

# Potentialities of MSMEs in Nepal and the Ways Forward to Unlock

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## Abstract

MSMEs are pivotal in the broader economic perspectives of nations. The cases of developing economies are even more vivid. Promoting entrepreneurial competency and generating employment remain the primary attractiveness of MSMEs worldwide. This article focuses on how countries assess and transform this vivacity as an engine for nations' social and economic growth. In this context, the author attempts to present ground scenarios of such enterprises in Nepal precisely and the SAARC member nations in general. The analysis and inferences drawn concerning potentialities, challenges, and ways to achieve economic benefits and human development are implicitly based on reviews of scholarly articles and research reports from professional entities. The article is assumed to critically explore previously unexplored areas that could serve as a reservoir for the nation's social and economic well-being. The article also opens the path for policymakers and planners to retain outgoing youths and employ their vigor and innovation for national prosperity.

**Keywords:** engine, transformation, global value chains, multidimensional poverty, and startup.

## Background

Nepal's micro, small, and medium-sized enterprises (MSMEs) are emerging as a vibrant sector capable of making substantial contributions to various areas of the economy. The role of MSMEs, especially in economic and social development perspectives, emphasizing entrepreneurial capability and competency, and generating employment opportunities, has been pivotal (Gunartin, Pratikto, Winarno, & Restuningdiah, 2023). The enterprises have also added to the Nepalese economy, transforming it towards an inclusive base. MSMEs are presumed to be an engine for economic growth.

The National Economic Census (2018) revealed that the number of operating MSMEs in Nepal was 923,356. Out of the total, only half of the establishments were legally registered. Regarding employment generation. The United Nations, Economic and Social Commission for Asia and the Pacific. (2020) stated that this sector employs 2.74 million people, compared to 1.7 million in 2016. Of the total employment generated, the share of micro-enterprises, small and medium-sized enterprises is 69.3 percent, 25.2 percent, and 5.5 percent, respectively. MSMEs' contributions to the GDP of the Nepalese economy are 22 percent. All the more substantial contributions have been generating employment for the 1.8

million women's population, making them invaluable empowered, and recognizing their presence in national development pursuits. The landscape of jobs in general and ownership and managerial positions at MSMEs is still dominated by male accounting to male-female ratios of approximately 62:38 and 70:30, respectively.

## Research Questions

The author aims to determine how MSMEs, as a key component of the economy, can serve as a foundation for a country's growth and development if policies, procedures, and practices are tailored to the environment to enable their flourishing. In addition, what is urgent is to address the given context of Nepal to ameliorate the development pace of such enterprises.

## Objectives

This article focuses on the conceptual development of Micro and Small Enterprises (MSMEs), examining their current status, associated policies, practices, and the frameworks devised in Nepal. It aims to identify viable, feasible, and growth-prone sectors while assessing the adequacy or inadequacy of existing provisions and highlighting areas that require urgent reform. Additionally, the study seeks to propose structural changes and explore opportunities to position MSMEs as key contributors to Nepal's economic development.

***Micro, Small, and Medium Enterprises (MSMEs) are widely regarded as a driving force for economic growth***

***This research aims to assess whether the current status of MSMEs aligns with the country's economic needs and to explore potential structural changes required for enhanced effectiveness***

***MSMEs contribute approximately 22% to the Nepalese economy's GDP***

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***This study adopts a comprehensive literature review as its primary method to synthesize insights from academic research and practical experiences***

***Amidst varying definitions, MSMEs are generally understood as relatively small-scale enterprises characterized by limited employment, turnover, and capital investment***

## Methods and materials

The article reviews the available literature on the subject, emphasizing MSMEs in Nepal, and provides insights into the context of the SAARC region. Therefore, the method reviews the literature with exclusive secondary sources and materials. The article offers insights into how the players perceive and view the current realities of the enterprises.

## Literature review

### Conceptualizing and understanding MSMEs

The phenomenon of MSMEs is universal, but it remains largely undocumented. How tiny is micro? Or how small is it? Or which size is medium? It is either country- or region-specific, narrated by the legal provisions. MSMEs are non-subsidiary, independent firms that employ people within a specific bracket. The upper limit is 250 employees in the European Union. In some countries, it is 200 people. In the United States, there are approximately 500 people. Small firms typically employ fewer than 50 people, with micro-enterprises often having fewer than 10. From a financial perspective, the annual turnover is Euro 40 million or less, and /or the balance

sheet valuation does not exceed Euro 27 million.

The Nepalese context reveals that microenterprises are small industries, typically employing 1 to 10 people with a profit orientation and owned by an individual. The concept of micro-enterprise was started in Nepal in 1998 and launched with the technical and financial support of the United Nations Development Program (UNDP).

The government of Nepal, Ministry of Industry, Department of Industry (2020), defines Micro Enterprises based on four criteria: capital investment, employment, annual turnover, and energy consumption. It also includes the category of cottage industries. Micro enterprises are where investment is up to two hundred thousand rupees as fixed capital except the house or land where the entrepreneur engaged in management; where there are up to nine workers including the entrepreneur, where the annual financial transaction is less than two million rupees and if an instrument with engine is used, the electric motor or other oil engine capacity has to be less than ten Kilowatt. The following table presents a comprehensive comparative picture of establishments, status, and employment provided by MSMEs in Nepal.

*Table 1 Province-wise distribution of MSMEs, their status and employment*

Name of the Province	Establishments		Rank	Status		Employment		Rank
	Number	Per-cent		Registered	Unregis-tered	Person	Percent	
Koshi	168518	18.3	2	90157.13	78360.87	544079	16.9	2
Madhesh	117670	12.7	4	41537.51	76132.49	354994	11	4
Bagmati	282920	30.6	2	141742.92	141177.08	1218497	37.7	2
Gandaki	100684	10.9	4	55778.94	44905.06	332472	10.3	5
Madhya Pachhim	147789	16.9	2	77293.65	70495.35	474264	14.7	2
Karnali	42807	4.6	7	20889.82	21917.18	118951	3.7	7
SudurPachhim	62968	6.8	7	34695.37	28272.63	185200	5.7	7
Total	923356	100		462095.34	461260.66	3228457	100	
Average	131908	14.4		66013.62	65894.38	461208.14	14.29	
Standard deviation	73936.74	8.04		38108.67	37299.61	338420.56	10.47	
Q1	81826	8.85		38116.44	36588.845	258836	8	
Q3	158153.5	17.6		83725.39	77246.68	509171.5	15.8	
interquartile	76327.5	8.8		45609	40657.8	250335.5	7.8	
Max	282920	30.6		141742.92	141177.08	1218497	37.7	
Min	42807	4.6		20889.82	21917.18	118951	3.7	

Source: Nepal, CBS, National Economic Census 2018

The "Province-wise Distribution of MSMEs, Their Status and Employment" table offers a useful summary of the distribution of Micro, Small, and Medium-Sized Enterprises (MSMEs) throughout Nepal's provinces and information on their employment contribution and registration status. The most prevalent province is Bagmati, which employs 1,218,497 people, or 37.7% of the workforce in this industry, and accounts for 30.6% of all MSMEs. In Bagmati, almost equal numbers of registered and unregistered businesses demonstrate both the formalization of businesses and a sizable informal sector. Following with 18.3% of all establishments and 16.9% of employment, Koshi Province has a comparatively balanced growth with a minor preponderance of registered businesses. With 16.9% and 14.7% of businesses and employment, respectively, Madhya-Pachhim Province comes in third place. Its registered and unregistered MSMEs are closely balanced. With 12.7% of MSMEs and 11% of jobs, Madhesh Province, on the other hand, has a more significant percentage of unregistered businesses, suggesting that informality is widespread in the area. Gandaki Province maintains moderate development in this sector, with 10.9% of MSMEs and 10.3% of employment.

Regarding the existence of MSME, Sudur-Pachhim and Karnali rank among the least developed provinces. Although Sudur-Pachhim has more registered businesses than unregistered ones, it only accounts for 6.8% of MSMEs and 5.7% of employment. Karnali Province is at the bottom of the list in every category, accounting for only 4.6% of all MSMEs and 3.7% of MSME employment. Additionally, there are more unregistered businesses than registered ones, which suggests underdevelopment and low formalization. With nearly equal numbers of registered (462,095) and unregistered (461,261) businesses, Nepal has 923,356 MSMEs, employing 3,228,457 people. With an average employment of 461,208, each province has an average of 131,908 MSMEs. The standard deviation numbers show notable differences between the provinces, particularly in employment, where the deviation exceeds 338,000, indicating Bagmati's dominance and Karnali's

marginalization. With MSMEs in the middle 50% of provinces ranging from 81,826 to 158,154 and employment statistics from 258,836 to 509,172, the interquartile range (IQR) further highlights these regional disparities. To guarantee balanced economic development across the nation, these insights highlight the necessity of governmental interventions that encourage formalization and foster business expansion in underrepresented provinces like Karnali and Sudur-Pashchim. There is a perfect association between the number of employees in seven provinces and the rating of many enterprises. Expanding businesses is among the most effective ways to boost job possibilities.

### **MSMEs status in SAARC region**

The South Asian Association for Regional Cooperation (SAARC) was formed in 1985. SAARC has eight member nations: Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka. The inherent purpose of the association is to help member nations collaborate to achieve slow economic growth, eradicate poverty, and improve health and education. At the twelfth meeting of the association held in Pakistan, the agenda of poverty eradication was explicitly addressed through the development of Small and Medium Enterprises (SMEs), as it was believed that this would be a short-term remedy to deal with and, therefore, mitigate poverty (Manzoor, Wei, Nurunnabi, & Subhan, 2019).

The multidimensional poverty level of Nepal is not insufficient compared to the average percentage of 20.5 in South Asia. In Nepal, 20.3 percent of the population lives below the national poverty line. India is also doing well in this respect (OPHI, 2022). The poverty level in this region was 16.4 percent in 2019-20, compared to 55.1 percent in 2005-06. The South Asian scenario of poverty level is worse, accounting for 55.9 percent, followed by Pakistan with 38.3 percent and Bangladesh with 24.6 percent. However, this inference from the report did not consider the impact of the COVID-19 pandemic on it, making the results skeptical. The reality might be rather pessimistic in Nepal and other countries, pushing people experiencing poverty further into poverty.

***The distribution of MSMEs in Nepal is highly uneven, with Bagmati dominating in both number and employment while provinces like Karnali and Sudur-Pachhim remain underdeveloped. Balanced regional development and greater formalization are essential for inclusive economic growth***

Table 2 Key indicators of MSMEs in the SAARC region

Member Nations	No. of MSMEs	Share of MSMEs to GDP in %	Rank	Employment Generation in %	Rank
Afghanistan	7 SMEs make up about 80 percent of Afghan businesses	50 percent, Half of the country's GDP	2	33.33 percent, More than 1/3 of the labor force	4
Bangladesh	7.9 million	22.40 percent	5	24.5 million	6
	(SEs: 93.6 and MSEs 6.4 percent)				
Bhutan	27982	n/a	n/a	n/a	
India	633.9 Lakh	30 percent	4	40 percent	3
	(MEs: 99 percent)				3
Maldives	40232	5.7 percent	7	26 percent	5
Nepal	923,000	22 percent	6	45 percent	2
Pakistan	5.2 million	40 percent	3	80 percent to non-farm activities	1
Sri-Lanka	Over 01 million	52 percent	1	45 percent	2

Source: Compiled data from different agencies' publications and study reports (2019-22). SEs: Small Enterprises, MSEs: Medium Scale Enterprises, and MEs: Micro Enterprises.

**MSMEs play a vital yet varied role across South Asian countries, with their contributions to GDP and employment differing significantly, shaped by each nation's policies and development stage**

**Table 2 indicates a moderate positive correlation (Spearman's Rank Correlation) between GDP contribution and employment generation ( $r = 0.41$ ) in the SAARC region. On average, MSMEs contribute approximately 32% to the GDP and account for around 42% of total employment across SAARC countries**

A comparative overview of MSMEs in South Asian member countries is given in the table, with information on their number, GDP contribution, and employment creation. The Maldives has the lowest MSME contribution to GDP at 5.7%, while Sri Lanka has the highest at 52%, closely followed by Afghanistan at 50%. Regarding creating jobs, MSMEs account for 80% of non-farm employment in Pakistan, with Nepal and Sri Lanka falling closely behind at 45% each. India ranks third in creating jobs and fourth in GDP contribution despite having the most MSMEs (633.9 lakh). While information for Bhutan is still lacking, Bangladesh and Nepal exhibit mediocre performance. Although MSMEs are an essential economic force in each country, their effects differ significantly according to national policies, support networks, and economic development phases.

MSMEs account for approximately 90 percent of businesses, more than 70 percent of employment, and 50 percent of GDP worldwide (ILO, 2019; WTO, 2020; World Bank, 2022). Micro, small, and medium-sized enterprises (MSMEs) represent over 90 percent of all businesses in the Asia-Pacific region. As a result, these enterprises hold key positions in most national economies and societies. Observing June 27 each year as 'Micro-, Small and Medium-sized Enterprises Day,' as designated by the UN, has validated this fact.

MSMEs play a crucial role in the global economy by rejuvenating and sustaining it, generating a substantial number of jobs, and serving as innovative engines for enhancing production, efficient supply chains, and promoting equitable economic growth. This, in turn, improves the quality of nations and their people in a managed manner. Despite economic growth and employment, the vitality of micro, small, and medium-sized enterprises cannot be undermined. MSMEs account for more than 50 percent of jobs and contribute to a minimum of 35 percent of the GDP. Research studies have shown that 70 percent of formal employment in emerging market economies, and as high as 90 percent in the case of low-income countries, is created by SMEs. Studies have also projected that many jobs will be required in the years ahead to absorb the growing workforce and reduce the global unemployment rate. In this context, the priority of MSME development has been taken up as a quick remedy to address the persisting issues by the governments of developing and developed economies worldwide.

The government of Nepal's policy proclamation has effectively positioned and highlighted the role of MSMEs in driving economic development and generating employment. Despite this, the annual average economic growth over the last two decades did not generate enough jobs in



the country. As a result, the number of Nepalese youth seeking employment abroad has increased significantly. National economic growth indicators focus on production, export and import status, employment generation, and other relevant factors. Comparative studies have indicated poor performance relative to the region's peers. In this state of reality, improving the conditions that foster the development of MSMEs is imperative. The crux is to identify and analyze the problems hindering the growth of MSMEs and explore ways to realize their potential in our context.

### Persisting challenges

This article discusses the persisting challenges associated with Nepalese MSMEs and their peripheral dimensions. As mentioned earlier, developing micro, small, and medium-sized enterprises (MSMEs) in Nepal is crucial, and the government focuses on this area. However, the ground realities stood the reverse, as the MSMEs have not met societal and national expectations. It's time to face the challenges and act upon them prudently and proactively to benefit the economy from MSMEs. The following aspects need to be addressed to harness the full potential of MSMEs.

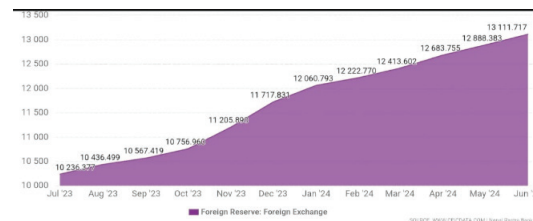
**Demand and supply gap** Nepalese MSMEs consistently face a substantial financial gap due to inadequate funding from financial institutions. To say that the supply side of finance is a singular essential variable is not entirely accurate or adequate. To be fair enough, it would not be out of context here to mention that profound studies regarding the gap between financial needs and access to support the growth of MSMEs in Nepal have not been carried out at both micro and macro levels. In the exact count, the surgery of real financial challenges has not been studied meticulously. The lack of functional and workable tie-ups between supply-side schemes and demand-side programs, niche area variables (specific matters affecting gender groups), and empowering MSMEs with technological aspects are yet to be explored and addressed.

Considering the current state of Nepalese banks' liquidity component, channeling accumulated funds towards financing MSMEs and scaling up might bridge the demand and supply gap on the

one hand and accelerate enterprises' engines in enhancing production and generating employment on the other.

The country's foreign exchange reserves are likely to remain high due to remittances and the recent curtailment of imports for certain items. The reserve was measured at USD 13.1 billion in June 2024, compared to USD 12.9 billion in the previous month. The following figure illustrates the scenario of the foreign exchange reserve.

*Figure 1 Foreign exchange reserve for the period July 2023 to June 2024*



Source: NRB, 2024

The recent claim by NRB states that the reserves equal 13 months of imports of goods and services. Internationally agreed-upon norms suggest that the ideal reserve ratio equals six months of imports. This accumulation further triggered the immobilization of funds, ultimately increasing the volume of capital stuck, non-performing loans, and the associated costs. This could have been used to extend the loan environment for MSMEs' productive sectors and other lucrative and viable sectors of the economy.

Kafle (2024) claimed that there has been a significant improvement in the country's economic front in fiscal year 2023/24. The country's forex reserve reached an all-time high level, as reported by the NRB. Gross foreign exchange reserves increased by 27.8 percent in mid-June 2024, reaching Rs 1967.19 billion compared to Rs 1539.36 billion in mid-July 2023. The increasing trend in foreign currency began at the start of the 2023/24 fiscal year, with records being set over the past few months. The reserves with NRB increased by 30.2% in mid-June 2024, enabling the economy to support imports of goods and services for eighteen months. The current fiscal year saw an increase in foreign currency reserves, remittance inflows, net transfers of foreign employment, and a registered surplus in the current account and

balance of payments. These persistent realities also demand viable solutions from policymakers and financial planners, which can be instrumental in addressing the sizable financial gap faced by MSMEs in Nepal.

**Opportunities offered by GVCs** Nepal is lagging in capitalizing on the opportunities presented by the growing practicality of Global Value Chains (GVCs). Approximately 70 percent of international trade involves Global Value Chains (GVCs). A strong trend has emerged towards the international dispersion of value chain activities, and even developing countries are enjoying its benefits. Enhancing participation in GVCs undoubtedly opens the door to development outcomes that most developing nations strive to achieve, including employment opportunities, improved labor productivity, and increased market share in global exports.

The value chain enhances business efficiency by creating competitive advantages, increasing productivity, and reducing costs. Nepal's position hinders this endeavor, so its export performance is almost negligible. It is often said that the benefits of GVCs are more significant for upper-middle and high-income group countries. High-tech sectors and organic and green products are becoming prominent in developing countries. In saying this, available research findings strongly emphasize that a landlocked country like Nepal lacks a concrete policy framework for MSMEs to participate in and benefit from GVCs. Financial and legal provisions to support MSMEs are inadequate and ambiguous, and not tailored to the dire needs of such enterprises. Limited access to finance, undeveloped sales channels, and a low level of financial inclusion, as well as high interest in credit assessment, issues with collateral requirements, export credit incentives, and procedural de-motivating lethargy, are similar to other challenges in this respect. The provision of venture/seed money and the duty drawback system are also challenges.

**Database and scanty research** The lack of a database and scant research, combined with low expenditure regarding the various facets of MSMEs, hinders their development and makes them an essential component of the national

economy. The Kathmandu Post (2024) reports that the country's annual FY 2024-25 budget allocates a yearly capital expenditure of Rs. 352 billion, with a mere one percent earmarked for Research and Development (R&D). One of the world's wealthiest individuals, Bill Gates, once said, 'I believe in innovation, and the way you get innovation is by funding research and learning the basic facts.' Some of the critical areas in Nepal that deserve attention and efforts in R&D include hydropower, tourism, intensified remittance, cost reduction, and increased production and productivity. In the context of Nepal, a hands-on approach to R&D expenditure is needed, with informed and rational spending between the public and private sectors. First and foremost, the government of Nepal needs to realize the importance of R&D and ensure that the possibility of innovation becomes certain.

**Human resource development** The HR development component in MSMEs is still in its infancy. The emphasis and adoption of HRM and HRD are relatively late phenomena that are gradually increasing in organizations, and the case of MSMEs is even later. However, the promulgation of the recent Labour Act 2017 has laid a path for the gradual development of HRD. In Nepal, the Human Resource Society of Nepal (HESN), in collaboration with formal and informal training institutions, including government-run and academic institutions, provides a platform for sharing knowledge, experience, and ideas to enhance employees' professionalism at work. The results have not been successful, are far away, and are yet to be seen. It is fair enough to state that HRD is almost non-existent, impeding the required harmonious relations between management and employees. Providing task-related training through appropriate institutions, regularly updating knowledge and skills, and empowering human resources has revealed that MSMEs' effective and efficient functioning is now a pressing demand in Nepal. Human resource components of organizations have also gained increasing importance in Nepal, regardless of their nature and size. Lack of resources, retention of skilled HR personnel, finding and attracting the right talent, meeting regulations, and maintaining employment relations are also among the HR challenges.

**Market share** Market availability has been a significant challenge in the growth and expansion of MSMEs in Nepal. Entry into lucrative and high-growth potential sectors, ranging from manufacturing to consumer goods, has been hindered by government policy bias, creating a void for MSMEs. The recent breakdown of microfinance and cooperatives, due to irregularities in financing on the one hand and the tendency of commercial banks to finance large businesses on the other, has further exacerbated the challenge. Recognizing the crucial role that MSMEs can play in accelerating production and generating a wide range of jobs, all tiers of government— federal, provincial, and local — must develop proactive policies to support and foster the growth of MSMEs.

**Innovation and adoption** Technological innovation and advancement, as well as state-of-the-art design, adoption, and customization, have also significantly impacted the growth and development of MSMEs. It has been proven that technologically driven enterprises, irrespective of size, develop core competencies in competitive capability and are better, wiser, and faster in performing tasks. However, Nepal's position is far below the satisfactory level, which is affected by multiple factors compared to the scenarios of neighboring countries. MSMEs coupled with a low capital base, unskilled human resources, biased and unfavorable policy framework, unfavorable loan attitude, and lack of integrated policy and procedures, including the legal framework, the growth and expansion of these enterprises would stand only as a daydream unless the government takes decisive steps to revamp the issues raised. Therefore, the overall perspective plans of banks and financial institutions and the lack of a required balance between them have remained a significant challenge for MSMEs.

**Entrepreneurs' specific challenge** The challenge associated with enterprises led by female entrepreneurs also had a unique character in Nepal. The trend of female-led MSMEs is on the rise globally. This is truer in the case of South Asia and the Pacific. The share of holding is almost 50 percent in small and medium-sized enterprises. Comparing the scenario of South Asia does not

reveal the same and drops to 8 to 10 percent elsewhere. The International Labour Organization (ILO) projects Nepal as a country with a high rate of female active workforce. The involvement of this group as entrepreneurs in business is not that high, though. The available data say the MSMEs managed by females are less than 30 percent. But the emerging trend is encouraging. Decades ago, the percentage held was less than five percent and approached 11 percent in 2016, with the number moving steadily upward. The widespread practice of surrogate entrepreneurship in Nepal is a real-time challenge to the authenticity of quantitative data gathering and its interpretation of female participation in MSMEs. Additionally, the female entrepreneurial ecosystem in Nepal presents significant gender-specific obstacles that deter women from entering the business sector. Women's attractiveness to business is waning due to market volatility, inadequate financial backing, a lack of business know-how, unclear state policies and procedures, insufficient startup funding, and the legacy of a paternalistic societal approach. According to the World Bank's Doing Business Report (DBR) 2020, the conditions for women to start businesses are being eased (DBR, 2020).

The socio-historical gender balance over physical and financial resources still poses a significant constraint in this regard, despite policy reforms on rebate of land registration free of charge if registered and owned in the name of females (Nepal, 2020)

#### **The industrial enterprises act, 2076 (2020)**

The thrust of the Industrial Enterprises Act, 2076 (2020) is to promote industrial growth by simplifying business registration and operational processes, encouraging private sector investment, providing incentives for innovation and exports, ensuring the protection of industrial property, and creating an industry-friendly regulatory environment to boost Nepal's industrial competitiveness and economic development.

Banking and Financial Statistics, published by the NRB in October 2019, reported that out of 753 municipalities in 77 districts, access to banking and financial institutions (BFIs) had reached 749

*It is now necessary to reevaluate the situation of SMEs in Nepal due to enduring issues, such as the growing disparity between financial need and access, the stagnant allocation of foreign exchange reserves within productive sectors, and the incapacity to adjust to movements in the global value chain. Underdeveloped human resource development methods, regulations, and limited investment rules—specifically, the fact that only 1% of resources are allocated to research and development—further compound the problem*

*There is an urgent need to reconsider how SMEs are supported and expanded in light of recent worries about the legitimacy and trustworthiness of accessible sectors like microfinance and cooperatives, as well as the underutilization of technological advances. To solve the underlying structural inadequacies and maximize the potential of SMEs, these concerns necessitate a thorough reevaluation*

***Despite the widespread presence of banking institutions across Nepal, only a tiny fraction of MSMEs—especially micro and small enterprises—have access to credit, highlighting a persistent financial gap and barriers to inclusion***

***The startup business concept in Nepal has gained significant attention, with the FY budget for 2080/81 introducing a state-backed program to support innovation. This program encompasses the establishment of the Industrial Enterprise Development Institute (IEDI), the Nepal Startup Board (NSB), and the Nepal Startup Fund (NSF), as well as a loan facility for eligible startups. By the end of Shrawan 2081, 165 out of 183 shortlisted projects had received a total of Rs. 17 crore in loans, with a focus on fostering youth participation and developing a robust ecosystem for startups***

municipalities, comprising 28 commercial banks, 28 development banks, 22 finance companies, 89 microfinance institutions, and one infrastructure development bank. National Economic Census 2018 reports that only 35.5 percent of MSMEs have access to credit. Enterprise-level enterprise access stands at 32.5 percent for small enterprises, 35.6 percent for micro-enterprises, and 52.9 percent for medium-sized enterprises. Several research studies have revealed that barriers to financial access and the existing financial gap are significant and prominent for Nepal's MSMEs.

**Startup support** The concept of a startup business is a relatively recent and has been widely discussed in Nepal. According to the FY budget for 2080/81, it is a state-proclaimed program. The program envisioned an institutional framework that would establish the Industrial Enterprise Development Institute (IEDI), the Industrial Enterprise Act, the Nepal Startup Board (NSB), and the Nepal Startup Fund (NSF) to encourage and support innovative individuals in starting a startup. To quote the Executive Director of IEDI, Umesh Gupta, till the first quarter of the last week of Shrawan month 2081, out of 183 short-listed projects, 165 projects have already benefited with a total of One Hundred Seventy Million ( 17 crore) rupees and by the end of Shrawan all eligible projects will get the loan amount. An inappropriate loan facility is granted against collateral at 3 percent interest for a minimum of Five Hundred Thousand (₹ 5 lakhs) and a maximum of Two Million Five Hundred Thousand (Rs. 2.5 lakhs) rupees. The maximum loan tenure is five years. To ensure the participation of youths in the program, the focus was on developing an ecosystem for startups and innovation. The envisioned Startup Board is intended to facilitate and regulate MSMEs. The budget mentioned earlier proposes creating a separate fund of one billion rupees to address the financial needs of startup businesses. The recent notice, dated Bhadra 11, 2081, called for an entrepreneur with innovative ideas, an entrepreneurial attitude, and the necessary skills and abilities to apply for a startup loan through the IEDI within a 21-day timeframe. As of Bhadra 14, 2081, 77 applications had been recorded. The working manual provided the procedure for applying online or physically at the IDEI

office. The scenario exhibited an encouraging phenomenon.

Also, IEDI has envisaged an Incubation Center in all seven provinces. Despite ongoing efforts, the government-supported startup initiatives for MSMEs in Nepal appear to face obstacles for years to come for the following reasons.

- The development timeline is to become eligible for a loan. The new work manual leveraged this and now registered the enterprise as not exceeding 10 years, with an annual turnover not exceeding Rs. 150 million (Rs 15 crore).
- Startup enterprise loans are available only to businesses registered for no more than 10 years. The annual turnover of these businesses must not exceed Rs 150 million in any fiscal year following their establishment.
- There is no interest-free seed money for the project.
- The entrepreneur with a startup loan must pay the principal or interest amount after one year.
- A service charge of 0.1 percent on the loan provided by the bank or banks.
- The entrepreneur cannot carry forward the unused loan amount, which must be returned to the Federal Reserve Fund at the end of the fiscal year.
- No complementary loan from other institution(s) is required for this purpose.
- The Startup has to be completely new and not created by amalgamation, absorption, or by part or complete acquisition of the existing one.
- Private firms, companies, or cooperative enterprises are eligible for startup loans only.
- A single entrepreneur cannot apply for a loan for multiple Startups.
- A one-billion-rupee startup fund is inadequate to bridge the demand and supply gap.
- No development-focused interest rate on projects.
- The government does not handle insurance matters.
- The detailed modus operandi of Incubation Centers, Startup Boards, and Startup Funds has yet to be developed.



- Enterprises targeting national and global markets have not been distinguished, and there is a lack of support.
- A five-year tenure does not need to be tailored to the nature of enterprises.
- Lack of commitment relating to technical, marketing, financial, and other related areas of research activities.

## Conclusion

### Harnessing and unlocking the potentialities of MSMEs: Steps ahead

Against the backdrop of the importance and pivotal role that MSMEs can play and contribute to the economy's prosperity and the well-being of the people associated with them, significant steps in policies, procedures, and practices have become urgent and imperative in Nepal. Some pertinent ones require revisiting based on relevant literature discourses, as represented below.

The nation introduces and implements such financial policies to balance the demand and supply of finance. A study conducted by the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) reported that the projected financing gap for MSMEs in Nepal is estimated at USD 3.6 billion, compared to the currently available USD 631 million (as of December 17, 2023, myRepublica.nagarik.com).

A close eye on HRD policies and translating them with a good understanding and adequate institutional and infrastructural backup are of the utmost necessity for MSMEs of Nepal. Developing skilled and capacitated human resources, entrepreneurs and employees, are needed for purposive functioning, making them inseparable ingredients of the Nepalese economy. The case of female-led MSMEs further requires rigorous and specific discourse and attention.

Devising and implementing policies to tap the opportunities of GVCs, capacitating MSMEs in terms of economies of scale, and penetrating the global export markets are also not less deserving areas in Nepal.

Cultivating the culture of research, developing databases, and making research activities an enduring function are essential. Provisioning a

research budget and making it functional to make enterprises competitive and vibrant economy is also equally considerable.

Abandonment of smuggled commodities competing with MSMEs' commodities must be executed thoughtfully. Averting the policy bias of government in favor of big business enterprises and expanding the due share of markets must be taken. Consortium efforts of all levels of government need to work hand in hand for the good cause of such enterprises.

The power of technology supersedes all activities that people of the modern world do or think. It is becoming pervasive, and MSMEs cannot be an exception. Applying appropriate technologies has become necessary for these enterprises to enhance their core competencies and empower them to become competitive and robust in markets. Empowering enterprises through technology and enriching the economy is the best way out.

Creating a mighty wave to develop and use MSMEs' commodities either by policy intervention or with the honored feelings of make in Nepal could also be a way forward in harnessing the growth and development of enterprises in Nepal.

Regarding the Startup support, several strategies have already been forwarded earlier. All of them are vitally important and considered by the end of public bodies to prove Nepal a vibrant place for youths with innovative ideas. In Nepal's high number of economically active population age group, the available opportunities should not be wasted.

There are many functional and workable approaches in this regard, but the following still hold high priority rank order.

- Regulating loan interest and handling insurance issues.
- Initiating a separate ministry as a regulating authority to care for bits and bytes and dedicate banks for the enterprises.
- Integrating development funds, poverty alleviation funds, and rural self-reliance funds to the cause of MSMEs.
- Addressing issues related to venture capital, equity funds, and refinancing.

***The government's startup support program in Nepal shows promising intentions through institutional frameworks and financial aid, but it faces significant implementation challenges such as lengthy eligibility processes, limited funding, lack of seed capital, and insufficient ecosystem development to sustain and scale innovative MSMEs***

***To harness the potential of MSMEs in Nepal, urgent steps are needed in policy, human resource development, and technological support to bridge the financing gap and enhance competitiveness. This includes addressing the estimated USD 3.6 billion financing gap, improving HRD policies, empowering female-led MSMEs, and facilitating access to global value chains. Key strategies include regulating loan interest rates, establishing a dedicated ministry for MSMEs, integrating development funds, and supporting women entrepreneurs to ensure sustainable growth and economic prosperity***

- It focuses on the rapid development of infrastructure supported by dependable transport networks.
- Supporting and promoting the Federation of Women Entrepreneurs Association of Nepal (FWEAN) initiatives.
- Professing economic growth with political stability and commendable government.

### Implication

This study aims to accelerate the discourse on the issues concerning how Nepal can explore the unexplored but highly potential areas of micro, small, and medium-sized enterprises in the Nepalese economy as a vehicle of economic growth and development. The study is eye-opening for planners and policymakers, highlighting the need to avert the economically active age group from migrating to the Gulf and other countries in search of employment. Not the least, it also provides thoughts on strengthening the economy by following suitable remedies.

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*This study seeks to highlight the potential of micro, small, and medium-sized enterprises in Nepal as a catalyst for economic growth, urging policy-makers to focus on retaining the economically active population and strengthening the national economy through targeted strategies*