

An Operational Status of Micro Enterprises in Karnali Province of Nepal

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Abstract

The study is based on micro-enterprises operating status in Karnali province of Nepal. Investments in global economic growth are multi-sectoral in every country in the world. Economic growth and development in various countries vary from one country to the next as the characteristics of the micro, small, medium, and large enterprises vary considerably. Micro and small enterprises (SMEs) are pivotal to addressing unemployment, driving job creation and generating income. Develops social stability, and contributing to national development. This study employed a descriptive and analytical approach, relying on secondary data sources. It has provided an overview of the micro-enterprise landscape in Karnali Province, where 157 micro-enterprises have been established over recent years. Among these, the largest share is in the milling service sector (23.57%), while the dairy sector has the smallest representation (2.55%). The study identifies a total of 30 distinct types of micro-enterprises operating within the province.

Keywords: *small and medium enterprises, economic development, Karnali Province, entrepreneurship*

Introduction

Contributions for the national economic development are multi-sectors of any country of the world. Economic growth and development of various countries are varying from one to another through the characteristics of the micro, small, medium, and large enterprise is significantly different. Micro, small, and medium enterprises have key role in providing jobs, generating income, developing social cohesion, and contributing to national development. These categories of enterprises are based on employment, size of the investment, and the capacity. In particular, micro-enterprises are suitable for those who are below the poverty line and ensure the participation and benefits to the vulnerable groups for their overall development. Globally, MSEs are promising and prominent for the livelihood improvement, income generation, employment, job creation, utilization of natural resources, resolution of social and economic conflicts, fostering national economy

and fighting against hunger and poverty. The larger section of the population or entrepreneurs are from micro enterprises and its contributions are high for ensuring the participation and raising incomes of low economic families in the globe. Micro enterprises are the effective tools/strategies for both improving economy and social inequality. According to Bayer and Jensen (2014), absolute poverty is a more severe issue in developing countries, where over 80% of the global population resides, compared to developed nations. Nearly all of the billion people living on less than one dollar a day are found in developing countries. Additionally, these countries face greater levels of inequality. A global perspective reveals a strong negative correlation between average income inequality and development levels, with countries experiencing extreme income inequality generally being less developed.

Understanding and definitions of micro-enterprise are varying from country to country although foundations for defining the micro enterprise are

similar around the globe. Several employees, size of investment and capacity are basic criteria for defining the micro-enterprises. Microenterprise itself has inadequate study rather than Small and Micro Enterprises (SMEs). Micro enterprises are defined in various ways. According to the Union (2005), a micro enterprise is one that employs fewer than 10 people and has an annual turnover or balance sheet total of no more than 2 million euros is classified as a micro-enterprise. Sharma (2015) describes micro enterprises as projects or businesses in sectors such as trade, manufacturing, services, or agriculture, aimed at improving livelihoods and generating income. These businesses are run by micro entrepreneurs who may be self-employed or employ up to 10 people, excluding seasonal workers. Additionally, micro enterprises often consist of companies with five or fewer employees and may require up to \$35,000 to start or expand. Entrepreneurs seeking microenterprise loans typically have limited credit histories, need smaller loan amounts than what is usually offered by traditional financial institutions, or do not meet other conventional lending criteria (Orr & Orr, 2002). In general, micro enterprise is a very small units of business with small amount of investment, uses indigenous skills, simple technologies which runs by particularly low-income individuals to create employment opportunity for income and better livelihoods. An enterprise employs fewer than 9 people including owner with investment of not exceeding NPR 0.5 million excluding land and building, and energy capacity uses less than 20 kilowatt is defined as micro enterprises (GoN, Industrial Trade Act, 2017). A micro-enterprise is defined as a business with investments in plant and machinery up to Rs. 2.5 million for goods, or up to Rs. 1 million for services. This definition helps categorize businesses as micro enterprises based on their investment in equipment and machinery (Government of India, 2006).

Micro Enterprises promotion in the development history of Nepal including the world has long history though defined category/classification of enterprises to focus and priority is about a half century. Aiming to increase income and improve the economic status of the poor/local income people, Nepal itself had implemented the numbers of projects/programs with the varieties of names similar to micro enterprises. Typically, aiming to reduce poverty micro enterprises are created and supported through Micro Enterprises Development Programme (MEDEP) by numbers of donors including UNDP and Government of Nepal since 1998. Government of Nepal has internalized the MEDEP to continue as priority program of Ministry of Industry, Commerce and Supplies, latter it has been implementing same model through Alternative Energy Promotion Center (AEPC) under the Ministry of Energy, Water Resource and Irrigation.

Literature Review

Micro Enterprises are important to promote the employment creation and economic development of low-income families and being as effective strategy for the poverty alleviation. The efforts and investment for the sustainability/operation of Small and Medium Enterprises are made by Governments, Donors and Supporting organizations considering its contribution for overall nation building. The relevant studies and findings are included as evidences.

Micro Enterprises for Employment Creation and Economic Development

Baptiste-Cornelis and Long (2009) highlighted that Small Business Enterprises (SBEs) have a significant impact on Trinidad and Tobago economy. They have key role in generating employment. They foster economic growth, creating linkages, diversifying the economy, and controlling inflation. In 2006, SBEs created approximately 59,952 jobs in the manufacturing and services sectors and contributed

about 9.3% to the country GDP. Additionally, the growth of SBEs supports the development of medium and large businesses. The people-centered approach of SBEs and entrepreneurship also promotes welfare by offering pathways to reduce poverty, alleviate unemployment, enhance communities, and empower disadvantaged groups. Salia et al. (2017) found that many micro enterprises are run by female entrepreneurs. They are on average, have higher levels of university education compared to their male counterparts. However, female entrepreneurs tend to perform less effectively than male entrepreneurs and often face challenges related to investment, management, and technical skills.

Micro-enterprises have a central role in providing income and employment to large numbers of workers in both rural and urban areas. They are support in producing essential goods and services for growing populations. They represent over 60% of regional enterprises and contribute up to 50% of paid employment. As women participation in the labor force increases in developing countries. It is found that significant number of women rely on micro-enterprises in the informal sector for their livelihood (Harvie, 2005).

The net increase of the student enrolment at school level in Gaighat was 26 percent, whereas that in Hadiya was 24 percent. The students' enrolments into college also increased considerably by 33 and 17 percent in Gaighat and Hadiya respectively. These increases can be attributed to an increase in the income out of their enterprising activities. (ii) Women position. The social and economic position of the women entrepreneurs has been raised since they have undertaken the enterprising activities. The women entrepreneurs have got their role in the household decision making and being able to expense on foods, clothing, children education, etc. The 84 percent of 32 entrepreneurs in Gaighat and 71 percent entrepreneurs in Hadiya visited

private clinics despite there was district hospital for treatment of sickness (MOI, 2010). Micro enterprises are well-suited for advancing industrial development in a country. They can operate using local resources, skills, and raw materials, and their products can be sold in local or neighboring markets. These businesses help generate additional revenue, address unemployment, and make productive use of time between crop harvests and planting seasons. They have significant role in both entrepreneurship and industrial development sectors (Karki & Xheneti, 2018).

Formal SMEs contribute up to 40% of global GDP and account for up to 60% of global employment. When including the informal SME sector, these figures are even higher. The World Bank estimates there are between 365 and 445 million SMEs globally, with only about 20% being formal. The remainder operates within the informal economy that particularly prevalent in low-income countries. SMEs generate two out of every three net new jobs globally. Their significant contribution to GDP means they have a key role in influencing economic growth (Kongolo, 2010). Micro and small enterprises (MSEs) are fundamental in achieving the development goals of many countries. They drive economic progress by contributing affordable, high-quality goods and services to a broad population. The use of skills and talents of many individuals without the need for extensive training, large capital investments, and complex technology (Osebo, 2017).

Factors Associated with Operation and Sustainability of Micro Enterprises

The successful of micro enterprise remains several factors. SMEs can achieve success with a combination of specific factors tailored to their sector. In agriculture, six key factors for success. For micro-enterprises in agriculture, success hinges on several factors: family background, the number of

employees, education, location, infrastructure, and government support. These elements collectively contribute to the operational effectiveness and growth potential of agricultural businesses. They rely on a different set of factors for success. Key elements include education, access to finance, the number of employees, infrastructure, influence, inflation management, and cost control. These factors are essential for maintaining operational efficiency and competitiveness in the manufacturing sector (Opoku-Afriyie, 2019).

Bekele and Worku (2008) found that businesses that ceased operations often faced several challenges. The study identified several key issues leading to business failure. It is found inadequate finance (61%), low education levels (55%), poor managerial skills (54%), a lack of technical skills (49%), and an inability to reinvest profits (46%). It also emphasized the importance of social capital and networking, such as participation in iqqub schemes, for long-term survival. Businesses involved in iqqub schemes were 3.25 times more likely to succeed than those that were not. These findings suggest that policies aimed at supporting social capital and improving financial and managerial resources. It could significantly enhance the long-term growth of small businesses and enterprises.

Enterprises with a detailed strategic plan perform better in 80% of performance parameters compared to those without a written business plan. In contrast, businesses with only brief or partial strategic documents show better results in only 40% of performance parameters. This emphasizes the importance of comprehensive strategic planning across all key business areas (Skokan et al., 2013). Additionally, 54.5% of SMEs suffer from poor record-keeping, often due to high illiteracy rates within the SME sector. Despite 58.7% of SMEs recognizing the benefits of quality record-keeping, many still fail to maintain proper accounting records,

which negatively impacts their performance. Many SMEs struggle with inadequate transactional records, leading to a high rate of failure around the fifth year of operation (Senzu & Ndebugri, 2018).

Micro enterprises are influenced by several key factors related to their operation and sustainability. This includes the qualifications of the owner, their current age, the age of the business, and the duration of their commitment. Key aspects are the number of owners, the number of employees at the business inception, and the current employee count. Important financial elements include the initial capital, total capital, sales figures, and profit margins. Factors such as whether the business is family-owned, the type of business, the number of owners, and the level of profit play a role. This involves the owner age at the start, the number of owners, and advertising expenditures (Ahmad, 2016). Additionally, Certain indicators positively influence the performance and sustainability of micro-enterprises. These include the length of participation, the total number of trainings attended, the total training hours completed, and the number of discussions are participated (Mustapa et al., 2018).

Methods

The study employs both descriptive and analytical research methods. It has utilized secondary data collected from the annual reports of the Micro Enterprise Development Programme (MEDEP). The data are processed through editing and tabulation to meet the requirements of the study. Statistical tools are applied for data analysis, with percentages used to interpret the results.

Results and Discussion

The number of micro-enterprises scenario with types and categories in Karnali Province is provided in table numbers 1 and 2, separately. The Department of Cottage and Small Industry (DCSI) under the Ministry of Industry (MOI) has also launched and

started micro-enterprise development programs in various districts with the goal of alleviating poverty through micro-enterprise growth. The department would be able to establish 157 micro-enterprises in Karnali Province during these years. Table 1 demonstrates numbers of entrepreneurs in Karnali Province are formed with category numbers and their percentage ratio.

Table 1: Number of Micro Entrepreneurs on the basis of Category in Karnali Province

S.N.	Category	Number	Percentage
1	Agro Based	7	4.46
2	Dairy	4	2.55
3	Forest Based	27	17.20
4	ICT	25	15.92
5	Manufacturing	24	15.29
6	Milling Service	37	23.57
7	Service	33	21.02
	Total	157	100.00

Sources: Micro Enterprise Development Programme, 2019

In the recent year, approximately 157 new micro enterprises were established. The majority were in the milling service sector, accounting for 23.57% of the total. In contrast, the dairy sector had the fewest new micro enterprises, making up only 2.55%. In these province, total numbers of micro enterprises are 157 with Agro Based, 7; Dairy, 4; Forest Based, 27; ICT, 25; Manufacturing, 24, Milling Service, 37 and Service, 33 respectively. Furthermore, the current situation of Micro Enterprises in Karnali province with major types of enterprise is presented in table 2 bellow.

Table 2: Type of Enterprise in Karnali Province

S.N.	Enterprise Type	Number	Percentage
1	Bakas Udhyog	1	0.64
2	Baraf Industry	1	0.64
3	Cable Network	1	0.64
4	College	1	0.64
5	Computer Institute	14	8.92
6	Dairy	4	2.55

7	Dalthoth Industry	1	0.64
8	Dana Udhyog	1	0.64
9	Electronics	3	1.91
10	FM Radio	2	1.27
11	Fresh House	3	1.91
12	Fruit Processing	3	1.91
13	Furniture Udhyog	23	14.65
14	General Store	2	1.27
15	Grill Industry	9	5.73
16	Herbal Industry	2	1.27
17	Kutani Pisani and pelani	37	23.57
18	Mal Prasodhan	2	1.27
19	Masala Udhyog	7	4.46
20	Medical Pasal	1	0.64
21	Miteri Udhyog	1	0.64
22	Mobile Centre	6	3.82
23	Noodles Industry	4	2.55
24	Photo Copy	2	1.27
25	Photo Studio	17	10.83
26	Printing Press	4	2.55
27	Sahakari	1	0.64
28	Sisno Powder Udhyog	2	1.27
29	Soap Industry	1	0.64
30	Tar Jali Industry	1	0.64
	Total	157	100

Sources: Micro Enterprise Development Programme, 2019

The table shows the total number of micro enterprises and their core service areas in Karnali Province are detailed. This table provides an overview of the distribution of micro enterprises across various sectors within the province. The table no. 2 has presented types of enterprises of micro enterprises in the province. Among them Kutani Pisani and pelani [Milling service] have been operated more micro enterprises i.e. 37 (23.57%) and Photo Studio, created 17(10.83%) and Computer Institute, 14 (8.92%) are created high in their area. As

discussed in the literature, entrepreneurs are based on education, business training, product and service demand. The availability of physical space for business expansion in the urban area, availability of funding and adequacy of secured funding have positive effects on growth, whereas competition and business age have a negative impact on overall performance. This shows the trend of young people aged, educated, well-trained, demanded products on the market, secure financing has found the micro-enterprises' success or growth and sustainability.

Conclusion

micro and small enterprises are more suitable for nation economic development rather than medium and large-scale enterprises in Nepal. In addition to the Ministry of Industry, other organisations and programmes, such as UNDP and the Government of Nepal, MEDEP and others, also work to develop MEs. Promotion of micro enterprises development history in Nepal. It includes the world, has a long history while a given classification of enterprises is about half a century to focus and priority. Nepal itself had introduced numbers of projects / programs with variations of names similar to micro-enterprises in order to raise revenue and boost the economic status of the poor and local income people. Usually, micro-enterprises are created and supported by numbers of donors including UNDP and the Government of Nepal through the Micro Enterprises Development Program (MEDEP). In Karnali Province, a total of 157 micro-enterprises have been established in recent years. Among these, the milling service sector has the highest number of enterprises, representing 23.57% of the total. Conversely, the dairy sector has the fewest, with only 2.55% of the micro-enterprises. There are 30 different types of enterprises of micro enterprises in the province. Among them Kutani Pisani and Pelani [milling service] have been operated more micro enterprises i.e. 37 (23.57 %) and Photo Studio, created 17(10.83%) and Computer Institute, 14 (8.92%) are created high in their area.

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