

Microenterprises in the Kingdom of Nepal:

On the Path to Economic Development

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Sometimes, abundant water resources, great scenery, and an industrious, cheap labor force would be sufficient to generate a viable economy. However, in the case of Nepal, these assets are correlated with one of the world's poorest countries. Illiteracy hovers around 70%; healthcare is minimal except near the capital city, and the economy is still largely subsistence; rural; and agricultural. Nepal has a per capita annual income of under \$300 U.S. per year (*Xinhua*, November 28, 2000); meaning each of its roughly 24 million citizens lives on less than \$1 U.S. per day; about the same as North Korea, another of the world's least developed economies. According to the United Nations Development Program (1997), Nepal is the 10th poorest country in the world with fully one third of its population being termed ultra-poor (Bhatta 2001).

Changing the lives of a chronically poor population is a daunting task. However there are promising avenues for economic development. Microenterprise development (sometimes called MED and often used interchangeably with microfinance or microcredit) is increasingly being acknowledged as having a role in reducing poverty, creating wealth and generally promoting social, economic and human development in poor nations and/or regions (Mullei 2002, Bradbury and Levy 1995 and Marsden 1990). Loosely defined, MED seeks "to encourage small business through the provision of collateral-free loans and other business and training services, typically to economically disadvantaged populations (Kibria, Lee and Olvera 2003, p. 41). "Within the microenterprise field, microcredit is the best known approach to providing microenterprise services....microcredit provides small amounts of capital to the poor to enable them to generate their own income" (Fairley 1998, p. 339). In this case, "small amounts" can be as little as \$25 US although larger amounts up to several hundred dollars are common.

The purpose of this paper is to briefly explore the characteristics of Nepal as it pertains to economic development, to describe the major macroeconomic policies which are shaping it currently, to demonstrate that Nepal is a highly favorable environment for implementation of

microenterprise programs, and to demonstrate the potentially positive effects that would result from careful targeting of microenterprise programs.

Human and Ecological Characteristics of Nepal

Geography

The Kingdom of Nepal, or Nepal for short, has existed for centuries in the shadows of the world's tallest mountain range, the Himalayas. Nepal developed and maintained its unique South Asian customs and practices relatively untouched by Europeans except for intrusions by the British in the early Nineteenth Century. Mountains, dense jungles, and the lack of a coastline discouraged colonialism and funneled trade routes (a normal source of cultural exchanges) north along the Silk Road and south to the Indian Ocean.

There are three distinct regions of the country roughly parallel and running east to west. The flat and semi-tropical Terai region in the south borders the populous Indian states of Uttar Pradesh and Bihar. This small region is densely populated, heavily agricultural, with some industrialization. It is the current breadbasket of Nepal. Once densely forested, it is now largely cleared. In comparison to the skyscraping Himalayan region, the Terai region is only a few hundred feet above sea level and enjoys a semi-tropical climate.

The central region contains high valleys and hills; often remote, connected by a poorly maintained set of roads and marginal airports. The power center is the very densely populated and marginally developed Kathmandu Valley which contains the capital city of Kathmandu. The central region contains roughly 2/5 of the land mass and somewhat less of the total population.

The northern most area is mountainous, has a harsh climate, and is the poorest of the three in all regards. The region lies above 12,000 feet and is unreachable for much of the year. The mountain tribes have little access to schools, health facilities and markets. This area is about 15-20% of the land mass of Nepal, but only contains about 5% of the population, nearly all of which live below the poverty line.

The elevation of Nepal ranges from near sea level to the world's highest mountains within a very short span. Average elevation figures are of less meaning than the measure of average degree of slope. The resource requirements of building and maintaining roadbeds, bridges, tunnels, power lines and other types of capital investments in such terrain are enormous.

Frequent devastation from flooding, earthquakes, and monsoon rain-induced landslides simply compound the problem of establishing economic infrastructure anywhere in the country.

In addition, Nepal has few proven natural resources besides hydroelectric potential. There are indications that several different types of mineral deposits may exist, such as iron, copper, lead, nickel, and zinc. Energy resources such as gas and oil reserves may also exist but the difficulty of developing these resources is even beyond the discussion stage currently. Forests, essential for fuel and livestock forage, are rapidly disappearing. Limestone is the most abundant substance but it is of little commercial value because of its weight and Nepal's geographic distance from international markets (Bhattarai 2001).

Clearly, the geographical characteristics of Nepal have influenced the rate and nature of economic development. The limitations imposed by the natural environment have not encouraged and/or permitted a history of modernization, favoring instead a reliance on agrarian-based traditions and practices. Presently, about 40% of the GDP comes from agriculture and about 80% of the population makes a living directly or indirectly from agriculture (*Xinhua*, November 28, 2000, *United Nations Development Program, Annex on Human Development Indicators*). Unfortunately, agricultural productivity and the modest income it generates are often dictated by unpredictable and uncontrollable weather conditions. Thus, a major portion of the wealth of Nepal is unpredictable and uncontrollable.

Tribalism

Despite its rugged terrain and small size, about the same land area and shape as Tennessee, Nepal was (and remains) home to a number of more than 60 different ethnic tribes speaking over 30 different languages. Each tribe tends to speak its own dialect, to occupy a particular geographic region of the county, and to pursue a caste defined occupation. Other differences occur in dress, religious observances, and various cultural practices. This clannish (rather than nationalistic) behavior has manifested itself in a fragmented and largely ineffectual government. The recent Maoist insurrection is tragic evidence that the central government (largely the product of self serving interests in the central Kathmandu region) is unable to mount a unified response to a major national challenge and threat. Ironically, the Nepalese Constitution specifically protects all forms of cultural diversity and thus perpetuates the positive

and the ill effects of tribalism. The riches of cultural diversity found in this small area, while commendable from a humanistic viewpoint, help divide and diffuse efforts directed at economic progress and national self-determination.

Recent Economic Policies Shaping Nepal

Post War Economic Performance

Modern commercial and cultural influence from Western countries date back only to 1950 when the ruling and highly autocratic Rana family lost power after a popular uprising led by a ceremonial king. The country soon opened its borders to the Europeans, mainly on the strength of Sir Edmund Hillary's personal popularity. Nepal's neophyte open door policy disappeared in the mid-1950s after it chose to closely mimic the protectionist and socialist stance of its new benefactor, India. Thirty years later, the failure of the three Ps (Protectionism, Planned Economy, and Public Enterprises) resulted in a dismal economic state punctuated by a limited infrastructure, shortages of many goods, inflation, external payment default, and minimal manufacturing capabilities. The standard of living rapidly declined during this period. Interestingly, China, following the same "Three P" economic model, pulled out after thirty years, and is now a leading world economy.

By 1985, Nepal's sources of foreign exchange earnings were similar to many undeveloped economies: low value-added agricultural exports, tourism, and remittance from expatriates (*The Independent*, 2001). These income streams were insufficient to meet mounting financial obligations and demands for imports; both of which required exchangeable currencies.

Under pressure from the International Monetary Fund (IMF) and the World Bank, Nepal began a series of graduated reforms. These reforms reflected the standard market-driven remedies favored by Western economists: trade liberalization, dropping barriers to foreign investment, shoring up financial markets, and moving toward privatization.

Trade Liberalization and Economic Growth

Nepal began to seriously initiate Neo-classical economic reforms after a parliamentary democracy under a constitutional monarch form of government was established in 1990. Nepal began dismantling quantitative import restrictions (QR) and halved import tariffs from 80% to

40%. In addition, their anti-export bias was reduced through devaluation of the Nepalese currency. Additional measures included simplification of export procedures and provision of cash subsidies or other preferential export treatments. Other reforms were made to attract foreign investment, to establish a convertible currency for current account transactions, and to revitalize the stock market (*Business India*, 2001; Sharma, Oczkowski, and Jayasuriya 2001).

Overall, fifteen years in pursuit of reduced imports, expanded exports, and more foreign investment have produced relatively few results and very little real economic growth. In fact, by most measures, Nepal is further in debt and more politically precarious than in previous years. Clearly, traditional top-down state-driven economic development policies have not been very successful. What accounts for the lack of linkages normally found between practice and outcome?

Factors Undermining Economic Policies

Macroeconomic planning has not been successful in Nepal. This is not untypical. Woller and Woodworth (2001) report that macroeconomic policies have failed to “create a stable and reasonably fair basis for development in the Third World....macrolevel policies alone have not significantly reduced extreme poverty and its attendant suffering, nor materially improved the living standards of great masses of the poor in the Third World. Nor do they appear to do so in the near future.” As a Third World country, Nepal is currently operating under direction of its Tenth Five-Year Economic Plan and yet Haq (1997) reports that 40% (others say 50%) of the people are below the poverty line; and fully one-third of the population can be termed as ultra poor. This latter term suggests only rudimentary forms of communication, transportation, and other amenities are present. Food deprivation would also be a common occurrence (Bhatta, 2002). Clearly, an economic solution for Nepal must address the questions of why traditional macro-economic stimulus and control procedures are not working. The following discussion explores possible explanations (although withholding political unrest and the current Maoist insurgency from the dialogue).

First, economic development depends in large part upon full participation by the population. In Nepal, citizenship is gendered in the sense that men and women have unequal access to it. A woman can only become citizen if she is sponsored by a close male relative and if her father is a Nepalese citizen (Laczo 2003). Partly as a result of this and other cultural practices

women are discriminated against across a broad range of social and economic measure thus effectively removing 50% of the workforce from any development plan. They have marginal land holdings, a 14% literacy rate, income levels significantly below that of men, perform the majority of unskilled and farm labor, and have little influence on policy making in village councils and other governance institutions (Development Project Service Center and Ledgerwood 1997, Bhatt 2001). While it is difficult to quantify, it is not difficult to imagine its impact. For example, the bulk of credit lending goes to men because they control most of the loan collateral (land, cattle or houses). Female refugees in Nepal from nearby Bhutan or Tibet, desperately in need of means to support themselves, cannot borrow money through the formal banking system because they are not and cannot become citizens. Prior experiences in least developed countries such as Bangladesh suggest that loaning money to women has more impact on economic development than loaning money to men (Bhatta, 2002). Thus, the inability or unwillingness of Nepalese society to mainstream women into the economic and political process has helped thwart economic progress.

Second, Nepal shares a border with India on three sides. Unrestricted border trade with India is both attractive and physically unavoidable because of the long, porous border. Currently, India has a large pool of skilled and technological workers capable of cheaply producing a wide array of manufactured goods that are both affordable and compatible with Nepalese needs. As long as there is an open border with India, the Nepalese will continue to buy such goods from India at the expense of their own economic viability. The customary use of protective tariffs to nurture infant industries or to protect important economic manufacturing sectors is virtually impossible with India (and China) so nearby.

Third, Nepal suffers from a lack of a basic infrastructure in many areas: lack of direct access to seaports, difficult land transport, lack of trained human resources, few commercially available raw materials, inadequate utilities, non-transparent and capricious tax administration, inadequate economic legislation and unclear rules regarding labor relations (See *Nepal Country Review* 2000 for full details or *Business India*, 2001). Likewise, few paved roads, zero miles of railroads, no seaports, and only one international airport with paved runways greatly limits the effects of traditional economic growth and policy reforms that are dependent upon an effective and modern transportation system.

Fourth, Nepal has failed to capitalize upon several decades of foreign transfers of money, technology, and other forms of assistance. Many aid programs are administered by non-governmental organizations (NGOs) on an autonomous basis according to external priorities; primarily humanitarian projects which contributed little to industrialization and growth in per capita incomes.

Large-scale aid programs from multilateral sources (IMF, World Bank, United Nations Development Program, and the Asian Development Bank) have focused more on infrastructure and less on humanitarian projects. Typically, the western nations responsible for these loans incorporate a bias toward large scale manufacturing and concentration of economic power in the hands of a small oligarchy of political leaders and industrialists. Such biases are not appropriate in Nepal. Billions of dollars were poured into numerous, and often dubious, large scale state development projects (Woller and Woodworth 2001) . The net result has been lost opportunities for national economic development despite the good will that was often attached. Now, foreign aid is increasingly in the form of loans rather than grants that further drains governmental resources and places a burden of future development revenues.

Fifth, Nepal suffers from weak economic institutions coupled with inefficient public sector dominance of most important economic sectors. Because the manufacturing sector is in its early stages of development, infant domestic producers tend to focus on commodity products (e.g. cement, jute, hides and leather, sugar and oil, etc.) that are highly price sensitive and income inelastic. In addition, the small size of most manufacturers does not allow them to take advantage of large-scale production, superior technology, or price incentives that would provide a competitive market advantage. State-owned participation has had a negative effect on economic growth results despite various incentives being offered. Governmental corruption following the implementation of the 1990 parliamentary democracy has been rampant.

There are other contributing and perhaps even compelling factors, but the overall point is well documented: Nepal remains a poor country despite the best attempts of Western style economic stimulation and attempts at macroeconomic stimulation. Focusing on this poor performance begs the larger question: What will work?

Recommended Strategy for Improving the Economy of Nepal

Under current conditions, it is unlikely that Nepal will make any significant economic progress following the standard free/regulated trade prescriptions advocated by the World Trading Organization and the West. Instead, economic progress should probably follow a unique plan that leverages Nepal's limited assets (including human assets); avoids or neutralizes the most difficult barriers; and incorporates social activism priorities such as education, health care, and self-governance. This is the context for the introduction of microenterprise as a potential solution for Nepal's economic woes; perhaps funded or sponsored by outside interests but primarily executed at the grassroots level. It is important to note that any developmental remedy should be viewed in both a long term and short term perspective appropriate to Nepalese culture, geography and politics.

Defining Microenterprise

Generally speaking, the microenterprise strategy involves poverty alleviation and economic development through training, consulting, and providing small amounts of credits to members of a country's informal or underground economy. Woller and Woodworth (2001, p. 267) describe this sector as "the economy of street vendors, petty traders, small shop owners, scrap collectors, small artisans and microbus drivers"—which are not officially regulated and which operate outside the incentive system offered by the state and its institutions." (GDRC Website, 2004)." Credit funds, given in small amounts (hence the term microcredit), typically originate from peer lending, e.g. social network or solidarity groups; pooled local resources, e.g. village banks, external NGOs, e.g. church and charitable groups; private sector banks who participate in targeted development programs, governments who poverty alleviating grants, loans and subsidies, and international bodies who focus on poverty reduction, e.g. United Nations. Even social-minded individuals use their own personal funds to help start up local businesses (Kenny 1998). Once assumed by many economists to be a short-term economic aberration, the informal economy of the Third World today is widely recognized as large, growing and likely to be permanent (Sanyal 1991).

The underlying rationale for microenterprise is simple. For millions of Third World poor, daily living consumes virtually all of the cash earned by the poor so that little, if any, is left over for investment purposes. Without access to start up capital, the poor face significant barriers to starting and/or expanding a business and thus leveraging the labor and intellectual capital.

Microenterprise is an entrepreneurial technique for promoting economic self-sufficiency by allowing poor microentrepreneurs to essentially create their own jobs and income using a “bottom-up” method.

The microenterprise movement is based on a number of fundamental precepts as outlined below by Woller and Woodworth (2001):

- a. the poor possess an irrepressible desire and innate capacity to lift themselves and their children out of poverty, if given access to economic inputs
- b. formal credit markets discriminate against the poor
- c. the poor can be good credit risks, particularly in the context of mutually responsibility systems.
- d. microcredit allows the poor to work their way out of poverty over time and with dignity.
- e. the self-employed already comprise over 50% of the labor force in developing countries, and in my cases this figure is high. Thus, the poor already possess an entrepreneurial spirit and demonstrably survival skills. Microcredit capitalizes on these attributes.

Entrepreneurship in Developing Nations

Item e. above is noteworthy in that it presumes an entrepreneurial spirit among the poor. Is this a cause or an effect of microenterprise? Helms (2003, p. 247) notes that, “Sustainable economic development does not occur without entrepreneurship.” Likewise, Morris (2001a) argues that critical metrics associated with standards of living and productivity such as increases in GDP, societal wealth and quality of life are closely associated with increased entrepreneurship.

Experiences in various countries seems to support the innateness of entrepreneurship and the ability to reverse fortunes when given an opportunity. Treacy (2003) described the Self-Employed Women’s Association (SEWA), a 125,000-member cooperative that has helped thousands of Indian women with their business needs. They have had so much domestic success that they have set up a trade facilitation center to help women move into exporting. The much reported Grameen Bank in Bangladesh has helped thousands of women establish their own businesses as has Accion International in Latin America (Kibria, Lee and Olvera 2003). There

has also been considerable success within the informal economic sector in Africa; specifically in Zimbabwe and Zambia; according to Payne Lucas, President of Africare, a private or non-governmental organization (NGO) that assists microenterprises and workers in Africa (Lucas, 1996). The Kongadzem Women's Initiative for Health Education and Economic Development (KWIHEED) has loaned \$13,000 US to 300 women in the Cameroons who now successfully raise and sell fish and flower seeds among other enterprises (Kenny 1998). Thus, the challenge in developing nations such as Nepal is to capitalize on conditions that will foster entrepreneurship via the microenterprise approach and thus provide long terms benefits to individuals and the country. Interested readers can extend this study by looking at the Bangladesh Rural Action Committee, Bank Rakyat Indonesia, CASHPOR, Small Enterprise Foundation, Kenya Rural Enterprise Program, Lower PRA Rural Bank, BancoSol, Pro Mujer, CorpoSol, Empreder, and Fundacion de Apoyo a La Microempresa as examples of successful indigenous organizations.

Morris (1995) points out that while developing nations demonstrate varying degrees of entrepreneurship, assessment of the phenomena must be done outside the traditional context of western society. The fostering of entrepreneurial businesses in developing nations can be problematic for investors, NGOs and government officials. There can be exploitation, corruption, low repayment rates, high overhead and a grant mentality but undermines the purpose of creating permanent change. In addition, classical discussions of entrepreneurship tend to center around Western values of individualism, materialism, and competitiveness" (Helms, 2003). Revenues might not show up in official economic growth statistics. Other expectations seldom met include sufficient wage levels, health and safety protections, workers' rights, and individual recognition. The Western entrepreneurship model also typically assumes conditions of civil freedom and prosperity in order to flourish, none of which is abundant in poverty-stricken Nepal. Attempts to encourage entrepreneurship in developing nations is a challenge to Westerners because Western values are simply not pervasive or because other values are more important. Program design becomes very important as a means of achieving objectives.

Entrepreneurship and Microenterprise in the Informal Sector

The ability to create "grassroots" wealth in the informal sector can be extremely important to developing nations (Gallaway and Bernasek, 2002). The informal sector is usually much more critical to the overall economies of developing nations than it is to industrialized

regions such as the U.S. or Europe. Mead (1994) demonstrated the important contribution of small enterprises to employment growth in Southern and Eastern Africa. In particular, Maldonado (1995, p.705) points out that, “It is an undisputed fact that the informal sector is a growing and increasingly complex phenomenon in the economic, social and political life of many developing countries.”

Statistics from the International Labour Organization (ILO) support this assertion. Their data show that as much as 70% of labor in developing nations works in the informal sector (ILO, 2002). Most of these workers are employed in microenterprises comprised of fewer than 10 employees.

Despite the potential contribution of micro-businesses, public officials are challenged to determine how to best introduce (or facilitate introducing) them into their countries’ economies (assuming it even a political option). “The basic argument is that no single microfinance format is likely to exist that simultaneously will satisfy the varying needs of all different segment of the poor” (Bhatt and Tang 2001).

Microenterprises within the informal sector face seemingly insurmountable problems such as poor efficiency and low productivity, limited access to financial resources, limited institutional support, and unfavorable legislation and government (De Soto, 1989, 2000). Many programs, initiated in countries ranging from Bolivia, Peru, Mexico, Costa Rica, Nigeria, Mali, Indonesia, Sri Lanka, Nepal and India have been plagued with problems of high default loan rates, inability to reach sufficient numbers of borrowers, and an unending dependence on subsidies (Bhatt 1997). Another major concern is the appropriate allocation of scarce resources. “The significance of resource decisions is related to the so-called liability of smallness. Resources are relatively scarce, making the firm more vulnerable to external threats and internal missteps. Compared to medium- and large-sized firms, smaller ventures are more susceptible to environmental forces, especially given the limited cash reserves and debt capacity of such organizations, their frequent over-dependence on a limited product/service line, and their tendency to rely on a niche customer base” (Morris, 2001b, vi). Other problems and challenges are illuminated by Adams and Von Pischke (1992), Buckley (1997) and (Grosh and Somolekae 1996).

In their evaluation of Central America, Pisani and Patrick (2002) believe that sweeping changes must be made in Central America, and by analogy, seemingly, to other developing areas of the world if microenterprises in the informal sector are to develop into viable businesses that can improve the standard of living of their workers and create new opportunities. Among the changes they propose are providing better access to capital, making training and assistance available through government development centers such as those in the U.S., and changes in government regulations and policies that level the playing field for businesses in the informal sector. Yet, Pisani and Patrick's views contrast with examples of success that have occurred in other parts of the world that were not government sponsored, but rather created through private initiatives (Lucas, 1996; Treacy, 2003). Non-government organizations (NGOs, e.g. Opportunity International, Freedom from Hunger, or Trickle Up); have claimed success operating outside of the economic mainstream (Stackhouse 1995, Fairley 1998). In truth, a gap still exists in the literature regarding our understanding of the role and use of microenterprises in developing nations.

Why Focus on Microenterprise in Nepal

Microenterprise is by nature an adaptive process and one that should reflect a uniqueness driven by local conditions. However, the underlying structures that would encourage and facilitate microenterprise are not that different. By all accounts, Nepal would seem to be a fertile location for incubating microenterprises characteristics.

First off, by most objective measures, the Kingdom of Nepal is a poor, Third World country (see Haq 1997). The United Nations Development Program (1997) has it listed as the 10th poorest country in the world and the poverty is endemic and persistent. Clearly, the potential for uplifting the quality of life for millions of people exists in this economy.

Second, official government policies (embodied in the Five Year Plans) are supportive of microenterprise as a means of addressing the object of national development through poverty reduction (Asian Development Bank 1993 and United Nations Development Program 1998). Moyo (2003) calls this "conducive policy environment" critical for successful microenterprise sector development. In Nepal, this policy includes the two key mechanisms of empowerment of women and an increase in off-farm income sources. While one could argue about the support this recognition provides, at the very least it removes political obstacles.

Third, political liberalization in the 1990s permitted many NGOs to establish themselves in Nepal. There are not about 20,000 NGOs working in Nepal (Rao and Hashemi 1997). Many of the microenterprise models depend upon the sponsorship of NGOs to hold down administrative costs, provide guidance, and to offer a range of services such as life skills, literacy, health services or counseling in order to provide a holistic rather than a minimalist solution. Without them, it is unlikely that microenterprise schemes would be viable as evidenced by the role of NGOs in other countries.

Fourth, access to capital is extremely limited to the poor people in the rural and mountainous areas of Nepal, especially so to women who continue to be marginalized when it comes to securing credit (Tuladhar 1996). *Formal sector credit* (banks, insurance companies, finance companies) provide credit to less than 10% of the rural households in the country. Even when credit is extended, interest rates are exceedingly high.

Semiformal credit is possible with NGOs or Savings and Credit Cooperatives (SCCs) acting in an intermediary fashion. In many cases, the funds are externally provided with the NGOs/SCCs controlling disbursements (see Pokharel 1996 for a more thorough discussion) and collecting repayment. Since banks, finance companies and other contributors often have an interest in specific groups and/or outcomes, this source is somewhat limited in scope and flexibility.

It is the third type of credit, *informal* credit, that offers the greatest promise of MED in Nepal. There is already a long standing tradition of obtaining funds/capital from in-group moneylenders (landlords, merchants, goldsmiths, friends, or relatives) or in-group cooperatives such as the *dhikuti*; the *dharam bhakari* and the *guthi* (Bhatta 2001).

Many of the most successful bootstrap programs in the poorest countries are built around peer lending groups. It is understood that low rates of loan default and high rates of business success are due to group support of individual members and their ability to enforce proper repayment behavior. In other words, when the peer loan groups have similar socioeconomic backgrounds, dense social linkages, and are of the same gender, group members develop a sense of trust that is enforceable in the sense that those who fail to meet expectations of the group can be effectively sanctioned (Kibria, Lee and Olvera 2003). These conditions make peer lending programs ideal for Nepal due to its long history of tribalism and local identity.

Fifth, microenterprise seems to be an effective method of circumventing ineffective governmental policies found in Nepal. “MED has emerged largely due to the failure of the state and other public/private institutions to reach out to the poor. It has also merged in response to the failure of formal capital and financial markets to provide affordable credit and other financial services to the economically active poor (Moyo 2003). Given the current state of government effectiveness in Nepal, MED would seem to be at least a partial solution to an enduring economic and social problem.

Limiting the Scope and Role of Entrepreneurship in Nepal

Certain types of entrepreneurial programs are more likely to be successful in Nepal than others. First, any microenterprise initiative should include women as full participants. Experience in other developing countries indicates that women are often better risks and more determined entrepreneurs than men. Because Nepalese women, especially in rural areas, would likely be denied loans and credits for a business venture, the entrepreneurship program must be prepared to act as a lender of last resort as well as take an active recruitment posture regarding women.

Second, microenterprises in Nepal should be prepared to “fly below the radar screen.” As a practical matter, both neighboring China and India can efficiently mass produce most goods that might be required by the Nepalese community. Either country will quickly move to satisfy demand. With no effective means of preventing the importation of goods from China or India, microenterprise becomes a means of filling the gaps created when manufactured goods are not appropriate. In other words, some Nepalese microenterprises should concentrate on niche markets that are simply not attractive to the industrial behemoths on either side; the apocryphal situation of the “yam between two boulders.” Examples for domestic consumption might be ethnic foods, dress, musical instruments, the creative arts like literature, paintings and entertainment, and other goods and services that do not require scale economies.

Cottage handicraft industries are small scale, labor intense, and generally not available to large scale producers in China and India. This sector is particularly attractive if branding, quality control, and positioning are used. Ireland is a good example of a country that was able to launch industrialization from a cottage industry platform. Nepal has a large skilled work force; ideal (in the short run) for making limited quantities of high quality handicrafts that would be attractive

on the international market. Area, regional, or even national handicraft management and control is needed to avoid price competition, to develop markets, and to control output. The handmade rug industry in Nepal addressed this issue somewhat with the formation of the Central Carpet Industries Association in the late 1980s. Handmade carpets are one of Nepal's biggest export categories.

Third, microenterprise initiatives should concentrate on those activities that are not particularly infrastructure dependent, that need technologically skilled labor, or that require significant non-human resource inputs. Logically, this suggests that the services sector is the one with the most immediately promise for short-term gain. About one-half million people visit Nepal each year; many for recreation purposes and others for religious pilgrimages. Both present a tremendous opportunity to gain foreign currencies that is not resource depleting, is environmentally manageable, and is high value added. Nepal has the advantage of both natural wonders and an abundance of world-class historical and religious heritage sites. Learning how to convert these into travel destinations for the affluent from industrialized countries is imperative in order to encourage tourism related microenterprises such as souvenirs, food vending, lodging, transportation, and other services. Other labor intensive services should be developed, especially those that can be exported such as religious training for Buddhists and/or religious scholars, educational certificate programs in a variety of uniquely Nepalese subjects, and the hospitality and mountaineering industry associated with Himalayan Mountain ecotourism. Labor intensive services soak up surplus labor, create demand for skilled and semi-skilled workers, and generate savings and disposable income for employees.

Fourth, as a policy matter, the central government should impress upon foreign based NGOs and others that their concern and charity is greatly valued, but that it, the government, is in the best position to determine how such aid is to be invested in Nepal. While this may mean some short term disruptions in the distribution of humanitarian aid or other worthy ecological/historical projects, successful efforts of microenterprise development *in critical mass* hold positive implications for the future, ultimately benefiting the political, social, and economic sectors of the country. This means that a coherent national policy of encouraging, evaluating, and then awarding microenterprise funds and support must be developed by the government. Given the general level of governmental corruption and incompetence in Nepal, it is suggested that this

function be coordinated with some credible international agency with experience in such matters. NGOs may be rather sensitive to attempts to redirect what they perceive as a worthy effort.

A more politically palatable variation on this theme is to leverage the investment capabilities and business expertise that Nepalese living abroad could provide. Historically, Third World countries have often overlooked this valuable resource although India has used this source of capitalization for the past decade. Just recently the government of Nepal gave non-resident Nepalese the opportunity to invest in their own country. Nepalese expatriates typically have families in their country of origin, a vested interest in their nation's economic improvement, and, in most cases, they have the means to assist micro-enterprises in Nepal. Thus, the objectives and orientations of expatriates should more naturally align with economic development and the creation of wealth at the local level—without direct intervention and policy direction.

Fifth, despite the need for government acquiescence, national policy, and support, it is probably important to distance most microenterprise programs from direct government control. The intent of such program is to keep the fruits of success close to the source where it will continue to foster employment, income, savings, and general improvements in the standard of living. Microenterprise is a long-term approach which may eventually provide a tax base and require governmental monitoring and control. Lucas (1996) demonstrates the potential for non-governmental organizations to foster entrepreneurship in developing nations. However, the initial governmental stance should be strictly *laissez faire* at this microeconomic level while they pursue macroeconomic policies that utilize foreign aid, the World Bank and the Agency for International Development. A *laissez faire* position should also be expected of participating NGO although many of them may have a primary agenda of implementing a program of social activism rather than bootstrap improvements in the life of a very poor country.

In short, microenterprise endeavors in Nepal should leverage women, a large labor force, tourists, and a largely unregulated business environment along with small businesses that can be started with minimal cash resources. Limited import substitution, a labor intensive service focus, and a determination to funnel bilateral and multilateral foreign aid into more long term wealth creation instead of short term human services are also major considerations. Patience from their own government and sponsoring NGOs or other sponsor categories is critical.

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