

Performance Improvement Analysis of Micro-Enterprises: Outcomes from Field Survey of Kavre District

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Abstract

This research aims to analyze influence of Micro-Enterprise Development (MED) model implemented by the Ministry of Industry (MoI) in the performance of micro-enterprise. Kavrepalanchowk district has been purposively sampled for the study whereas micro-entrepreneurs are sampled using systematic random sampling. A Descriptive research design is used for this study. This study has used mixed approach while analyzing data. The opinion survey of micro-entrepreneurs is based on structured questionnaires constructed using Five-point Likert Scale. Most of the publication reports from websites of the Ministry of Industry and UNDP are collected as sources of secondary data and primary data has been collected from field visit. Both the descriptive and inferential data analyses have been undergone using SPSS. Analysis have revealed that the MED model is effectively supportive for the performance improvement of micro-enterprises. From the outcome of this study, it is concluded that the MED model is appropriate to be replicate by other private and non-government sector entrepreneurship and skill training providers as well as Nepal Government's other programs for skills and employment generation.

Keywords: Enterprise development, Micro-Enterprises; Performance Improvement; Micro and Small Enterprises (MSEs), MED Model

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Background of the Study

Enterprise development models assist in acquiring knowledge related to improving performances like entrepreneurship development; skills development and advancement; access to technology; access to lending by linking to financial institutions; brand and marketing related support, access to information and communication, and other operational management supports. Such components are composed in a package and delivered to micro and small-scale entrepreneurs through Business Development Services Centers (Goldmark, 1996). Ayele (2018) has identified a significant role of micro and small enterprises (MSEs) to the entrepreneurial households for improving their living standards through income generating activities. Despite, they are facing challenges like lack of financial access, working space, marketing knowledge, skill, input supply etc. hindering their performance improvement. Arage (2025) has concluded that access to saving and credit, training, and market have significant impact in profitable performance improvement of micro and small enterprises. He has recommended to facilitate them with infrastructures, lowered trade tariffs, marketing and distribution support, access to credit, tools and

techniques to achieve higher productivity etc. Such recommended services are supplied through professional Business Development Service providers.

Kharel and Dahal (2020) have revealed that the performance improvement and promotion of SMEs in Nepal is challenged by lack of information on available subsidies and funding incentives, access to finance, skills and technology, market access etc. Gimire (2011) has stated that micro and small industry play a pivotal role in economic development through promotion of industrialization. Their role is widely accepted regarding job creation and self-employment. He has also observed that there are two types of micro enterprises in Nepal i.e. formal and informal. The formal one is promoted by government agencies and NGOs for generating income to poor families whereas informal micro-enterprises are executed by individuals to earn family income by utilizing their traditional professional skills. He has identified lack of savings, small domestic market, poor quality of local products, and lack of skills, technology, and enterprise supporting mechanisms as challenges for promoting SMEs in Nepal.

Kharel (2023) (cited by Chitrakar and Kang, 2023) states that MSEs require handholding with various type of support for their establishment, growth, and sustainability. There are many enterprise support programs in Nepal. Despite this, he has identified that their scale and types of supports are not able to generate employment by meeting the needs of MSEs. Most growth support models indicate that Micro and Small Enterprises (MSEs) are poorly resourced at their pre and initial stages. They lack resources like financial, technological, operational, and managerial skills. Therefore, they need a supportive approach having multiple components of enterprise development. Because, according to Nepal (2006), standalone training models are inefficient in creating growth-oriented enterprises with longer sustainability.

The importance of MSEs in economic growth is highly recognized by many developed and developing nations. Therefore, various countries have provisioned MSE promotion programs. Such enterprises are generally based on utilizing available skills and resources at local levels. Therefore, the usefulness of MSEs in economic development cannot be under looked for promoting income-generating activities at local level. Sinarwati et al. (2021) have identified that micro and small enterprises have specific characteristics that differentiate them from medium and large enterprises so that they should be supported with appropriate promotional tools. Their finding is also matched with Chitrakar and Kang (2023). They have identified a huge gap between receiving stand-alone skills trainings and getting into operation of an enterprise and stated that MSEs should be supported by holistic BDS models like business incubation.

Growth models have also been framed showing various crises at different stages of enterprise growth. Growth models delineated by Larry E. Greiner and Churchill and Lewis indicate such crises; especially lack of access to resources and leadership crisis (Churchill & Lewis, 1987; Greiner, 1998). Traditionally, government and donor agencies were directly involved in supporting MSEs through various types of single-time standalone training before 1990 (Eligmann; 2005). Such standalone models were criticized for not being able to promote intended number of enterprises making the waste of resources spent by government and donor agencies. After the 1990s, holistic approach models evolved as a paradigm shift to support MSEs. Private sector training providers and enterprise development experts are encouraged to directly supply support services to MSEs. The role of the Government and donors are shifted toward creating conducive environment at policy and institutional structural level to develop a sustainable BDS market.

According to DEDC (2001), sustainable BDS market development is concerned with the development of competent private sector institutions so that they can offer BDS-related assistance to MSEs and sustain themselves without government funding support. Nepal also lacked a holistic model of enterprise development before 1998. Almost all training models were shaped providing standalone support component. The budget spent by the government and donors were not effectively productive from such models. In 1998, the Ministry of Industry launched Micro-Enterprise Development Program (MEDEP) which has implemented a holistic business development service named micro-enterprise development (MED) model. This model was initially funded by UNDP (Bajracharya et al., 2005). This model aimed for micro-enterprise promotion in Nepal to support the poverty alleviation plan (MEDEP, 2017).

With respect to the importance of micro and small enterprises for economic development and sustainability, attempts that Nepal has made by using appropriate tools and techniques is very important for study. Therefore, this

research has raised questions on the effectiveness of the MED model to improve performance of micro-enterprises in Nepal. This type of study will be equally beneficial for government to decide on continuation or drop out of performance improvement models while promoting micro-enterprises based on their effectiveness. Similarly, the outcomes of this study will be also beneficial to other government programs of income and employment generation, private sector training providers, and NGOs for replicating effective performance improvement models. Therefore, this article aims to evaluate the performance improvement of micro-enterprises under the MED model implemented by the Ministry of Industry (MoI) to promote micro-enterprises in Nepal.

Literature Review

Micro-Enterprises

Micro-enterprises are defined variedly in different nations. The definitions include both qualitative and quantitative criteria (Neupane, 2024). There was a lack of a uniform definition of micro-enterprise in Nepal. A study focused on policy review has found that there is a need to have a uniform definition of micro-enterprise in Nepal. This lack has resulted various complications while making plans and programs to promote them micro-enterprises (Bajracharya et al., 2005). Therefore, they have proposed to formulate a national-level policy to uniformly define micro-enterprises which will be applicable to all industrial sectors in the country. Similar voices were also raised from trade and umbrella associations in Nepal.

In the year 2010, a new Industrial Policy-2010 defined micro-enterprises as a separate category of industry. Current definition of micro-enterprise by the Industrial Enterprise Act 2016 is given in Table 1.

Table 1: Definition of Microenterprise According to Nepal Industrial Enterprise Act 2016

Category	Criteria
Micro Enterprises	<ul style="list-style-type: none">• Maximum of 9 employees including the owner-manger• Annual turnover of the maximum amount of NRs. 5 Million• Maximum application of 20 Kilo Watt energy• Maximum fixed asset of NRs. 5,00,000 except land and building• Annual sales not exceeding NRs. 5,00,000 <p>(Note: Except those industries needing approval mentioned in Annex 1 of IEA, 2016)</p>

Note. Compiled from Industrial Enterprise Act 2016 (Ministry of Industry, 2016)

The Industrial Enterprise Act 2016 has defined micro-enterprises on the quantitative basis such as fixed asset investment, number of employees, maximum consumption of energy, and annual sales turnover which is applicable to all sectors of industries i.e. manufacturing, agriculture, and others. Such quantifiable criteria have enhanced the concreteness in defining micro-enterprise in Nepal.

Business Development Service (BDS)

Goldmark (1996) conducted study on BDS has referenced Entrepreneurship Development Institute of India (EDII) training. Since the 1970s, EDII has been working for enterprise promotion. According to her, training, technical assistance, financial credit, marketing advice, input supply for enterprise creation, management, and regulatory advice are components of an integrated approach to Business Development Service (BDS) which are delivered through BDS Centers. These services have traditionally been called non-financial services, though they include some financial assistance like raising seed funds through group savings and technology grants along with many non-financial services in a package.

The MED Model's Stages of Enterprise Development

Many adhere that enterprise creation and growth support models should be demand-driven in design and delivery. Enterprise development support models based on mitigating the constraints that entrepreneurs are facing will help

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able to respond to such obstacles properly (Eligmann, 2005). ILO (2007) has also identified Business Development Services (BDS) as an evolving tool for enterprise creation and growth support. The recent BDS interventional approach is more broadly conceived and market-driven compared to traditional enterprise development trainings. The enterprise growth stages under the MED model to support such stages are presented in Table 2.

Table 2: Enterprise Growth Stages under the Micro-Enterprise Development (MED) Model

Stages	Stages of Enterprise Development	Supports	Achievement Indicators	Tentative Duration
I	Pre-starting	Orientation of model, Group Formation of Similar Enterprises, Group savings and mobilization, and management training. Preliminary level courses of entrepreneurship development training, basic skills training, Appropriate technology grant supports, supports for access to financial/donor institutions, marketing knowledge supports	Enterprise created/Micro-Entrepreneurs Group (MEG) formed for specific types of enterprise	1 to 2 months
II	Start-up	Advanced level courses of entrepreneurship development training, refresher level skills and marketing relationships training.	Number of micro-entrepreneurs started a business	1 year from the date of creation
III	Scale-up	Formation of/link to product associations, product diversification, Quality control supports, market relationship expansion support, supports for enhanced business partnership	Running business profitably/ recovered initial investment	2 years from the date of creation
IV	Resilience		Number of micro-entrepreneurs running profitable businesses for 3 years from the two or more years. Micro-entrepreneurs are graduated in this stage.	date of creation

Note. From UNDP, Program Document-MEDEP IV, 2014

Based on the MEDEP model, enterprise evaluated by the program reached in the resilience stage (tentatively not more than 3 years of joining) are graduated from the program. The graduated entrepreneurs are expected to support handholding to newly joined entrepreneurs, provide advocacy support etc. (MEDEP; 2017).

Major Constraints on Successful Micro-Enterprise Performance

Many studies have identified a contributory role of enterprise development support model on performance improvement of micro and small enterprises (MSEs). Study of Ayele (2018) has viewed that lack of finance, working space, skills, marketing knowledge, infrastructure, and raw materials are general constraints for performance improvement of micro-entrepreneurs. In Nepal, Bista (2004) has gained insight that skills training and technology supports, accounting training, marketing linkage and coordination supports, promotional and motivational supports, handling and managing inputs are major activities carried out by enterprise support service providers to overcome the constraints of MSEs. Karki (2020) has identified that lack of technology for production, input supply, cold storages, skill labor, fund are major challenges that micro-enterprises are facing. Therefore,

entrepreneurial and accounting knowledge, skills training, access to technology, market, and finance, coordination and counseling are major constraints facing by MSEs. Therefore, service providers have to design their support models accordingly.

There are various factors influencing performance of MSEs. In this respect, Tehulu (2019) has identified politico-legal, working premises, technological, infrastructural, marketing, financial, management, and entrepreneurial factors affecting less or more in the performance of MSEs. In this respect, this study has developed a conceptual framework on factors affecting micro-enterprises for their performance improvement.

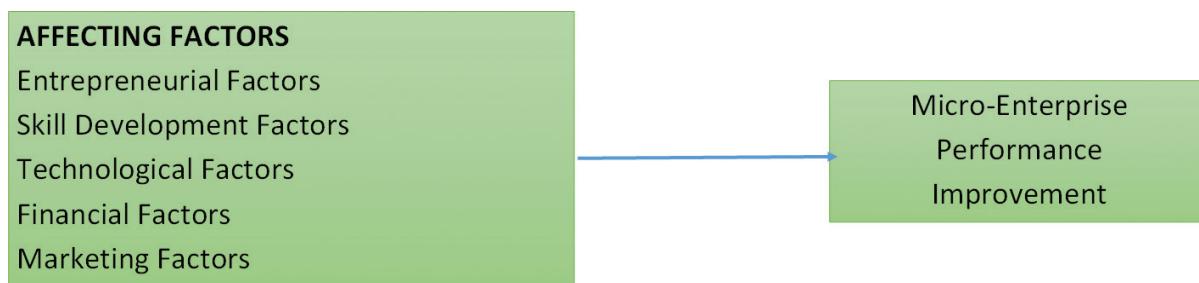


Figure 1: Conceptual Framework

Note: Constructed by Researcher, 2025

Research Methodology

This research has applied both qualitative and quantitative methods of data analysis. The quantitative primary data is analyzed using SPSS while field observations are interpreted as observed and interviewed. Sample enterprises were targeted up to the age of twelve years. Therefore, sample size was taken more than calculated size with an anticipation of non-response caused by migration, death, and shift to other professions.

Sample Area

A purposive sampling method is applied while selecting Kavrepalanchok as sample district for this study. The suitability of the district as a sample is supported by twelve year continuous experiences of service provider implementing the enterprise development program, have regular and close contact with the micro-entrepreneurs, have sufficient information on the support model, implementation process, progress, and closer from Kathmandu for field visit to the researcher.

Data Collection Techniques

To analyze the efficiency of offered support services under the MED model for the performance improvement, 469 micro-entrepreneurs of Kavrepalanchok District have been randomly sampled and 435 responded for interview. The total population is 3000 entrepreneurs created in all village palika and municipalities of Kavrepalanchok. Since the research is based on the MED model and its effectiveness for performance improvement, the support service components under this model are used as independent variables and performance improvement is used as a dependent variable. Both descriptive and inferential statistical tools have been used while analyzing the data. The Five Points Likert scale is used while collecting information on provided supports for performance improvement. The collected data is analyzed using SPSS.

Study Duration

The article is based on the part of findings from my Ph.D. work completed in 2024. Field visits was started in the year 2022 and accomplished in February 2023. Data analysis and report writing took one more year to complete.

Limitations

Although, the selection of the district is backed by its ability to generalization based on the experts' advice and information holdings, due to time and cost limitations; only micro-entrepreneurs only from Kavrepalanchowk district has been studied. Similarly, though the status of micro-enterprise businesses has been observed in the field and they were well informed about the researchers' purpose, there could be possible response biases from micro-entrepreneurs in an expectation of further or additional support from the project.

Results

Support Services under the MED Program for Performance Improvement

The Micro-enterprise Development (MED) model offers six categories of enterprise creation and growth supports as presented in Table 3. The support services are generally provisioned according to the expected needs of each growth stage of micro-enterprises. Small enterprise owners face various crises in different growth stages (Churchill & Lewis, 1987; Greiner, 1998). Therefore, enterprise creation and growth support system should be designed and implemented in such a manner that assists entrepreneurs to properly respond to the issues they face in different growth-stages.

Table 3: Framework of Enterprise Support Service under the MED Model

S.N.	Variables	MED Service Components	Expected Outcomes for Performance Improvement
1	Entrepreneurial Knowledge (EK)	Entrepreneurship Development Training (EDT)	Knowhow of business opportunity identification techniques, market identification techniques, improved commitment toward entrepreneurship etc.
2	Skill Improvement (SI)	Skill Development Training (SDT)	Basic and advance level skills development in the interested enterprise areas
3	Access to Technology (AT)	Appropriate Technology Support (ATS)	Access to technology grant in the developed skill areas
4	Access to Credit (AC)	Access to Finance	Enhanced borrowing capacity by linking with banks and cooperatives
5	Marketing Linkage (ML)	Market Linkage Support (MLS)	Enhanced participation in trade fairs, B2B and B2C linkages, Labelling, packaging, advertisement, access to showrooms, formation or linkage to product associations, linkages with local suppliers
6	Performance Improvement (PI)		To assess whether the performance have been improved or not as indicated by sales increase, profitability, number of employees, and capital growth.

Note: Rai et al. (2018)

The last stage of growth in the MED model is resilience stage. When micro-enterprises reach the resilience stage, the program provides them follow-up services only.

Created Enterprise Business in Nepal through the support of the MED model

The MED model has created a total of 172,514 micro enterprises all over the country till the year 2020. Bajracharya and Joshi (2012) have stated that the MED model is cost-effective in generating employment compared to other government training and employment generation programs. The Ministry of Industry's MED model has adopted a comprehensive support approach to create and develop micro-enterprises by assisting their performance improvement. This approach comprises training like entrepreneurship development, market study, and skills development. After completion of these trainings, entrepreneurs are also facilitated for getting appropriate technology grants to operate an enterprise business. Support to access to micro-credit loan, business

counseling, support for enhancing linkages to market, and assistance in developing the subcontracting system are other supports of the MED package to micro-entrepreneurs as their business grows (MEDEP, 2017).

Bajracharya and Joshi (2012) have identified that through the initiation of the MED model, the Ministry of Industry is successful in the socio-economic transformation of rural micro-entrepreneurs. Due to its demonstrating effect in transforming the rural poor into entrepreneurs, they have recommended the MED model as an alternate model of micro-enterprise development in Nepal for sustainable livelihood. They also found it inclusive and gender-responsive while selecting micro-entrepreneurs. The MED has approached to create enterprises based on indigenous skills and local resources. Therefore, the model is effective in micro-enterprise promotion in the country.

Findings from Descriptive Analysis

An opinion survey on the effectiveness of the MED model for performance improvement was conducted at the field level throughout the Kavrepalanchok district. The obtained values from the descriptive analysis is presented in Table 5.

Table 5: descriptive Statistics Enterprise Performance Improvement

Variables	Mean Value	Standard Deviation	n=435
Entrepreneurial Knowledge (EK)	3.39	1.02	
Skill Improvement (SI)	3.55	0.83	
Access to Technology (AAT)	4.11	0.79	
Access to Credit (AC)	2.98	0.80	
Market Linkage (ML)	2.89	0.99	
Performance Improvement (PI)	3.42	1.32	

Note: Field Survey, 2023

From the table data, performances improvement through an access to appropriate technology have highest mean value 4.11 indicates that micro-entrepreneurs to a very large extent agree that it helped for their enterprise development. Similarly, to a large extent, they agree that the MED model helped them to improve entrepreneurial knowledge and skills for their enterprise development. They agree that the MED support have helped them in improving access to finance and market to some extent only. Overall, the MED model has contributed positively to improve the performance of micro-enterprises for their development. Finding of Tehulu (2019) has also concluded that financing and marketing factors, entrepreneurial knowledge, skills and technological factors have very important role for enterprise performance development.

Relationship between Support Components and Enterprise Development

The correlation analysis results in identifying associations among variables. Therefore, the result of correlation tests presented in Table 6 shows the degree of association among affecting factors and performance improvement.

Table 6: Correlation Matrix between affecting factors and Performance Improvement

	PI	EK	SI	AAT	AC	ML
PI	1					
EK	.945	1				
SI	.902	.890	1			
AAT	.825	.822	.846	1		
AC	.848	.845	.778	.726	1	
ML	.796	.798	.720	.673	.622	1

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Stokemer (2019) states that the degree of correlation greater than 0.6 indicates a strong positive relationship among variables. All the service components of the MED model show strong positive associations with enterprise creation and growth. The result indicates that the model is effectively helpful in enterprise promotion. Analysis of Giday (2017) has also resulted with significant impact of these variables to enterprise performance improvement.

Discussions

To fulfill the inefficiency gaps created by traditional training and enterprise support approaches in Nepal, the Ministry of Industry (MoI) implemented a holistic micro-enterprise creation and growth. The number of enterprises created all over the country is proof that the enterprise creation and growth model of the Ministry of Industry is effective for the performance improvement of micro-enterprises for their growth and longer sustainability.

The outcome of the field survey also indicates that each of the service components of the MED are considered positively by sampled entrepreneurs for their performance improvement in different categories. Similarly, a test of associations among performance factors and the state of performance improvement also resulted showing a strong positive relationship. Therefore, the findings from the primary data analysis also match with the findings of secondary data.

Conclusion

The implemented holistic approach of the MED model from 1998 to 2018 to support micro-enterprises for poverty alleviation in the country is effective in promoting sufficient micro-enterprises in all districts of Nepal. Around the same period, Nepal's plans and development strategies were also aligned to achieve the millennium development goals by promoting micro-enterprises.

Demographic characteristics, socio-cultural standards, norms, and values are always changing according to the pace of time due to the change in general environmental factors like political, socio-cultural, technological, environmental, and global. After the year 2018, the MED is being extended from 77 districts to 753 Local Bodies of the Country. The structure of the governance has been changed since 2016. The era of MDG also shifted to Sustainable Development Goal (SDG) since the year 2016. The conclusion is whether the successes achieved in one specific period of 20 years can be enhanced and sustained longer or not. For this, successful adaptation in the environmental change is mandatory. Therefore, the Ministry of Industry should be careful in preservation of past achievements along with successful accommodation of the appeared changes while implementing the model in an ambiguously extended manner.

Implications

The finding and conclusion of this study indicates that this research can be extended in the form of identifying changed shifts of importance to innovation in the demographic and socio-cultural sectors in Nepal. Similarly, the impact of changed political structure and possible customization in the facilitation aspects of the Nepal government while promoting this model could also be researched. The procedures of adaptations to the appeared and upcoming changes undergone by the Ministry of Industry could also be a topic for further research. The similar impact study could also be researched in other districts to match with the outcomes of this study.

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