalized in the Ministry of Industry's Micro-Enterprises Development Program for Poverty Alleviation-MEDPA. Currently, the MED model is being executed by the Ministry in all 753 local bodies in the country (UNDP, 2018) ^[12].

MEDEP has followed an integrated enterprise development approach to deliver components of Business Development Services (BDS). MEDEP has named its BDS model as Micro Enterprise Development (MED). The MED model is a holistic BDS approach and consists six components of various support services generally required to create and develop start-ups. The components of the MED model are i.e. (i) social mobilization (ii) entrepreneurship development training (iii) skill development training (iv) access to appropriate technology (v) access to finance and (vi) market network support and business counseling are the components of the MED Model (Rai, Chapagain and Shrestha, 2018) ^[10] as presented in Figure 1.

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Note: MED service components offered to micro-entrepreneurs to be delivered for enterprise creation and development. From *Lesson Learnt Documentation of the MED Model Promoted by MEDEP/MEDPA in Nepal* (p. 22), by Rai J.K., Chapagain S.P. and Shrestha A., 2018^[10], UNDP

Fig 1: Service Components of Micro Enterprise Development (MED) Model

To achieve uniformity in program implementation at all local levels, the Ministry of Industry, MEDPA unit has published Desktop Manuals on the MED Model. The manual guidelines for Business Development Service Providing Organizations (BDSPOs), local implementing agencies, donors, and Associations of Micro-Entrepreneurs (MEAs). The MEDPA believes that if MED support could have been provided in a proper manner as per the guidelines, it ensures the success of the created micro-enterprise. Therefore, the MED model has been designed as a package of different business development support services to be delivered continuously according to different growth stages of the enterprise till the graduate stage of the enterprise.

Literature Review

Since the late 1990s, the focus has been shifted toward commercially oriented market promotion to supply Business Development Service (BDS) by prioritizing private sector actors as key service suppliers (Eiligmann, 2005; p. 5)^[3]. This shift is also termed a new paradigm shift of BDS. In his study, Nepal (2006)^[9] has stated that we lack a holistic enterprise development model for enterprise creation and development. He has also identified that the skill and enterprise development training curriculums we use are focused only on a single or captures few dimensions making it insufficient to develop and sustain small enterprises. Therefore, he has recommended to apply a holistic BDS model in Nepal.

Nepal's different topographical areas are well equipped with specific skills and appropriate technology. Historically, Nepalese people are utilizing their leisure time from agriculture being involved in such skill and technology-based micro and cottage enterprise activities for extra

income generation. Such occupational traditions have been observed adapted from generation to generation.

With the passing of time, Nepal also considered to apply the latest empirical evidence-based models for enterprise promotion. The objective was to utilize local level skills and resources available in the different topographies of the country for supporting poverty alleviation. A variety of agencies are providing BDS to MSEs in Nepal. Among them, the Department of Cottage and Small Industries and Cottage and Small Industry Development Board, Industrial Enterprise Development Institute, and CTEVT are some renowned institutions providing specific entrepreneurship and skill development training from their very beginning. Such skills training they are provided are standalone type of BDS rather than a holistic model.

Almost all MEDEP program evaluation studies have found that its efforts to promote micro-enterprise in Nepal through the MED model is very effective. The MED has been recognized as an example of a holistic enterprise promotion model to support alleviating poverty. According to Bajracharya *et al.* (2005)^[1], initially, MEDEP has started in three districts and ultimately reached ten districts in its first phase (1998-2003). They have also found that MEDEP's MED model as a good initiation as compared to other standalone training models for MSE promotion in Nepal. It has multiple components to support enterprise creation and development to be delivered holistic manner. The Ministry of Industry has internalized the MED model as Micro Enterprise Development for Poverty Alleviation-MED PA (Khatiwada, 2015)^[4].

Methodology

A descriptive research design has been applied in this research. Secondary data in the forms of MEDEP's

evaluation studies are sources of secondary data used to describe the MED model and its holistic approach. MEDEP's data base file is another secondary source to analyze and present the data on created and developed enterprise using the MED model.

Judgmental or purposive sampling method was applied to select Kavre as a sample district based on the suitability for this study with respect to information holdings, experience, short distance to field visit from Kathmandu etc. For getting opinion on the benefits realized from the MED components, opinion survey of micro-entrepreneurs was conducted to acquire primary data. Systematic random sampling was applied to select micro-entrepreneurs for interviews.

Findings

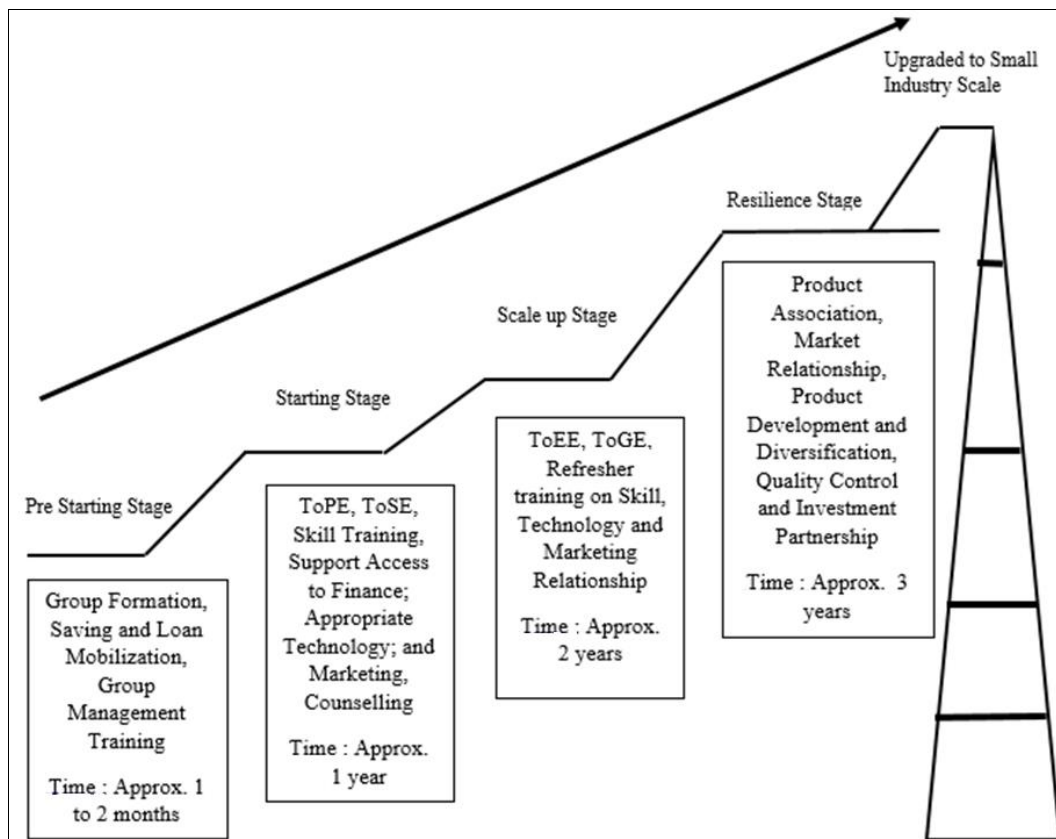
MED Model's Holistic Approach to Support Services

Ministry of Industry (2017) has categorized four stages in which an enterprise is created, achieve growth, and sufficiently developed to the stage of graduation (MoI, 2018) According to the need of entrepreneurs in such growth stages, The MED service components are provisioned to deliver gradually according to those growth stages in a holistic manner till the enterprise get graduated. Such enterprise growth stages and components of MED

services provisioned in those stages are described below as presented in Figure 2.

Pre-starting Stage I: It is the very beginning stage of enterprise creation. In this stage, an enterprise is created, multiple groups of entrepreneurs are formed, orientation is provided for saving mobilization, and if the group is composed of members greater than 25, a saving cooperative is formed. These groups are called Micro Entrepreneur Groups (MEGs). If a group is composed of more than 25 members, cooperatives will be formed. Group management training and loan mobilization techniques are delivered to all the selected members associated in specific groups.

Enterprise Starting Stage II: In this stage, Entrepreneurship Development (ED) training is provided to entrepreneurs. After completion of this training, entrepreneurs are expected to be capable to choose enterprise business of their best interest and ability along with preparing a business plan (MoI, 2018). In this stage, entrepreneurs are also provided other MED component services like appropriate technology support, purchase and installation of technology, and assistance for financial access.



Note: Adapted from *Desktop Manual on MED* (p. 23), MEDEP, 2017

Fig 2: Growth Stages of Micro-enterprises and MED Service Components Provisioned in such Stages

Micro-entrepreneurs also be supported to establish and expand their market network by taking part in trade fairs and exhibitions in this stage along with regular counseling services. This stage ends with the creation of new micro-enterprises tentatively within 6 to 12 Months period.

Scale-up Stage III: The created enterprises in the second

stage face different types of operational problems during their growth. To deal with such problems during their operation, entrepreneurs are provided refresher training on skill, technology and marketing relationship supports. Such refresher supports are provided through Training of Existing Entrepreneurs (ToEE) and Training of Growing Entrepreneurs (ToGE) which are the advanced parts of the

Entrepreneurship Development Training. Total Two-year duration is supposed to accomplish this stage after enterprise creation.

Resilience Stage IV: After a successful completion of the duration of the scale-up stage, micro-entrepreneurs are expected to reach to resilience stage. Micro-enterprises should be operating in profit and to some extent financially sustained for being upgraded to this stage. They are expected to be associated with Product Associations, Cooperatives, and local to the national level associations of Micro-Entrepreneurs. They are also expected being able to acquire needed for business expansion. In this stage, the

program supports them advanced level supports i.e. market relationship expansion support, product upgradation and diversification, and quality control. From the date of enterprise creation, 3-year duration is expected to accomplish this stage for being graduated. To upgrade to small scale enterprise from micro-enterprises, they need to increase capital to expand the enterprise business.

Enterprise Development Performance under the MED Model

Under the MED model, MEDEP has created altogether 132387 micro-enterprises from its beginning in 1998 to December end 2017 as shown in Table 1.

Table 1: Numbers of Enterprise Created Under MED model

S. No.	Categories of Enterprises	Number of Created Enterprises
1	Agro and Forest-based Enterprises	85845
2	Construction-based Enterprises	260
3	Energy-based Enterprises	183
4	Information and Communication Technology (ICT) based Enterprises	405
5	Production-based Enterprises	17661
6	Tourism-based Enterprises	1963
7	Service-based Enterprises	15486
8	Other categories	10584
	Total	132387

Note: extracted from the MEDEP database as of December 2017

Majority i.e. 65% of the total created micro-enterprises are based on Agro and Forest sectors. In the second rank, production-based enterprises share 13% share followed by 12% share of service sector enterprises. MEDEP's data base shows that above 80% of created enterprises are active and survived. Since the majority of created enterprises based on locally available skills and resources which has ensured their success and longer sustainability. Compared to other standalone training providers, the number of created enterprises and their performance is quite appreciable under the MED model's holistic approach. Bajracharya and Joshi

(2012) [2] have found that compared to other Government training programs, the generated employment through the MED model is quite cost effective.

Performance on MED model Expanded MED model Implementation

In its each phase of program funding, MEDEP has increased the number of district coverage for the implementation of MED model for creation and development of micro-enterprise all over the country as shown in Table 2.

Table 2: MEDEP Phases, Number of Districts Coverage and Created Enterprises

MEDEP Phases	Districts Coverage	Male	Female	Total
I (Aug 1998-2003)	10	3614	3820	7434
II (2004-March 2008)	25	7034	17739	24773
III (April 2008-July 2013)	38	10603	26022	36625
IV (Aug 2013-July 2018)*	75	13366	50189	63555
Total		34617 (26%)	97770(74%)	132387

***Note:** Enterprise Created till December 2017. From MEDEP database as of December 2017

According to the Ministry of Industry, the Council of Ministers of Nepal has approved the MEDPA Operational Guidelines 2077 [8] dated 2077-07-04 B.S. (<https://moics.gov.np>). The council has also approved to implement the MED model in all the 753 Local Levels in Nepal.

Value Addition by Enterprises

According to MoICS (2019), the average income per entrepreneur has been reached to NRs. 72,280. Among the total created micro-entrepreneurs, 44% moved out of poverty. The table below shows the value addition by micro-enterprises.

Table 3: Value Added by Micro-enterprises

Descriptions	NRs. (in Million)
Sales of Product	12917.20
Less: Cost of Production	-4508.05
Added Value	8409.15

Note: Extracted from MEDEP database as of December 2017)

After deducting cost from sales income, the surplus amount of NRs. 8409.15 value-added by micro-enterprises. The percentage of added value is 186% which is approximately double than the cost of production.

Conclusion

The MED model's holistic approach of enterprise creation and development is effective enough as compared to other standalone training services for enterprise development. The MED model's performances in creating and developing micro-enterprise with longer sustainability has evidenced its usefulness. Therefore, the Ministry of Industry is implementing this model in all the 753 local bodies in the country. The enterprise support components of the MED model are based on the need of entrepreneurs to mitigate the faced obstacles as well as acquire knowledge on enterprise development during different stages of their enterprise growth. This model is equally useful to utilize locally available skills and resources to generate income and employment. Therefore, the successful expansion of this model in all the 753 local bodies seems ensured.

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