

# FINAL TECHNICAL REPORT\_NEPAL DEVELOPMENT RESEARCH INSTITUTE

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Research Report

**Ensuring Business Innovation Fundamentals:**  
Exploring Equity, Diversity and Inclusion in Small and Medium-Sized Enterprises (MSMEs) of Nepal



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**NDRI**

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## Abbreviations and Acronyms

DOI	Department of Industry
EDI	Equity Diversity and Inclusion
FITTA	Foreign Investment and Technology Transfer Act
IEA	Industrial Enterprise Act
IKSaR	Indigenous Knowledge, Skills and Resources
IP	Intellectual Property
GDP	Gross Domestic Product
GoN	Government of Nepal
ISPs	Innovation Support Programs
KW	Kilowatt
MEDEP	Micro Enterprise Development Program
MEDPA	Micro Enterprise Development Program for Poverty Alleviation
MoICS	Ministry of Industry, Commerce and Supplies
MoF	Ministry of Finance
MSMEs	Micro, Small and Medium-sized Enterprises
NPC	National Planning Commission
SPSS.	Statistical Package for the Social Sciences
YSEF	Youth and Small Entrepreneur Self-Employment Fund

## INTRODUCTION

Innovation in MSMEs is the key driver of productivity and long-term growth. However, a study done to assess the experience of enterprises in twelve South Asian countries has listed six South Asian countries, including Nepal as poor performer in terms of innovation, production and export performance<sup>1</sup>. United Nations ESCAP (2011) has highlighted the dominance of SMEs in business communities of Nepal, which make up more than 95% of all enterprises<sup>2</sup>. Given the importance of MSME sector, the government of Nepal has introduced business-support programs to encourage the creation of enterprises, especially with a view of generating employment, import substitution, poverty alleviation, and economic growth. Micro-Enterprise Development for Poverty Alleviation (MEDPA) and Youth and Small Entrepreneur Self-Employment Fund Programme (YSEF) are two flagship innovation support programs (ISPs) in Nepal that provide a wide range of support services to the MSMEs. With the aim of addressing the social and economic aspects, those ISPs have aimed to improve the economic and social condition of low-income and socially backward families through micro-enterprises development, self-employment promotion and entrepreneurship, especially among the youth and women by curbing down the labor migration and promoting domestic production.

### Objectives

The current innovation scenario in Nepal's MSMEs demands evidence-based studies and policies for developing a sustainable business ecosystem. In pursuance of this, this research aims to generate evidence on the performance and the distributional impacts of two ISPs for MSMEs. The specific aims are (i) to understand the status of the ISPs for MSMEs in Nepal, (ii) analyze the existing EDI initiatives and strategies in the ISPs and their socio-economic impact, (iii) assess the performance of ISPs in terms of EDI perspective and industrial attractiveness, (iv) assess the distributional impact and sustainability of the ISPs for SMEs. Moreover, the study aims to contribute to the effective designing of ISPs by understanding their strengths and weaknesses.

### Rationale

The government of Nepal has started various kinds of interventions to uplift the status of MSMEs in Nepal from the very beginning (1956) of her planned economy. The

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<sup>1</sup> Chowdhury and Dhiman, (2020). Small and Medium Manufacturing Enterprises (SMEs) and Knowledge-Base: South Asian Experience. *Journal of Entrepreneurship and Management*. Vol 9. 2

<sup>2</sup> United Nations ESCAP (2011).



MEDEP/MEDPA and YSEF are the two initiatives in the rows of the interventions. The interventions consisted of a variety of services including the knowledge and skills training, subsidies and rebates, technological supports, and access to finance. However, the key challenges of employment generation, import substitution, and poverty alleviation are still continuous. For instance, about 80% of 500,000 youths entering in labor market in a year are seeking foreign employment<sup>3</sup>; head count of 17.5% people living in absolute poverty<sup>4</sup>; and exports of US\$ 960 million (7.79% of its imports) and total value of import of US\$ 12,325<sup>5</sup> are a few numbers of urging for special interventions in the MSME sector (which covers more than 95% of total enterprises) in Nepal.

There is no doubt that innovation support services play a crucial role in boosting the performance of MSMEs. Despite the existence of numerous support services, MSMEs still face challenges in accessing innovation inputs such as trainings, technological support, subsidies, rebates and incentives. The current status of ISPs for MSMEs demands a comprehensive research study to bridge the challenges and strengthen the capacity of the innovation agencies. Therefore, there is an urgency of a study that prepares a solid foundation to contribute to the effective design and delivery of ISPs that will best fit in the context of Nepal.

## **Methodology**

This study entails both quantitative and qualitative approach for data collection. Primary data were obtained through a set of structured questionnaires (See Appendix 1). The questionnaire was developed in line with the study aims to assess the performance and impact of such programs. It was administered the beneficiaries of MEDPA and YSEF programs as well as with non-beneficiaries of both of the programs. The survey-based research was supplemented by Key Informant Interviews (KII) with carefully selected stakeholders working for MSMEs development such as representatives from innovation agencies, federation of MSMEs, government officials and entrepreneurs supported and not supported by the ISPs (See *Appendix 2* for the list of participants and *Appendix 3* for checklist.

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<sup>3</sup> See Risab Tuladhar (September 6, 2022). Youth migration-A curse or a boon for the economy? SAMRIDDDHI Foundation. <https://samriddhi.org/blog/youth-migration-a-curse-or-a-boon-for-the-economy/#:~:text=Nepal%20has%20seen%20a%20rise,second%20highest%20number%20on%20record.>

<sup>4</sup> See Multidimensional Poverty Index 2022, UNDP. <https://hdr.undp.org/sites/default/files/Country-Profiles/MPI/NPL.pdf>

<sup>5</sup> See World Integrated Trade Solutions (WITS). The World Bank. <https://wits.worldbank.org/CountrySnapshot/en/NPL/textview#:~:text=Nepal%20exports%20to%20India%20worth,partner%20share%20of%202.95%20percent.>

A total of 385 entrepreneurs were surveyed (see *Appendix 9: Study Area* and *Appendix 10* for sampling strategy). The total sample was calculated using formula of W.G. Cochran (1977): Sample size  $(n) = Z^2pq/e^2 = 384.16$ , where,  $z$  is 1.96 at 95% confidence level,  $p$  is estimated proportion of the population,  $q$  is  $1-p$  and  $e$  is margin of error. The survey data was collected using a Kobo toolbox. All the data collected was processed by using Microsoft Excel and SPSS. Descriptive statistics have been used to describe the respondents and the beneficiaries.

The key informant interviews were recorded with their due consent. After the completion of the interviews, all the audio recordings were transcribed into English. The information transcribed as such were coded and arranged in tabular form for their further reference. Graphical presentation of data was made along with tables and chart. Additionally, odds ratios were calculated (using the formula probability /1-probability) for understanding the impacts of the support services provided by the innovation agencies.

### **Project activities**

The project activities continued for the planned period of 12 months. The series of activities started with the inception meeting consisting of the IDRC team. A literature review remained continuous along with the survey activities. Networking with the innovation agencies and the government offices included the activities of meetings, briefings, and updating. Periodic meetings with the IDRC team and weekly meeting of the study team were other additions. There were regular communications with the key officials of MEDPA and YSEF programs. Developing data collection tools including the questionnaire and checklist for KII were other set of activities.

Selection and training of research associate and enumerators were completed at the very beginning of the survey. A two-day enumerator orientation and training program was completed, and the entire survey team had been mobilized as according to the sampling plan mentioned in the *Appendix 10*. A questionnaire survey and KII were carried out for a period of two weeks. Once the data collection process was completed, the collected data were cleaned with extensive care to ensure its clarity and accuracy. The cleaned data were entered into the SPSS version 26 for further analysis and interpretation.

During the study period, an International Research Conference of SLTC 2022 held on 29-30 September 2022, was attended with a video presentation of extended abstract by the principal investigator Prof. Dr. Raj Kumar Bhattarai. The conference was held in Padukka, Sri Lanka, and the entire team participated virtually from Kathmandu, Nepal. The extended abstract was

made suitable for its publication in the conference proceeding. Along with the extended abstract, the process of draft/final report preparation started, and completed in the month of January 2023.

### **Key findings**

The government support services played a significant role in creating micro and small enterprises in the country. The ISPs helped the women most, and eventually they became the principal beneficiaries. The support services further reached to the different social groups such as women, Dalits, and marginalized people. The training program of the ISPs became most useful techniques for starting business, among other techniques.

The ISPs were supporting entrepreneurs engaged in three sectors: agriculture, production/manufacturing, and service sectors. The sectors were relying heavily on the IKSaR, but the ISPs were not sufficiently efficient in encouraging the enterprises to mobilize the IKSaR. The enterprises felt the government support services useful to scale-up their enterprises, but the ISPs were a far from it. Eventually, the growth potential enterprises could not get benefit from such services.

The status of intellectual property rights was negligible across the enterprises. The entrepreneurs who were aware of it were facing challenges in its registration and protection process. The entrepreneurs were also aware of the quality standards, which required technological support services to a greater extent. Even being the technology critical for their success, they were unable to manage it because it was very dearer for them.

The ISPs affected socio-economic conditions quite favorably. Mainly the women beneficiaries were being employed and they had louder voice in their family and social affairs. Moreover, there was positive impact of the support services in a wider range of society including in ethnicity and geographic location.

There was a high level of industrial attractiveness among the entrepreneurs. However, the younger generation was less likely to be the successor of the existing family-based business. Specially designed interventions and follow up services were highly desired to ensure growth potential MSMEs' effectiveness and their scale up in Nepal.

### **Key lessons learned**

Business ecosystem, based on the Indigenous knowledge, skills, and resources with industrial integration, both vertical and horizontal, is a foundation for the MSME targeted business

development support services. The ecosystem compatible business infrastructural facilities, primarily the roads, electricity, Internet, and supply/value-chain, only prepares industry structure in which the MSMEs are operational. Easy access to credits, trainings, and markets are essentials, but finding and making growth potential enterprises are urgent. The extent of accuracy in impact assessment of the support services only helps in design and delivery of business development interventions. Comprehensive, but customized, interventions directed to promote innovation and inclusion in the growth potential enterprises only work best in the least development countries like Nepal.

### **Recommendations**

- i. Make an assessment on the ISPs and envision a business ecosystem that maps the business network actors and their likely requirements.
- ii. Design and deliver a diverse range of business development services including technology, Internet/e-commerce, alternate financing mechanism such as venture capital, marketing strategies and practices mainly the market identification, branding, labeling and packaging, exposure to best practices and parallel learnings.
- iii. Improve the enterprise development model by making it compatible with the business ecosystem for a tailored interventions in product development and process improvement.
- iv. Work closely with the ISPs and the governments to provide continuous support services to the growth potential MSMEs by drawing lessons from best practices.

## MSME CONTEXT AND POLICY

### MSMEs characteristics

**Classification.** MSMEs in Nepal are classified into micro, cottage, small and medium enterprises based on the fixed capital investment, labor requirement, annual transaction and energy utilization. Industrial Enterprise Act 2076<sup>6</sup> has classified micro industry under the following conditions: (i) with the fixed capital not exceeding two million rupees, excluding house and land; (ii) the entrepreneur himself or herself is involved in the operation and management of the industry; (iii) with a maximum of nine workers including the entrepreneur; (iv) with annual transaction of less than ten million rupees; (v) with the capacity of electric energy, fuel or other oil engine to be consumed by the engine, equipment or machine, if any, used being twenty kilo watt or less. Similarly, small industry is other than a micro enterprise with the fixed capital not exceeding one hundred fifty million Nepali rupees; and medium industry is an industry with the fixed capital exceeding one hundred fifty million Nepali rupees but not exceeding five hundred million Nepali rupees.

**Indigenous knowledge, skills, and resources orientation.** MSMEs in Nepal mostly rely on the traditional/indigenous knowledge, skills and resources. The enterprises are involved in different sector of the economy mainly in agriculture, forestry, fishery, manufacturing and service sectors. However, there are enterprises doing business in imported products as well.

**Family-based/traditional-based (generation to generation transfer).** Most of the enterprises are operating as family-based business. Some of the business such as arts and crafts, weaving and tailoring, agriculture and farming are transferring from generation to generation. The businesses that were initiated by the entrepreneur himself/herself were also confined to their family members. The businesses were more instrumental for their self-employment.

**Isolated and local supply chain.** The MSMEs were not linking their business with the large-scale enterprises. They were doing their business on one-to-one basis in their local area. There were individual arrangements for buying inputs locally and selling the products locally. However, there were unreasonable presence of intermediaries in the local supply chain.

**Geographic fragmentation.** MSMEs are distributed in all over the countries irrespective of the geographic locations, mountain, hills and terai region. There were more MSMEs in the Terai region and comparatively less in the hilly region and a few in the mountain regions. There

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<sup>6</sup> Industrial Enterprise Act 2076.

were industrial zones established by the government, but almost all the enterprises were found outside of such zones. A substantial number of enterprises were in residential areas.

**Partial involvement in the business.** Either the business was doing by a family member for full-time or it was like a part-time job of the family members. Most of the micro enterprises were operating as a side business or a seasonal business or a business of leisure time utilization. They rarely viewed their business from the growth perspective, instead they viewed it as a mean of their survival.

### **Strengths and weaknesses of MSMEs**

The development of MSMEs is seen as the way to achieve country's socio-economic growth. It is estimated that there are 275,000 MSMEs operating in Nepal, contributing 22 percent of the country's total GDP<sup>7</sup>. As per the Nepal Economic Census 2018, micro enterprises constitute 95.4 percent of the total enterprises, which alone provides employment to 58.80 percent of the total workforce of the country<sup>8</sup>. As of 2021/22, agriculture, industry and service sectors contribute 23.95 percent, 14.29 percent and 61.76 percent respectively to the GDP<sup>9</sup>. A total of 8,453 industries with domestic and foreign investment were registered in 2021. Out of these, 1,214 were large, 1,908 were medium and 5,331 were small scale industries. Similarly, 46,340 Micro, Small and Medium Enterprises have been registered at the district level. In terms of number of industries, the share of large, medium and small-scale industries is 14.0 percent, 22.5 percent and 63.5 percent, respectively, as of 2020/21. Likewise, on the basis of total investment, the share of large, medium and small-scale industries is 86.5 percent, 9.0 percent and 4.5 percent, respectively.

The report published by the Ministry of Finance for the fiscal year 2020/21 shows that MSMEs have strength in generating employment opportunities such that the total employment generated in large, medium and small industries is estimated to be 616,879. It has estimated that the total employment including in large, medium and small-scale industries will reach 624,661, and the average number of jobs per industry is estimated to be 75. The recent industrial statistics of 2021/22 published by the Department of Industry shows that a total of 8,764 industries have been registered in the DOI that generate upto 657,505 employments. The

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<sup>7</sup> UN Framework for Responding to the Socio-Economic Impacts of COVID-19 in Nepal.

<sup>8</sup> CBS (2018) 2018 Nepal Economic Census.

<sup>9</sup> Current Macroeconomic and Financial Situation of Nepal (Based on Annual Data of 2021/22). Nepal Rastra Bank. Retrieved from <https://www.nrb.org.np/contents/uploads/2022/08/Current-Macroeconomic-and-Financial-Situation-English-Based-on-Annual-data-of-2021.22-2.pdf>

analysis of the registered industries shows the highest number of enterprises in the manufacturing sector followed by 2310 in service sector.

Given the potential strength they have for creating jobs, import substitution, and economic development of the country, the MSMEs were still moving with variety of weaknesses. They were being unable to be innovative as needed. Majority of the products were producing by using traditional and outdated technologies and processes. Either absence or missing the quality standards was their next weakness. If any standard was there, it was exceedingly difficult for them to go through it. Working with inappropriate technology and processes on individual basis was affecting their efficiency and effectiveness.

The inflow of products from neighboring countries (China and India) was making them further weak in the context of free market economy. They are unable to cope with the imported products' price and quality. As being family-based and traditional type of business, it was difficult to have competent leadership, updated technology, and technologically trained personnel.

As estimated by SME Finance Forum (2022), there are 176, 889 financially constrained MSMEs in Nepal, out of which 108,585 constitute micro enterprises and 68,304 are small and medium enterprises (SMEs)<sup>10</sup>. In recent years, several government initiatives have begun about promoting grant facilities, loan guarantee schemes to bridge the financial gap in Nepal. However, there is a considerable weakness in financing MSMEs and ensuring their access to required credit-limit.

### **Policies, plans, acts and directives**

The government of Nepal has implemented different policies, plans, acts, and directives in view of promoting entrepreneurial activities in the country. Specifically, when the government started its planned economy in 1956, then the process of formulation and implementation of the policies seems expediated. A series of policy interventions were taking place in the last six decades of the economy.

***Industrial Policy 2011.*** It provides guidelines for the development of industrial sectors and enterprises. It has made separate provision for creating funds such as the Investment Promotion Fund, Technology Development Fund, and Micro, Cottage and Small Industries Development Fund. Moreover, the policy provides micro enterprises with specific incentives and institutional

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<sup>10</sup> The SME Finance Forum. <https://www.smefinanceforum.org/data-sites/msme-finance-gap>

arrangement. In line with the special provisions made for the development of women entrepreneurship, the government-initiated Women Development Fund to help women entrepreneurs meet their financial needs for the growth of their enterprise. The policy has also made a special provision of income tax exemption for small scale and medium scale industries generating direct employment to native employment, persons belonging to Dalits or persons with disability. With the objective of increasing women entrepreneurs in industrial enterprises, and also generating employment opportunities and enhancing financial empowerment, the industrial policy of Nepal has formulated special provisions such as mandatory representation of women belonging to indigenous and tribal people, Dalit, Madhesi, marginalized communities in the policies related to industrial enterprises. Similarly, provision of group loan for women entrepreneurs of cottage and small industries, giving priorities to women in the venture capital while establishing industries, an exemption of 35% in the registration of industry in the name of women, special priority to women entrepreneurs to establish an industry in an industrial district are others. There is also a special provision made for sales counters for the products developed by women entrepreneurs. It has also made provisions for export loans to women entrepreneurs who are exporting their products.

***Trade policy 2015.*** The policy aims at achieving inclusive and sustainable economic growth through export promotion. With this motive, the policy document has articulated two objectives: to strengthen the supply side capacity and minimize trade deficit by increasing exports of value-added competitive products and services and to enhance access of goods, services and intellectual property to regional and world markets. In order to enhance the active participation of the private sector, the policy has set the role of the government as coordinator, facilitator and regulator. The policy focuses on mainstreaming trade in order to establish it as a major component of the economy, expanding market, and enhancing trade capacity by means of multilateral, regional and bilateral mechanisms and trade diplomacy. The trade policy also aims to enhance access to Nepali products to international markets by protecting and promoting intellectual rights.

***15th Five Year Plan (2019/20 – 2023/24).*** The current 15<sup>th</sup> plan provides specific programs/activities to support MSMEs, including access to finance and market. The government has targeted to generate 60,000 jobs annually through the establishment of 15,000 MSMEs each year. The plan also recommends programs and activities as to minimize the barriers MSMEs are facing through the creation of an investment-friendly environment, establishment of various types of business-related funds, business incubation centers and



provision of seed capital for the operation of enterprises. It set a goal to develop entrepreneurship through utilization of locally available resources, labor, capital and technology. The plan envisions to establish a business development centers in each province, together with a Challenge fund, an innovation fund and a credit guarantee scheme.

***Foreign Investment and Technology Transfer Act, 2019.*** The FITTA 2019 extend a number of facilities to foreign investors or industry with foreign investment. Introducing the Single Point Service Center, the act provides facility to the investors for various services from one place such as approval of foreign investment, registration, visa related services and work permits. The act has defined foreign investment made by the foreign investors as: investment in shares of a company in foreign currency, reinvestment of earnings from foreign investment, investment through the acquisition of shares or assets of a company registered in Nepal. It has excluded foreign loans from the definition of foreign investment. In addition, it specifies that foreign loans can only be obtained from financial institutions, and not from the parent or private enterprises. Under this act, technology transfer means any transfer of technology to be made under an agreement between an industry and foreign investors on: patent, design, trademark, goodwill, formula, process, user’s license, technological know-how sharing or use of technological knowledge (franchise), and provision of foreign technical adviser, management and marketing services, or other technological skill or knowledge.

### **Policy implementation mechanisms**

There is reasonably-well structural arrangement for the policy interventions in Nepal. In recent years, the country has been restructured under the federal system consisting of three tiers of the government—federal, provincial, and local. There are ministries at the federal and provincial levels and municipalities and rural municipalities at the local level. Table 1 shows a brief outline of the institutional arrangement for MSMEs. Additionally, there are varieties of ISPs operational at all levels of the country.

*Table 1: Institutional mechanism for MSMEs*

<b>Institutions</b>	<b>Areas of operations, but not limited to...</b>
Ministry of Industry, Commerce and Supplies <sup>11</sup> (MoICS)	<ul style="list-style-type: none"> <li>- Work to promote industrial development</li> <li>- Create a conducive atmosphere for industrial development and investment promotion</li> </ul>

<sup>11</sup> <https://moics.gov.np/en/pages/introduction>

<b>Institutions</b>	<b>Areas of operations, but not limited to...</b>
	<ul style="list-style-type: none"> <li>- Conduct tasks of regulation and facilitation of internal, bilateral, and regional trade</li> <li>- Protection and building the industrial infrastructure and intellectual property right</li> </ul>
Ministry of Finance (MoF)	<ul style="list-style-type: none"> <li>- Introduction of fiscal and monetary policies</li> <li>- Imposition of direct and indirect taxes</li> <li>- Governing the banking and financial institutions</li> <li>- Provision of financial incentives to MSMEs</li> </ul>
National Planning Commission (NPC)	<ul style="list-style-type: none"> <li>- Formulate basic development policies</li> <li>- Explore innovative approaches for sustainable development</li> <li>- Explore internal and external resources as well as indigenous and foreign technology</li> <li>- Design national plans including MSME development strategies</li> </ul>
Departments of Industry	<ul style="list-style-type: none"> <li>- Responsible for implementation of policy, act, rules and regulations related to the industrial development,</li> <li>- Approve industry registration and provide a license to the industry which requires permission</li> <li>- Recommend for facilities and concessions accorded to industries;</li> <li>- Perform administrative works related to industrial property;</li> <li>- Approve Initial Environment Examination (IEE) report of the industry;</li> <li>- Prepare raw material consumption norms for the industry;</li> <li>- Monitor, as and when required, environmental compliance of the industry</li> </ul>
Department of Commerce, Supply and Consumer protection	<ul style="list-style-type: none"> <li>- Promote internal business including foreign trade, inter-provincial trade and regulate and facilitate trade losses in the commercial sector</li> <li>- Protect the rights of consumers by providing access to quality goods and services</li> </ul>

<b>Institutions</b>	<b>Areas of operations, but not limited to...</b>
The office of the Company Registrar	<ul style="list-style-type: none"> <li>- Register the company in accordance with the Act</li> <li>- Assist in industrial and commercial promotion and further support the development of the capital market.</li> </ul>
Municipalities and rural municipalities	<ul style="list-style-type: none"> <li>- Governance of cooperative institutions</li> <li>- Local tax imposition including the wealth tax, house rent tax, motor vehicle tax, service charge, tourism fee, business tax, entertainment tax, and other taxes and fees</li> <li>- Local market management</li> <li>- Agro-product management</li> <li>- Development and implementation of local development plans</li> </ul>
Industrial District Management	<ul style="list-style-type: none"> <li>- Provide developed land, industrial sheds, go-downs, electricity, water, roads, sewerage and other necessary industrial infrastructures to the industries established within the industrial zone</li> </ul>
Trade and Export Promotion Centers	<ul style="list-style-type: none"> <li>- Advise the Government of Nepal in formulating policies for the development and expansion of trade and export.</li> <li>- Contribute to strengthening the national economy by developing and expanding trade and export of the country.</li> <li>- Support in achieving the goal of poverty alleviation through the development of rural economy by enhancing internal and external market for agro-based and other products.</li> </ul>
Associations of the employers and employees	<ul style="list-style-type: none"> <li>- Protection of the rights and interests of their respective members i.e., employers for employers' association and employees for the employees' association</li> <li>- Lobby, as and when required, in formulation and execution of business and industry related policies, acts and programs to make them friendly to the private sector.</li> </ul>

*Source: extracted from websites of the respective institutions*

## **Innovation Support Programs for MSME development**

**Rural Self Reliance Fund (RSRF).** It is operated under Nepal Rastra Bank to reduce poverty by offering wholesale credit for on-lending purpose. Its objective was to help poor establish and operate business.

**Micro, Cottage, and Small Industries (MCSI) Development Fund.** The MCSI Development Fund was established by the MoICS in 2003 to generate employment by promoting entrepreneurship and businesses using local raw materials. Businesses registered as cottage and small industries can apply. The fund also runs various programs to educate and train potential borrowers/entrepreneurs on marketing and financial management, legal and regulatory issues, and intellectual property rights.

**Women Entrepreneurship Development Fund (WEDF).** In 2015, the Ministry of Industry, Commerce, and Supplies set up the WEDF as part of the Industrial Promotion Policy 2011. The fund provides collateral-free interest subsidized commercial loans up to NRs 500,000 for women entrepreneurs.

**The Challenge Fund:** The government's Challenge Fund will provide grants and/or loans to innovative firms and start-ups to create jobs. The fund will promote entrepreneurship and support scaling up MSMEs in priority sectors like agriculture, information and communications technology, and renewable energy, among others.

### **Key challenges facing the MSME sector**

Given the potential they have for creating jobs and economic development opportunities, MSMEs still face challenges in starting, sustaining, and growing their businesses<sup>12</sup>. The current 15<sup>th</sup> plan document has highlighted the major challenges facing the MSME sector as<sup>13</sup>:

- develop an entrepreneurial culture among the youths through professional education,
- link entrepreneurs with new technologies and value chains,
- link skills-focused and professional training programs to entrepreneurship,
- integrate entrepreneurship development programs and improve their effectiveness,
- ensure access of micro, cottage, and small entrepreneurs to finance,
- enhance the risk-bearing capacity of entrepreneurs.

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<sup>12</sup> Madan, N. (2020). A Review of Access to Finance by Micro, Small and Medium Enterprises and Digital Financial Services in Selected Asia-Pacific Least Developed Countries. United Nations Economic and Social Commission for Asia and the Pacific.

<sup>13</sup> The Fifteenth Plan (Fiscal Year 2019/20- 2023/24).

[https://npc.gov.np/images/category/15th\\_plan\\_English\\_Version.pdf](https://npc.gov.np/images/category/15th_plan_English_Version.pdf)

- poor response of banks and financial institutions in terms of project finance,
- inadequate arrangements for credit guarantee, and
- lack of effectiveness in commercial risk insurance

### **Key address from the government**

The government of Nepal has made institutional arrangement and initiated different innovation support programs since the inception of planned development in 1956 AD. Among the programs, MEDPA and YSEF are the two flagship programs. MEDPA was specifically designed to provide a comprehensive package of services covering the stages of creating awareness for business and idea generation to establishment and operationalization of the business. Similarly, YSEF was designed to provide accessible financial services to the MSMEs. Despite a series of deliberate efforts, there were no more growth of the enterprises i.e., almost all the enterprises created and/or supported by such programs were either disappeared or being unable to scale up and growth.

In recent years, realizing the need for and urgency of strengthening the enterprise development programs and supporting the growth potential enterprises, the Government of Nepal, with the MoICS as an implementing agency, has envisaged the Growth Potential Enterprise Promotion (GPEPP) program. The GPEPP aims to provide support to the growth potential entrepreneurs created from MEDPA program as well as other entrepreneurs who are willing to scale up their enterprise. The program, depending upon the type of enterprise, provides support in terms of entrepreneurship development, advance level technical skill training, quality assurance, labeling and branding, financial access, access to technology, marketing, intellectual property rights and export promotion, as those sector specific support are vital for tackling organizational, operational and strategic difficulties.

### **Innovation support programs under study**

**Micro Enterprise Development for Poverty Alleviation (MEDPA) and its theory of change.** The overarching aim of MEDPA programme is to improve the economic and social condition of low income and socially backward families through the creation of Micro Enterprises. The programme is based on MED (Micro Enterprise Development) model which is focused on a demand-driven enterprise development strategy. It considers resource potentiality; market demand and people's need. The program intends to achieve its goals through (i) Social mobilization/awareness for enterprise development wherein the program develops special screening criteria which test the entrepreneurial characteristics of the target

participants. The mobilization and awareness activities are also disseminating the ideas of doing business and potential economic empowerment of the beneficiaries. (ii) Entrepreneurship development through capacity development, (iii) Technical skills development, (iv) Access to micro-finance services, (v) Appropriate technology testing and transfer, and (vi) Market linkage and business counseling. For its theory of change in detail see the *Appendix 4*.

### **Youth and Small Entrepreneur Self Employment Fund (YSEF) and its theory of change.**

The main aim of YSEF programme is to provide self-employment opportunities to unemployed youths and bring positive transformation in traditional production system through optimum utilization of productive labor and entrepreneurship development. It intends to uplift the livelihood of poor and marginalized women, indigenous groups and other vulnerable groups by facilitating increase in income generation through the provision of affordable loans. The program aims to achieve its goals by encouraging partner organizations to provide training programs including orientation, capacity and skill development to promote self-employment. Providing collateral free and low-interest loans to serve as start-up capital for self-employment, monitoring to ensure effective and wise utilization of the loans providing 60% interest in subsidy after regular payment of installment, and providing insurance facility to the entrepreneurs for protection of their loan and their business are other attractions of the program. For its theory of change in detail see the *Appendix 5*.

**Key beneficiaries of both MEDPA and YSEF.** Both the programs have its own specific eligibility criteria. MEDPA has set a target of minimum 70% of women and 60% of youths from 16 to 40 years of age<sup>14</sup>. The program also intends to include the returnee migrant workers in its initiatives. Similarly, YSEF focuses the unemployed youths of 18 to 50 years of age<sup>15</sup>.

**Research and evaluation reports.** Several studies have been carried out on impacts, challenges, and other issues on micro-enterprises throughout the country. Those studies indicate that enterprises created by the MEDEP/MEDPA have contributed to economic activities mainly on horticulture, vegetable growing, tea plantation etc., which ultimately has brought an advantage for growth and sustainability of micro enterprises<sup>16</sup>.

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<sup>14</sup> Details are available at

[https://medpa.moics.gov.np/Home/Download?fileLocation=/Content/Uploads/DownloadPublications/0651b9a4ab544e9f9bed849b2e0cda9d\\_MEDPA%20Operational%20Guidelines%202077\\_optimized.pdf](https://medpa.moics.gov.np/Home/Download?fileLocation=/Content/Uploads/DownloadPublications/0651b9a4ab544e9f9bed849b2e0cda9d_MEDPA%20Operational%20Guidelines%202077_optimized.pdf)

<sup>15</sup> Details are available at <http://www.ysef.gov.np/debt-distribution/eligibility-criteria.html>

<sup>16</sup> Impact of Micro-Enterprises on Socio-Economic Condition of the Entrepreneurs: A Case Study of Udayapur District.

Likewise, a study on the socio-economic impact of Micro Enterprise Development Program stated that the micro-enterprise programs are found to be successful among the rural poor, and therefore such programs have been well perceived for the MSME development and recommendations have been provided to continue and expand across the country. Moreover, the evaluation study was found to be imparting awareness programme among the people in the area in a continuous manner. The study also stated that due to the characteristics of the program such as provision of access of the entrepreneurs to micro-credit facilities, training on technical skills, market chain, rural-market linkages, the program was able to continue to MEDPA. The report on the Economic Analysis of Micro Enterprises in Nepal have assessed that the implementation of MEDEP programs have contributed to the national economies through exports, product development, among others<sup>17</sup>.

However, reviewing the evaluation reports of the MEDEP/MEDPA, it is revealed that despite the deliberate efforts of the governments, there has been no significant growth of MSMEs<sup>18</sup>. The program has not been effective enough to support the enterprises for their growth. Within the period of 20 years, MEDEP/MEDPA has created 142,539 entrepreneurs, out of which only 37,304 have graduated, 29,417 have become resilient, and only 1,317 have been able to convert their enterprises to small and medium enterprise<sup>19</sup>.

A recent report published by the MoICS in 2020 states that MEDPA created 14,795 new micro entrepreneurs out of which 3,610 (24%) improved their capacity, and the remaining 11,185 (76%) entrepreneurs' status seems unknown<sup>20</sup>.

**Status of EDI.** This survey shows that both ISPs have been able to meet their gender specific target. Majority of respondents from ISPs in the study were female (70.7%) whereas the percentage of male respondents in the enterprises not supported by the ISPs were higher (74.1%). The newly revised operational guidelines (2077) of MEDPA have clearly mentioned that more than 70% of the target groups must be women, and socially marginalized group. Furthermore, more than 70% of women-beneficiaries of both ISPs have received the training compared to the men-beneficiaries (50.7%) created by the program. Based on the ethnic division of MEDPA and YSEF beneficiaries, majority of the respondents from MEDPA (62.4%) are from Janajati whereas in YSEF program, majority (46.9%) of the respondents are

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<sup>17</sup> Economic Analysis of Microenterprises in Nepal. UNDP

<sup>18</sup> See National Planning Commission Evaluation Report, 2015

<sup>19</sup> <https://medpa.moics.gov.np/Home/About?infoId=1018>

<sup>20</sup> Ministry of Industry, Commerce and Supplies, Annual Progress Report 2077/78.  
<https://moics.gov.np/uploads/shares/वार्षिक%20प्रगति%20२०७७/७८%20-%20Copy.pdf>

from the Brahmin/Chhetri/Thakuri. However, the equity aspect of the beneficiaries was not adequately addressed by the ISPs (See *Appendix 6 and Appendix 7* ).



## KEY FINDINGS FROM THE SURVEY

### Status of ISPs for MSMEs in Nepal

The survey shows that the MEDPA and YSEF have been instrumental in supporting entrepreneurship development through the creation and operationalization of micro and small enterprises. The enterprises particularly found concentrating in the agriculture, production/manufacturing, and service sectors (*See Figure 1*). MEDPA primarily helped the enterprises with a set of comprehensive support services ranging from business idea generation to its operationalization whereas the YSEF helped with financial support by providing easy access to finance, specifically to the women, unemployed youths, and marginalized person in different part of the country. The ISPs reach was not limited within a particular region, but it was available all over the country.

**General socio-demographic characteristics.** A diversified demographic characteristic of the respondents consists of about 41.6% of the respondents interviewed were Brahmin/Chhetri/Thakuri, 36.6% were Janajati, 6.8% were from Dalit, 7.8% were Newar followed by Madhesi (3.4%), Muslim (0.8%), Tharu (2.6%) and 0.5% were from others group. Majority of respondents who participated in the survey lie within the age group of 30-39 (33.8%) and 40-49 years (32.5%). About 19% of respondents lies within an age group of 20-29. About 54% of respondents were female and 45% were male. Most of the respondents had received secondary level of education (54.6%), primary (20.9%), literate (7.5%), no formal education (7.5%). Respondents with higher degree i.e., Bachelors were 8.1% and Masters and above were 0.6% respectively. Out of a total of 385 respondents, the highest percentage were from Bagmati province (31%) followed by Province 1 (18%), Lumbini (16%), Madhesh (13%), Gandaki (11%), Karnali (8%) and Sudurpaschim (3%) (*See Appendix 8*).

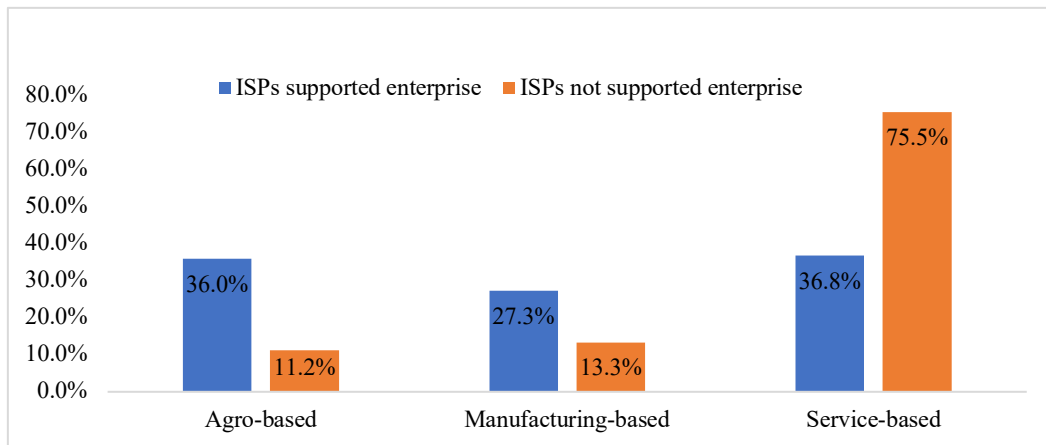


Figure 1: Distribution of respondents by sector

Women-led enterprises have outnumbered men-led enterprises in the ISPs supported enterprises. This is a clearly indication that the ISPs were have supporting the women at least for starting new businesses (See Figure 2).

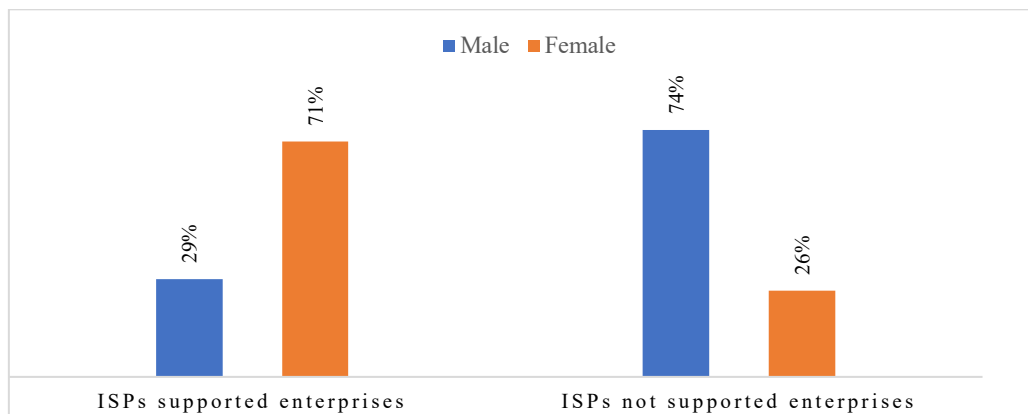


Figure 2: Distribution of respondents by gender

The ISPs were popular in the municipalities One of the key informants stated: *“Learning from the entrepreneurship development model of MEDPA program, for current fiscal year, municipality has started entrepreneurial campaign selecting 380 people, 20 people from 19 ward to become entrepreneur. By bringing people from the grassroots, providing local level training we have been able to develop their feeling for doing something. Entrepreneurship development training includes about 90% female”* (KII.4, Social and Economic Department Head, Hetauda Sub-metropolitan city).

**Use of indigenous knowledge, skills and resources (IKSaR).** The odds ratio of 1.48 indicates that the ISPs were not effective enough to mobilize the IKSaR. The extent of IKSaR mobilization was not substantially different that whether the ISP supported, or not-supported

enterprises were mobilizing in a similar extent. The ISPs were not successful in encouraging the enterprises for mobilization of IKSaR.

One of the key informants pointed out that the use of indigenous knowledge, skills and resources are on the verge of extinction. According to the respondent, *“The government should spread message across the country to promote handicraft and skills of people. They should focus on promoting utilization of locally available resources like: straw (Paral). Many indigenous skills are fading out in our society. Our ancestors used to make mat (sukul/ gundri) out of straw but now we can see that mat (sukul) are in verge of extinction in market. Plastics/ western products are slowly taking over our local market and people are also buying those products instead of locally made products like handcrafted bags” (KII. 18, Handicraft entrepreneur, Gandaki Province).*

Despite the ISPs efforts to promote the use of IKSaR, they are still underutilized. In fact, the utilization and mobilization of indigenous knowledge, skills and resources enables sustainability of the enterprises. Therefore, mobilization of the IKSaR requires a high priority. In this line, one of the key informants noted: *“There is no proper study on resource utilization, management and there is no research center to flourish traditional arts and crafts” (KII. 1, Bagmati Province).*

**Registration of intellectual property rights.** Recognizing the importance of intellectual property rights/management, this study aimed at exploring entrepreneurs’ understanding of intellectual property rights in relation to their business. Respondents were asked whether they have registered any of the intellectual property rights. The frequency of entrepreneurs who have registered intellectual property rights was very low i.e., 5 out of 385. Regarding the key informants’ perspectives on the registration of intellectual property rights, they have reported number of challenges even after their understanding of its challenges. Among the challenges, a long and tedious registration process and limited knowledge on IP protection were a few of them. For instance, one of the key informants who is running a handicraft business have shared the challenges while registering the trademark as: *“We had really hard time getting our copyright and trademark... The process is really long and hectic. It took almost 5 years for our trademark to arrive” (KII.18 Handicraft entrepreneur).*

**Awareness on quality standards.** While assessing whether the entrepreneurs were aware of the importance of quality standards or not, more than 62% of the respondents were aware of it. The odds ratio of 2.29 in relation to assessing the role of ISPs in increasing awareness of quality

for business indicates for an important role of the government in maintaining quality standards. In the similar line, one of the key informants stressed on the importance of quality standards for the growth and scale-up of business and shared as: *“We are focusing on capacity development, providing awareness and training to industrialist. Inclusion of Women, backward people in training. We are trying to move on the modality of packaging, labeling and branding of products. We are providing technical support to those enterprises where the production is high” (KII. 2 Bagmati Province).*

Meanwhile, inquiry about being able to meet the quality standards to a great extent or not, the non-beneficiary entrepreneurs (60.40%) were meeting the quality standards compared to 40.2% of the beneficiaries (See Figure 3). When explored to the reasons for the micro-entrepreneurs’ inability to fully meet the quality requirements, it could be the scale/scope of their operation and perceived additional costs for meeting the quality standards.

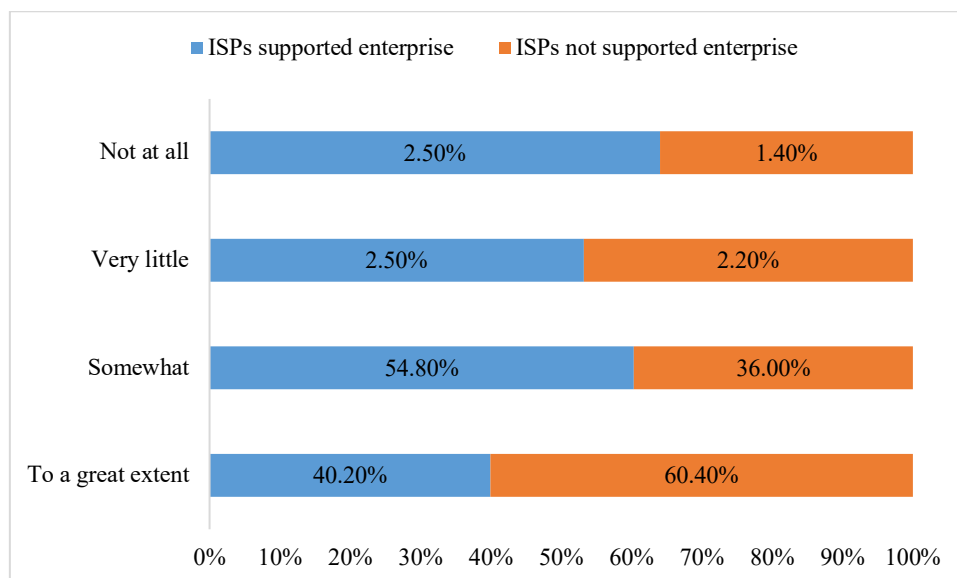


Figure 3: Opinion regarding quality standards

**Challenges in receiving government support services.** Around 19% of the ISPs reported beneficiaries were facing challenges while receiving support services from the government. the remaining 81% had no more challenges. Those who were facing challenges were blaming the lack of awareness, inaccessible information, absence of connections in the government offices, and complicated rules/procedures (See Figure 4).

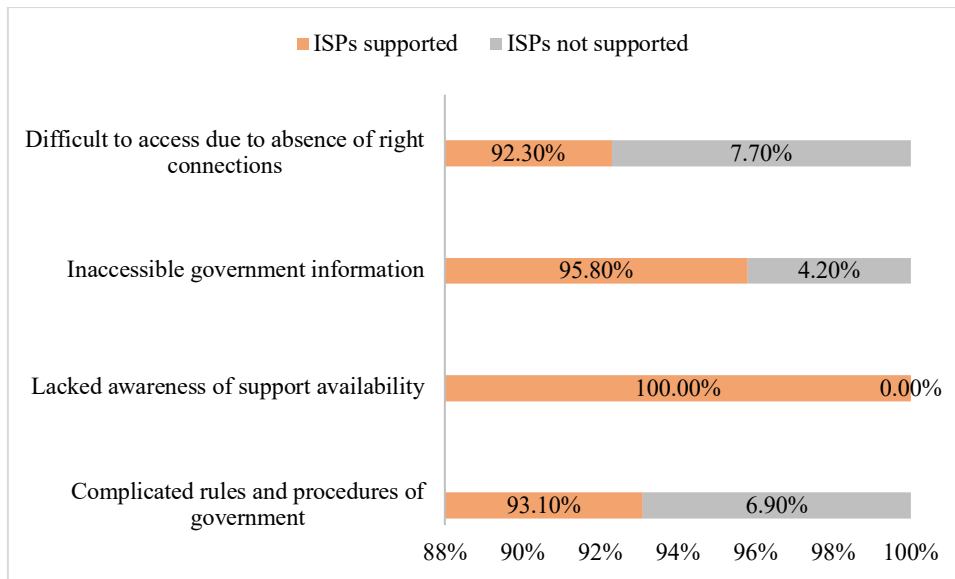


Figure 4: Challenges in accessing government support services

**Usefulness of government support services.** The odds ratio of 24 indicates a substantial significance of the usefulness of government support services to the beneficiaries in order to scale-up their business. This finding is similar to the finding from the study conducted by Desai and Sheikh (2008)<sup>21</sup>, which claims that government support, as an external sources either in the form of tax reliefs, allowances, loans, social and financial support, significantly contributes to the performance of SMEs. Moreover, majority of the respondents who received government support services reported the usefulness of the government support services (See Figure 5).

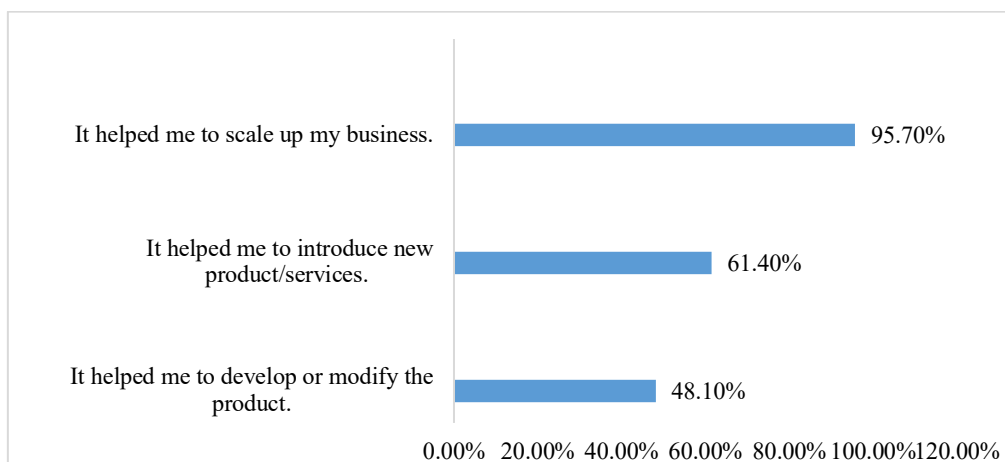


Figure 5: Usefulness of government support services

**Effectiveness of training on business initiation.** In order to assess the association between training and business initiation, respondents were asked whether their current business is the

<sup>21</sup> Desai, D. A., & Shaikh, A. J. A. (2018). Reducing failure rate at high voltage (HV) testing of insulator using six sigma methodology. International Journal of Productivity and Performance Management.

result of the trainings provided by the ISPs or not. The odds ratio of 2.55 measured the association between the training and business initiation for MSMEs supported and not supported by the ISPs.

Likewise, the key informants shared that the ISPs-initiated trainings have provided the potential entrepreneurs with the opportunities to start the business. For instance, one of the MEDPA supported women beneficiary shared her observation as: *“I started my business after receiving skill development training from MEDEP. Before I only knew how to knit, but after taking training only I got to start the business as an occupation”* (KII.10 MEDPA/MEDEP beneficiary from Suryodaya Municipality).

**Operational difficulties.** The study shows that compared to the non-beneficiaries of the programs, majority of beneficiaries of the ISPS were facing the operational difficulties/challenges in terms of accessing of raw materials (71%), market access (68%) and shortage of fund (65%), which indicates that despite the benefits received, the beneficiaries face challenges in relation to the operation of their business (See Table 2). This also indicates that the support services provided to the beneficiaries were limited, as the beneficiaries of the ISPs intrinsically lack both financial and non-financial resources.

Table 2: Summary of operational difficulties and challenges

Challenges	Unit	ISPs supported enterprises	ISPs not supported enterprises	Total
Scarcity of raw materials	N	133	55	188
	%	71%	29%	
Competitive pressure	N	81	75	156
	%	52%	48%	
Shortage of fund	N	202	109	311
	%	65%	35%	
Knowledge and skill gap	N	103	29	132
	%	78%	22%	
Labor issues	N	41	29	70
	%	59%	41%	
Power outage	N	34	25	59
	%	58%	42%	
Market access	N	126	59	185
	%	68%	32%	
Supply chain disturbances	N	55	30	85
	%	65%	35%	
Total		235	139	374

## **Socio-economic impact of ISPs**

**Contribution in social and economic position.** Regarding the socio-economic impact of the ISPs, it is revealed that the ISPs has been able to bring change in the socio-economic position and condition of the beneficiaries. Women beneficiaries of MEDPA program reported that they have more influence over the household as well as community-level decision. Moreover, their socio-economic position within their home have been increased after their involvement in the enterprising activities.

Earlier impact studies of the MEDPA program reported that the beneficiaries of the ISPs have experienced a notable change in their social and economic position due to their involvement in the business. For instance, after undertaking the enterprising activities, as reported in the study<sup>22</sup>, there was increase in children's enrollment in the colleges. Similarly, when asked whether the program has brought about any changes in their lives, one of the beneficiaries involved in the tailoring business shared as: *“At first, the people of community used backbite while going to receive training but later when she became successful many people praised her. I also feel happy while seeing this. Nobody claim that the MEDPA program is bad”* (KII. 13, Province 1).

Moreover, a report by MEDEP (2018) has revealed that the ISPs such as MEDPA can be effective interventions for income and employment generation, poverty reduction and livelihoods, while addressing the issues of Gender equality and social inclusion. Mainly the social mobilization and capacity development components of MED model, and the prioritization of women for entrepreneurship development has improved the social and economic position of women entrepreneurs. For instance, one of the female entrepreneurs in Morang District who did Achara (Traditional dress worn by “Tharu” indigenous community) business revealed that her life has transformed from a “housewife” to a “successful entrepreneur” after receiving training from MEDPA. Her decision-making ability, financial contribution to household work, and feeling of financial independence and empowerment has improved gradually after progressing in the enterprise. The ISPs have positive socio-economic impact it has made for limited group of people, especially women, is undisputable. However, the models are still a far for upscaling of the growth potential enterprises.

**Performance assessment of ISPs.** The ISPs were performing well in creating and operationalization of micro and small enterprises. During the past MEDEP/MEDPA helped created more than 157,000 enterprises and YSEF supported more than 79,000 across the

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<sup>22</sup> See Lama, D. K. (2010).

country<sup>23</sup>. The ISPs have made both social and economic impacts in the society. More specifically, they improved awareness in the field of income generation and particularly contributed to empower the women.

**Industrial attractiveness.** In response to whether the respondents think the business they were involved in were attractive or not, majority of the ISPs supported respondents opined to ‘attractive’ (See Table 3). This shows that the entrepreneurs believed that there was future in the sector in which they were doing business. As discussed earlier, the business based on IKSaR considered more attractive for the micro and small entrepreneurs.

Table 3: Opinion on the level of industrial attractiveness

Particulars	ISPs supported (%)	ISPs not supported (%)
Not at all attractive	2.5	2.8
Slightly attractive	2.9	5.6
Somewhat attractive	27.3	40.6
Very attractive	40.1	31.5
Extremely attractive	27.3	19.6
<b>Total</b>	<b>100</b>	<b>100</b>

### Distributional impacts of business support services

The ISPs were impacting in a wide range covering the ethnicity, gender, age, geographic location, and many more. It contributed to different sectors of economy mainly in agriculture, production/manufacturing, and services. Employment creation and income generation became the primary thrusts of the ISPs, and so they designed and implemented their programs<sup>24</sup>.

**Business sustainability.** In order to obtain the information regarding business sustainability of the MSMEs enrolled and not enrolled in the government support programs, a question was asked: How long do you think you would be able to continue your business? More than 54.5% of the respondents from both MEDPA and YSEF programs and the non-beneficiaries of the programs stated that they will be able to continue the existing business for more than 10 years. Industrial attractiveness could be the reason of their confidence to continue the existing business for more than a decade.

<sup>23</sup> MEDEP created 142,539 till 2018 and MEDPA created 14,795 till 2020; YSEF supported 79,404 till 2021/22. See the Annual Progress reports of the respective ISPs.

<sup>24</sup> See the demographic information, entrepreneurs’ creation, training deliveries, financial supports to the MSMEs for more details.



**Generational succession of the business.** Moreover, in relation to the business continuity, both the ISPs supported and not supported entrepreneurs were asked whether their son/daughter will continue their business after their tenure or not. The odds ratio was calculated to measure the impact in business continuity. The odds ratio 0.95 shows a risk of discontinuation of family-based business. The entrepreneurs could not believe that they would find their successors in their own family. In other words, younger generation seems uninterested in their current family business even after the industrial attractiveness.

**Business-related training.** Another aspect of distributional impact area was training aspect of the business. When asked whether they had received any kinds of business-related trainings or not. The information obtained from the responses of ISPs supported and not supported respondents. Majority of entrepreneurs supported by the ISPs (80.1%) have received the training compared to those not supported by the ISPs. Among the three business sectors, majority of the respondents from the manufacturing-based enterprises have received training (See Table 4). The odds ratio of 5.11 shows an elevated level of the training effectiveness.

Table 4: Distribution of entrepreneurs receiving training

Business sector	Unit	Gender		Total
		Male	Female	
Agro-based	N	19	36	55
	%	34.5	65.5	100
Manufacturing-based	N	9	52	61
	%	14.8	85.2	100
Service-based	N	41	44	85
	%	48.2	51.8	100
Total	N	69	132	201
	%	34.33	65.67	100

**Instrumentality of training for business initiation.** With the aim of assessing the association between training and business scale up, respondents were asked to what extent the training helped in growth their business. The odds ratio of 2.55 shows a favorable effect of training in business initiation.

**Changes after undertaking training.** Regarding the changes brought about by the trainings on the ISPs supported and not supported enterprises, majority of the entrepreneurs across the ISPs perceived changes. The survey result showed that training seems to bring change in the entrepreneurs as well as the business. Reviewing the literature on the impact of trainings on business, it was noted that the training affects entrepreneurs by changing their ability and

attitude towards the business<sup>25</sup>. This ability changes would ultimately lead to the better management of the businesses. This survey also finds similar changes where a substantially higher percentage of the ISPs supported enterprises reported positive increases in their level of confidence, knowledge and skills, profitability, daily transaction, and production as well (*See Table 5*).

*Table 5: Changes after receiving the training*

<b>Changes due to training</b>	<b>ISPs supported enterprise (%)</b>	<b>ISPs supported enterprise (%)</b>	<b>Total (n)</b>
Increased level of confidence	81.7	18.3	175
Increased knowledge and skills	81.4	18.6	183
Helped in daily transaction	72.2	27.8	54
Increased profit	77.6	22.4	85
Increased production/sales	82.4	17.8	90
Improved productivity	86.1	13.9	72
Increased customer service	74	26	77
Helped in employment generation	78.9	21.1	128

**Access to government’s financial support services.** In order to assess the association between the access to financial services received from the government support services, respondents were asked whether they have received any kinds of financial services. The odds ratio of 21.51 shows a multi-fold benefit to the service recipients.

**Challenges to obtain government financial support services.** The study explored the challenges encountered by the entrepreneurs while obtaining financial support services. Majority of the women-led enterprises involved in the service-based sector have faced challenges with regard to meeting the documentary requirements. Whereas women-led enterprises involved in the manufacturing sector faced challenges due to the inability to find referrals. While the results of the survey also showed that entrepreneurs have faced challenges due to the inability to meet the criteria of the programs. This shows that although the ISPs have been introduced to provide easy access for financial services for the entrepreneurs, the bureaucratic procedures were still creating hurdles in terms of accessing financial services (*See Table 6*).

<sup>25</sup> Fiala, N. (2015). Access to Finance and Enterprise Growth: Evidence from an experiment in Uganda. International Labour Organization.

Table 6: Challenges to obtain government financial support services

Challenges	Unit	Nature of business						Total
		Agro-based		Manufacturing-based		Service-based		
		Male	Female	Male	Female	Male	Female	
Meeting the documentary requirements	N	17	13	8	7	37	36	118
	%	14.41	11.02	6.78	5.93	31.36	30.51	100
Unable to find referrals	N	12	14	7	29	44	26	132
	%	9.09	10.61	5.30	21.97	33.33	19.70	100
Unable to meet the criteria	N	8	7	3	6	20	17	61
	%	13.11	11.48	4.92	9.84	32.79	27.87	100
<b>Total</b>	N	37	34	18	42	101	79	311
	%	12	11	6	14	32	25	100

**Technological support.** This study aimed to identify whether MSMEs were acquiring adequate technological support or not. The survey result showed that only 29% of the beneficiaries supported by the ISPs have received technological support (*See Table 7*).

Table 7: Problems encountered during management of technology

Response	Unit	Nature of business						Total
		Agro-based		Manufacturing		Service-based		
		Male	Female	Male	Female	Male	Female	
High cost of technology	N	14	5	9	15	23	17	83
	%	16.87%	6.02%	10.84%	18.07%	27.71%	20.48%	100.00%
Insufficient knowledge and skills	N	14	5	5	15	13	12	64
	%	21.88%	7.81%	7.81%	23.44%	20.31%	18.75%	100.00%
Burdensome procedures and regulations	N	7	2	1	5	3	1	19
	%	36.84%	10.53%	5.26%	26.32%	15.79%	5.26%	100.00%
Problem of access to information	N	12	4	2	5	7	3	33
	%	36.36%	12.12%	6.06%	15.15%	21.21%	9.09%	100.00%
<b>Total</b>	N	47	16	17	40	46	33	199
	%	24%	8%	9%	20%	23%	17%	100.00%

### Changes after receiving technological support

Majority of the male respondents from services sector had responded high cost of technological support as problem. Whereas in the manufacturing sector, majority of female respondents reported insufficient knowledge and skills as problem while accessing technological support.

Likewise, findings from the key informant interviews also showed the problem on management of technology, which has highly impacted the business to make new products and services in new markets (See Table 8). One of the woman entrepreneurs who was involved in leaf plates and bowls making business shared the problem of having limited technological equipment as: “We receive order from places within this rural municipality. We also receive order from places outside of municipality but we are not being able to take their orders because of limited employee, logistics and limited technology. Only one machine is not enough to take large number of orders. We are not able to enter into markets due to lack of technological support.... We get order of 1500-2000 of our products but we are not being able to meet the demand cause of limited knowledge, manpower and machine” (KII. 35, MEDPA beneficiary, Lumbini Province).

Table 8: Changes due to technological support

Response	Unit	Business sector						Total
		Agro-based		Manufacturing-based		Service-based		
		Male	Female	Male	Female	Male	Female	
Improvement in product quality	N	3	12	1	22	1	8	47
	%	6.38%	25.53%	2.13%	46.81%	2.13%	17.02%	100.00%
Increase in production capacity	N	2	11	2	22	0	12	49
	%	4.08%	22.45%	4.08%	44.90%	0.00%	24.49%	100.00%
Increased productivity	N	1	2	1	23	0	5	32
	%	3.13%	6.25%	3.13%	71.88%	0.00%	15.63%	100.00%
Introduction of new products and services	N	3	5	1	15	0	5	29
	%	10.34%	17.24%	3.45%	51.72%	0.00%	17.24%	100.00%
Expansion of business	N	3	5	2	21	1	7	39
	%	7.69%	12.82%	5.13%	53.85%	2.56%	17.95%	100.00%
Increased income	N	4	4	1	23	1	12	45
	%	8.89%	8.89%	2.22%	51.11%	2.22%	26.67%	100.00%
Helped in generation of employment	N	2	6	2	23	1	10	44
	%	4.55%	13.64%	4.55%	52.27%	2.27%	22.73%	100.00%
Reduction in cost	N	1	4	1	5	2	5	18
	%	5.56%	22.22%	5.56%	27.78%	11.11%	27.78%	100.00%
<b>Total</b>	N	19	49	11	154	6	64	303
	%	6.27%	16.17%	3.63%	50.83%	1.98%	21.12%	100.00%

**Business counseling services.** In order to identify the effectiveness of business-counseling services on the performance and growth of enterprises, respondents were asked whether they have received counseling services from the ISPs. The survey results showed that only 19% of the respondents have received business counseling services. Regarding the business counseling services received by the ISPs supported entrepreneurs, majority of them reported to receive knowledge and skill development training services (See Table 9).

Table 9: Summary of business counseling services received

Responses	Unit	ISPs supported entrepreneurs	Total
Business plan development	N	28	28
	%	61%	
Financing and operationalizing business plan	N	7	7
	%	15%	
Knowledge and skill development training	N	43	43
	%	93%	
Marketing and promotional services	N	15	15
	%	32.60%	
Supply/value chain development	N	14	14
	%	30%	
Risk management	N	9	9
	%	19.60%	
<b>Total</b>	N	46	

**Follow-Up services.** Respondents were asked about whether there was enough follow-up of support services provided by both programs i.e., MEDPA and YSEF. The survey findings showed that around 73 % of the respondents reported receiving enough follow-up services from the two ISPs. In order to identify the effectiveness of follow-up services, a four-point Likert scale question was asked. More than half of the respondents (See Figure 6) supported by the ISPs said it to be effective to a great extent (55%).

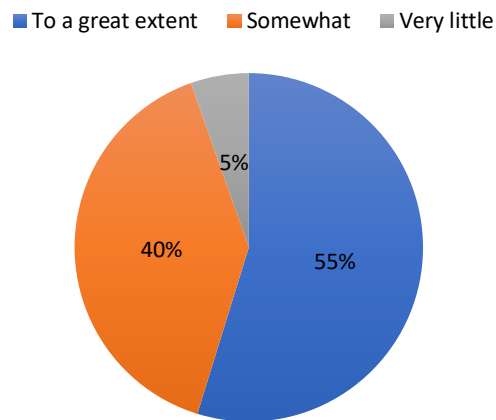


Figure 6: Opinion on the effectiveness of follow-up services

The odds ratio of 15.57 indicates a substantial significance of the follow up of support services, to the beneficiaries in order to make their business activities effective.

**Basic expectation of MSMEs.** The study aimed to understand the kinds of continued support that the MSMEs in this study are expecting from the government support services. It is clear from the above results and findings that MSMEs supported and not supported by the ISPs are encountering immediate challenges in terms of shortage of fund, access to raw materials, management of technology and access to market. In order to address those reported challenges,

and to provide feedback to the innovation agencies, the study explored kind of relief measures and incentives. Therefore, the expectation of MSMEs listed in the Table 10 provides a ground for addressing those challenges encountered in the operation of business.

*Table 10: Expectation/preferences of MSMEs*

<b>Expectations</b>	<b>Unit</b>	<b>ISPs supported entrepreneurs</b>	<b>ISPs not supported entrepreneurs</b>	<b>Total</b>
Subsidies	N	48	23	71
	%	68%	32%	100%
Training	N	67	15	82
	%	82%	18%	100%
Market Development	N	44	16	60
	%	73%	27%	100%
Collateral free loans	N	95	46	141
	%	67%	33%	100%
Access to information of support services	N	2	16	18
	%	11%	89%	100%
Access to raw materials	N	10	3	13
	%	77%	23%	100%
<b>Total</b>	N	183	92	275
	%	67%	33%	100%

## AGENDA FOR RESEARCH AND CAPACITY STRENGTHENING

**State of knowledge.** This study finds the current status of ISPs for MSMEs in Nepal, discusses the distributional impact of the support services on the performance of the enterprises and explore the possible avenues for improving their performance. There is substantial amount of indigenous knowledge and skills, but the key concern is what interventions make such knowledge and skills adaptive to the contemporary business environment. Similarly, selective entrepreneurs have potentialities to scale up but still they do not have the knowledge and skills to take their business to a certain height. Moreover, a large number of enterprises are unaware of the government support services, and those who have received the support services from the ISPs and having a growth intention, are still in need of the additional support services. The existing state of knowledge demands strong interventions for the MSMEs to be able to move towards the path of their business growth.

Given the challenges that MSMEs are facing, it is imperative to give high priority to the utilization of locally available knowledge, skills and resources. As the study reveals, enterprises are facing the problems related to raw material availability, market linkages and shortage of fund, among other. However, the findings further shows that ISPs are being useful in creating micro entrepreneurs and generating few jobs for self-employment.

The plans, policies, and programs to promote MSMEs became more confined to awareness, training, and limited support of cash and kinds. Additional support required for scaling up of the enterprise such as horizontal and vertical integration of the enterprises, easy access to credit, market linkages and development, quality standards, intellectual property rights, technology transfer, and business process reengineering were found inadequate.

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## Appendix 1

### Questionnaire

**“Ensuring business innovation fundamentals: Exploring equity, diversity and inclusion in impact delivery of innovation support programs across small and medium size enterprises (SMEs) in Nepal”**

<b>Demographic Details</b>		
1	Interview date	_ _ / _ _ / _ _ _ _
2	Name of the interviewer	.....
3	Province	Province 1 Madhesh Bagmati Gandaki Lumbini Karnali Sudurpaschim
4	District	Illam Rautahat Kathmandu Sindhupalchowk Kaski Nawalparasi west Kalikot Kailali
5	Metropolitan city/ Sub-metropolitan city/ Municipality/ Village Municipality	Suryodaya Municipality Chandrapur Municipality Kathmandu Metro politan City Melumchi Municipality Rupa Rural Municipality Susta Rural Municipality Khadachakra Municipality Janaki Rural Municipality
6	Ward no.	.....
7	{Enter approved informed consent script here}	1. I understand the process described above. I answer the questions to my satisfaction.

		2. I give my consent to participate in this study.
8	Name of the respondent	
9	Age	
10	Gender	1. Male 2. Female 3. Other
11	Marital status	1. Single (never married) 2. Married 3. Widowed and not remarried 4. Divorced 5. Separated
12	Caste/ Ethnicity	1. Brahmin / Chhetri/Thakuri 2. Dalit 3. Janajati 4. Newar 5. Madhesi 6. Other (Please specify)
13	Level of Education	1. No formal education 2. Primary level 3. Secondary level 4. Bachelors 5. Masters 6. Above Masters 7. Refuse to respond
14	GPS Location	
15	Email id and telephone (optional)	
<b>Section A: Business related</b>		
<b>Now I will ask you questions regarding your business.</b>		
16	Firm's Name	.....
17	Type of establishment (Business enterprise)	1. Micro (capital upto 20 lakh) 2. Small (capital upto 15 crore) 3. Medium (capital upto 50 crore)

18	Please indicate which of the following sector best describes your business. (Sector / sub-sector)	<ol style="list-style-type: none"> <li>1. Agriculture</li> <li>2. Fishing</li> <li>3. Poultry</li> <li>4. Livestock</li> <li>5. Mining</li> <li>6. Manufacturing</li> <li>7. Construction</li> <li>8. Utilities</li> <li>9. Retail</li> <li>10. Wholesale</li> <li>11. Transportation</li> <li>12. Storage/warehouse</li> <li>13. Hotel and lodge</li> <li>14. Restaurant</li> <li>15. Information and communication services</li> <li>16. Financial services</li> <li>17. Educational services</li> <li>18. Health care</li> <li>19. Handicraft</li> <li>20. Tailoring</li> <li>21. Knitting and weaving</li> <li>22. Supply services</li> <li>23. Others (please specify)</li> </ol>
19	In what year did you start your business?	Year.....
20	Is this a family business?	<ol style="list-style-type: none"> <li>1. Yes</li> <li>2. No</li> </ol>
21	Is your business involved in any of the following?	<ol style="list-style-type: none"> <li>1. Export</li> <li>2. Import</li> <li>3. Domestic business only</li> <li>4. Both domestic and foreign business</li> </ol>
22	Was this business started after getting trainings and support services from the government?	<ol style="list-style-type: none"> <li>1. Yes, I started business after receiving the training/support services.</li> <li>2. No, I had already been in this business.</li> </ol>
23	What immediate challenges did you face in the recent past (say in the last 3 years)? (Multiple options)	<ol style="list-style-type: none"> <li>1. Scarcity of raw materials</li> <li>2. Competitive pressure</li> <li>3. Shortage of fund</li> <li>4. Knowledge and skill gap</li> <li>5. Labour issues</li> <li>6. Power outage</li> <li>7. Market access</li> </ol>

		8. Supply chain disturbances 9. Others (please specify)
24	Have you experienced any difficulties/complications in the followings? i. Business registration ii. Obtaining permits/licensing iii. Paying taxes iv. Renewal of the firms v. Meeting the regulatory requirements vi. Others (if any)	1. Extremely challenging 2. Very challenging 3. Moderately challenging 4. Slightly challenging 5. Not at all challenging
25	What do you consider while making your business-related decisions?  <i>(Multiple options)</i>	1. Government's policy reforms 2. Research reports 3. Information provided by the value chain actors (buyers/suppliers) 4. Market situations 5. Your intuition 6. Others (please specify)
26	Which of the following do you consider the most challenging in your business?	1. Obtaining inputs (anything needed for business) 2. Processing/production of goods 3. Selling products 4. Service delivery
27	Do you think quality standards are important for your business?	1. Yes 2. No (Skip to Q. N. 29)
28	If yes, (i) to what extent have you found your competitors are meeting the standards?  (ii) To what extent are you being able to meet quality standards?	1. To a great extent 2. Somewhat 3. Very little 4. Not at all
29	How long do you think you would be able to continue your business?	1. Less than 1 year 2. 1 to 3 years 3. 4 to 9 years 4. More than 10 years
30	Do you believe your son/daughter will be taking care of your business after your tenure (retirement)?	1. Yes 2. No 3. No idea

31	In general, to what extent do you consider the market where you are doing business is attractive?	<ol style="list-style-type: none"> <li>1. Not at all attractive</li> <li>2. Slightly attractive</li> <li>3. Somewhat attractive</li> <li>4. Very attractive</li> <li>5. Extremely attractive</li> </ol>
32	Which of the following do you consider responsible for the level of industrial attractiveness? <i>(Multiple options)</i>	<ol style="list-style-type: none"> <li>1. Government policies</li> <li>2. Rules and regulations</li> <li>3. Supply/value chain actors (buyers and sellers preferences) behavior</li> <li>4. Competitive rivalry</li> <li>5. Urgency/importance of the goods and services</li> <li>6. Market saturation</li> <li>7. Others (Please specify)</li> </ol>
33	What is the total number of workers in your business? (i) How many paid workers are working in your business? (ii) How many unpaid workers are working in your business?	<p>_____ total number of workers</p> <p>_____ number of paid workers</p> <p>_____ number of unpaid workers</p>
34	What is the number of following working in your business? i. Female ii. Male iii. Others	<p>Number.....</p> <p>Number.....</p> <p>Number.....</p>
35	What is the number of following working in your business? i. Brahmin / Chhetri/ Thakuri ii. Dalit iii. Janajati iv. Newar v. Madhesi vi. Others	<p>Number.....</p> <p>Number.....</p>
<b>Section B: Government Support Programmes</b>		
<b>Now I will ask you questions regarding government support programmes.</b>		
36	From which of the following have you received government support for your business? <i>(Multiple options)</i>	<ol style="list-style-type: none"> <li>1. Micro-enterprise Development for Poverty Alleviation (MEDPA)</li> <li>2. Youth and Small Entrepreneurs Self-Employment Fund (YSEF)</li> <li>3. Others (please specify)</li> <li>4. Haven't received any support yet. (Skip to Q. N 46)</li> </ol>

37	How often have you received the government support/ services?	<ol style="list-style-type: none"> <li>1. One time</li> <li>2. Two to three times</li> <li>3. Four to five times</li> <li>4. Continuous</li> </ol>
38	What kinds of government support services has your business received? <i>(Multiple options)</i>	<ol style="list-style-type: none"> <li>1. Startup capital</li> <li>2. Soft/subsidized loan</li> <li>3. Subsidies/grants</li> <li>4. Technical support</li> <li>5. Tax rebate</li> <li>6. Skill development trainings</li> <li>7. Market development services</li> <li>8. Product development services</li> <li>9. Entrepreneurship/start-up trainings</li> <li>10. Others (please specify)</li> </ol>
39	Have you faced any challenges in terms of receiving support/services from the government agencies?	<ol style="list-style-type: none"> <li>1. Yes</li> <li>2. No (Skip to Q. N 41)</li> </ol>
40	What challenges have you faced in terms of receiving government support/services? <i>(Multiple options)</i>	<ol style="list-style-type: none"> <li>1. Complicated rules and procedures of government</li> <li>2. Lacked awareness of support availability</li> <li>3. Inaccessible government information</li> <li>4. Difficult to access due to lack of right connections</li> <li>5. Others (please specify)</li> </ol>
41	Did you find the government support/services helpful for your business?	<ol style="list-style-type: none"> <li>1. Yes</li> <li>2. No (Skip to Q. N 43)</li> </ol>
42	If yes, how did those services/support helped your business? <i>(Multiple options)</i>	<ol style="list-style-type: none"> <li>1. It helped me to scale up my business.</li> <li>2. It helped me to develop or modify the product.</li> <li>3. It helped me to introduce new product/services.</li> <li>4. Others (specify)</li> </ol>
43	If no, what was lacking in the government's support programs? <i>(Multiple options)</i>	<ol style="list-style-type: none"> <li>1. It was not relevant for my business.</li> <li>2. I couldn't transfer the trainings/support services to my business.</li> <li>3. It was not compatible with my interest.</li> <li>4. Others (please specify)</li> </ol>

44	In your opinion, which of government's support programmes should be improved for the sustainability/growth of your business? <i>(Multiple options)</i>	<ol style="list-style-type: none"> <li>1. Grant</li> <li>2. Soft/subsidized loan</li> <li>3. Technical support</li> <li>4. Business counseling center</li> <li>5. Market development</li> <li>6. Product development</li> <li>7. Tax exemptions</li> <li>8. Access to raw materials</li> <li>9. Energy exemptions</li> <li>10. Business training</li> <li>11. Others (please specify)</li> </ol>
45	In your opinion, to what extent have such support services been effective for women and marginalized/disadvantaged groups?	<ol style="list-style-type: none"> <li>1. To a great extent</li> <li>2. Somewhat</li> <li>3. Very little</li> <li>4. Not at all effective</li> </ol>
<b>Section C: Training</b>		
<b>Surveyor: Now I will ask you questions related to training.</b>		
46	Have you received any kinds of business-related training?	<ol style="list-style-type: none"> <li>1. Yes</li> <li>2. No (Skip to Q. N 54)</li> </ol>
47	If yes, how many times have you received business-related training yet?	Number of times
48	If yes, who provided the training? <i>(Multiple options)</i>	<ol style="list-style-type: none"> <li>1. Micro Enterprise Development for Poverty Alleviation</li> <li>2. Youth and Small Entrepreneurs Self-Employment Fund</li> <li>3. Others, (please specify)</li> </ol>
49	What kind of training(s) have you received from the programme? <i>(Multiple options)</i>	<ol style="list-style-type: none"> <li>1. Entrepreneurship development training</li> <li>2. Micro-enterprise creation and development training</li> <li>3. Skill development training</li> <li>4. Others (please specify)</li> </ol>
50	Did the training help you to grow/scale up your business?	<ol style="list-style-type: none"> <li>1. Yes</li> <li>2. No (Skip to Q. N 53)</li> </ol>
51	If yes, to what extent did the training help you grow your business?	<ol style="list-style-type: none"> <li>1. To a great extent</li> <li>2. Somewhat</li> <li>3. Very little</li> <li>4. Not at all</li> </ol>



52	If yes, what changes did you find after receiving the training? <i>(Multiple options)</i>	<ol style="list-style-type: none"> <li>1. Increased level of confidence</li> <li>2. Increased knowledge and skills</li> <li>3. Helped in daily transaction</li> <li>4. Increased profit</li> <li>5. Increased production / sales</li> <li>6. Improved productivity</li> <li>7. Increased customer service</li> <li>8. Helped in employment generation</li> <li>9. Others (please specify)</li> </ol>
53	If no, what was lacking in those training programs? <i>(Multiple options)</i>	<ol style="list-style-type: none"> <li>1. Not relevant to my business.</li> <li>2. Training was not enough.</li> <li>3. Couldn't manage for necessary resources.</li> <li>4. Others (please specify)</li> </ol>
54	If you hadn't received such training, would you be able to operate a business as expected by the training?	<ol style="list-style-type: none"> <li>1. Yes</li> <li>2. No</li> </ol>

<b>Section D: Access to financial services</b>		
<b>Now I will ask you questions regarding access to financial services and incentives.</b>		
55	Have you received any financial services/incentives from government support programmes?	<ol style="list-style-type: none"> <li>1. Yes</li> <li>2. No (Skip to Q. N 58)</li> </ol>
56	If yes, which of the following services did you receive from the government (MEDPA, YSEF, Women development fund, etc.)? <i>(Multiple option)</i>	<ol style="list-style-type: none"> <li>1. Collateral free loans</li> <li>2. Subsidies/grants</li> <li>3. Tax rebate</li> <li>4. Duty Exemption</li> <li>5. Soft/subsidized loan</li> <li>6. Others (please specify)</li> </ol>
57	What aspects of your business have been improved due to the financial support services? <i>(Multiple option)</i>	<ol style="list-style-type: none"> <li>1. Improved sales</li> <li>2. Increased production</li> <li>3. Increased profit</li> <li>4. Introduction of new products and services</li> <li>5. Expansion of business/market</li> <li>6. Improved productivity</li> <li>7. Helped in generation of employment</li> <li>8. Other (specify)</li> </ol>

58	Are there any specific challenges to obtain the financial support services provided by the government? <i>(Multiple option)</i>	<ol style="list-style-type: none"> <li>1. Meeting the documentary requirements/finding the necessary documentations</li> <li>2. Unable to find the referrals</li> <li>3. Unable to meet the criteria</li> <li>4. Others (please specify)</li> </ol>
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**Section E: Technology support/transfer**

**Now I will ask you questions regarding technology transfer.**

59	Have you received any technological support from the government agencies?	<ol style="list-style-type: none"> <li>1. Yes</li> <li>2. No (Skip to Q. N 63)</li> </ol>
60	From which of the government support services have you received the technology support?	<ol style="list-style-type: none"> <li>1. Micro Enterprise Development for Poverty Alleviation</li> <li>2. Youth and Small Entrepreneurs Self Employment Fund</li> <li>3. Others (please specify)</li> </ol>
61	For what purpose the technological support service was provided by the government agencies (central, provincial/local)? <i>(Multiple option)</i>	<ol style="list-style-type: none"> <li>1. To promote traditional/indigenous technology/resources</li> <li>2. to improve/modify the existing technology</li> <li>3. To adopt/develop new technology</li> <li>4. To optimize the business process</li> <li>5. Others (please specify)</li> </ol>
62	Have you found any of the following aspects of your business improved? <i>(Multiple option)</i>	<ol style="list-style-type: none"> <li>1. Improvement in product quality</li> <li>2. Increased of production capacity</li> <li>3. Increased productivity</li> <li>4. Introduction of new products and services</li> <li>5. Expansion of business</li> <li>6. Increased income generation</li> <li>7. Helped in generation of employment</li> <li>8. Reduced cost</li> <li>9. Others (please specify)</li> </ol>
63	Have you registered any of the following intellectual property?	<ol style="list-style-type: none"> <li>1. Patent/design</li> <li>2. Trade secrets</li> <li>3. Trademark</li> <li>4. Copyright</li> <li>5. No</li> </ol>
64	Have you encountered any problems on management of technology?	<ol style="list-style-type: none"> <li>1. Yes</li> <li>2. No (Skip to Q. N 66)</li> </ol>

65	Which of the following options describes the problems on management of technology? (Multiple option)	<ol style="list-style-type: none"> <li>1. High cost of technology</li> <li>2. Insufficient knowledge and skills</li> <li>3. Burdensome procedures and regulations</li> <li>4. Problem of access to information</li> <li>5. Other (please specify)</li> </ol>
66	Are you using indigenous resources, knowledge and technology?	<ol style="list-style-type: none"> <li>1. Yes</li> <li>2. No (Skip to Q. N. 69)</li> </ol>
67	If yes, to what extent have you been using indigenous resources, knowledge and technology?	<ol style="list-style-type: none"> <li>1. 0- 20%</li> <li>2. 21- 40%</li> <li>3. 41- 60%</li> <li>4. 61- 80%</li> <li>5. 81-100%</li> </ol>
68	Could you please specify in which of the following have you been using indigenous resources, knowledge and technology? (Multiple options)	<ol style="list-style-type: none"> <li>1. Raw materials</li> <li>2. Labor</li> <li>3. Utilities</li> <li>4. Others (specify)</li> </ol>

### Section F: Market Development

#### Now I will ask you questions regarding market development.

69	Have you received any marketing and promotional support services from the government	<ol style="list-style-type: none"> <li>1. Yes</li> <li>2. No (Skip to Q. N 72)</li> </ol>
70	If yes, what kinds of marketing and promotional services are you getting from the government? (Multiple option)	<ol style="list-style-type: none"> <li>1. Koseli ghar</li> <li>2. Common facility center</li> <li>3. Direct purchase of your product</li> <li>4. Exhibition centers</li> <li>5. Incentive schemes</li> <li>6. Others (please specify)</li> </ol>
71	How did those marketing and promotional support services helped your business? (Multiple option)	<ol style="list-style-type: none"> <li>1. No more improvement</li> <li>2. Improved sales</li> <li>3. Increased production</li> <li>4. Increased profit</li> <li>5. Introduction of new products and services</li> <li>6. Expansion of business</li> <li>7. Helped in generation of employment</li> <li>8. Improved productivity</li> <li>9. Other (please specify)</li> </ol>

<b>Section G: Business counseling services</b>		
<b>Now I will ask you questions regarding business counseling services.</b>		
72	Have you received business counseling services from government support programs?	1. Yes 2. No (Skip to Q. N 75)
73	If yes, to what extent did you find the counseling services effective for your business?	1. To a great extent 2. Somewhat 3. Very little 4. Not at all
74	Which of the followings were most often provided by the government agencies? <i>(Multiple option)</i>	1. Business plan development 2. Financing and operationalizing business plan 3. Knowledge and skill development training 4. Marketing and promotional services 5. Supply/value chain development 6. Risk management 7. Others (please specify)

<b>Section H: Follow-up services</b>		
<b>Now I will ask you questions regarding follow-up services.</b>		
75	Was there enough follow-up of the support services? <i>(Instruction: This question will be skipped when option 4 of Q. No. 36 is selected)</i>	1. Yes 2. No
76	To what extent do you consider follow-up services necessary to promote the business?  <i>(Instruction: This question will be skipped when option 4 of Q. No. 36 is selected)</i>	1. To a great extent 2. Somewhat 3. Very little 4. Not at all
77	Which of the following support services have you found more effective?	1. Training 2. Access to credit 3. Technology support 4. Market development services 5. Business counseling services 6. Collateral free loans

	<i>(Instruction: This question will be skipped when option 4 of Q. No. 36 is selected)</i>	7. Subsidized loans 8. Others
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<b>Suggestions/Feedback</b>		
78	What suggestions and feedback would you like to give to support service providers?	.....

## Appendix 2

### List of Key Informants

Code	Name	Designation	Province	Gender
KII.1	Swagat Raj Pyakurel	Director, MM Polymers Pvt. Ltd	Bagmati	Male
KII. 2	Bishwa Babu Pudasaini	Secretary, MoICS, Bagmati Province	Bagmati	Male
KII.3	Rishi Ram Ghimire	Entrepreneur	Bagmati	Male
KII.4	Ganga Chaulagain	Economic and Social Department Head, Hetauda Sub Metropolitan	Bagmati	Female
KII.5	Tul Bahadur Rana	Head of Patan Industrial Estate		Male
KII.6	Binod Khadgi	Entrepreneur	Bagmati	Male
KII.7	Ramji Neupane	Former MEDPA Program Manager	Bagmati	
KII.8	Meghraj Acharya	Consultant-MEDPA TA	Bagmati	Male
KII.9	Dhanu Sunuwar	MEDPA entrepreneur	Province 1	Female
KII.10	Gorkhi Biswas	MEDPA entrepreneur	Province 1	female
KII.11	Kumar Chhetri	Entrepreneur	Province 1	Male
KII.12	Mahila krishi Sahakari	YSEF supported entrepreneur	Province 1	Female
KII.13	Man Kumari Tharu	MEDPA supported entrepreneur	Province 1	Female
KII.14	Rakesh Khadka	YSEF entrepreneur	Province 1	Male
KII.15	Nursery Business	MEDPA supported entrepreneurs	Province 1	Female
KII.16	Shiva Raj Kandel	Majheri Saving and Credit, Secretary	Gandaki	Male
KII.17	Dinesh Prakash Acharya	Spokesperson, MOICS	Gandaki	Male
KII.18	Ram Kali Khadka	Women's Skills Development organization	Gandaki	Female
KII.19	Bal Krishna Gaire	Officer, MoICS	Lumbini	Male
KII.20	Jay Prasad Neupane	Sakriya KrishiSahakari Sanstha	Sudur Paschim	Male
KII.21	Nar Bahadur Kumal	Naina Bhawani Dairy Firm	Sudur Paschim	Male
KII.22	Shyam Chaudhary	Shiva Shakti Agro Firm	Sudur Paschim	Male
KII.23	Bhoj Raj Pathak	Former MEDPA Focal Person	Sudur Paschim	Male
KII.24	Tapendra Shah	YSEF entrepreneur	Sudur Paschim	Male
KII.25	Sarita Pandey	MEDPA Focal Person	Karnali	Female
KII.26	Narendra B Thapa	YSEF, Kailali	Kalikot	Male
KII.27	Yogesh Devkota	MEDPA Focal Person	Sudur Paschim	Male
KII.28	Dharma Raj Shakya	FHAN Past President	Bagmati	Male
KII.29	Shyam Badan Shrestha	Chairman, Nepal Knotcraft Pvt Ltd	Bagmati	Female
KII.30	Dibeev Shrestha	Entrepreneur, Saboo Nepal	Bagmati	Male
KII.31	Sarita Tuladhar	FWEAN Members	Bagmati	Female
KII.32	Nagendra Shah	MEDPA Focal Person, Rautahat		Male
KII.33	Khagendra Oli	YSEF Beneficiary	Kaliali	Male
KII.34	Khaga Raj Upadhyay		Lumbini	Male
KII.35	Sabita Mahato	Shree Hasina Bhawani Mahila Laghu Udhyam		Female
KII.36	Dhana Shyam Ale	Bala Devi Agro Firm		Male
KII.37	Amit Acharya	Deputy-Secretary, Department of Cottage and Small Industry	Province 1	Female
KII.38	Deepak Upreti	Secretary General, Makwanpur Chamber of Commerce and Industry	Bagmati	Male
KII.39	Ashok Tharu	Dang Handicraft Association	Lumbini	Male
KII.40	Bulk Milk Cooler	MEDPA Entrepreneur	Madhesh	Female
KII.41	Khuwa Business	Entrepreneur	Madhesh	Female
KII.42	Buffalo Farming Business	Agro-based business	Madhesh	Male

## Appendix 3

### *KII checklist about government's considerations about MSMEs at central, provincial, and local level*

#### 1. The status of MSMEs

- Number, type, and sector/areas of business establishment
- Employment creation (number, type, inclusion, diversity)
- Demands/expectations of the MSMEs (subsidies, training, market development, tax rebates, etc.) from the government

#### 2. The status of interventions

- Policy reforms
- Structural adjustment
- Training (skill development, business promotion)
- Business development (product development support, market access support, supply/value chain development support initiatives)
- Technology development, utilization, transfer and protection
- Status of copyright, trademark, patent, design, trade secret
- Quality assurance (branding, packaging, labeling) facilitations
- Subsidies/rebates
- Access to finance

#### 3. Distributional impact of ISPs

- Successful and unsuccessful interventions/ISPs (most successful to least successful)
- Impacting sectors/areas or business
- Status of EDI (access to the ISPs and benefits from the ISPs)
- Spillover effects (desired or undesired, expected or unexpected)
- Issues and challenges facing the innovation agencies i.e., the government agencies in formulation and implementation of ISPs

#### 4. ISPs' potentialities

- Existing ISPs intended to strengthen and expansion
  - Existing ISPs wishing to modify or discontinue
  - Intended ISPs, if any
  - Emerging challenges in the context of federalism in formulation and implementation of intended ISPs
  - Potential areas for reform, improvement, or abandonment

### *KII checklist about Indigenous knowledge, skills, and resources*

#### 1. Availability and use

- Knowledge

- Skills
- Resources
- Market potentiality
  - Domestic use
  - Importing
  - Exporting
- Entrepreneurial culture and/or value to the entrepreneurship

## 2. The extent of the entrepreneurship development in the region

- Business establishment (goods and services, area/sectors)
- Continuation of the business (for a long time?)
- Innovation essentials/urgencies
- Attraction and distraction to the business (succession plan potentialities)
- Issues and challenges concerning the entrepreneurial culture and value

## 3. Status of the policies and programs supporting entrepreneurship (cottage, small, and medium scale businesses)

- Name/nature of any innovation support policies and programs (ISPs)
- Adoption/implementation mechanisms
- Attraction to the existing and potential entrepreneurs to the ISPs
- Distributional impact of the ISPs
- Creating and/or strengthening the entrepreneurial culture and value, or damaging instead

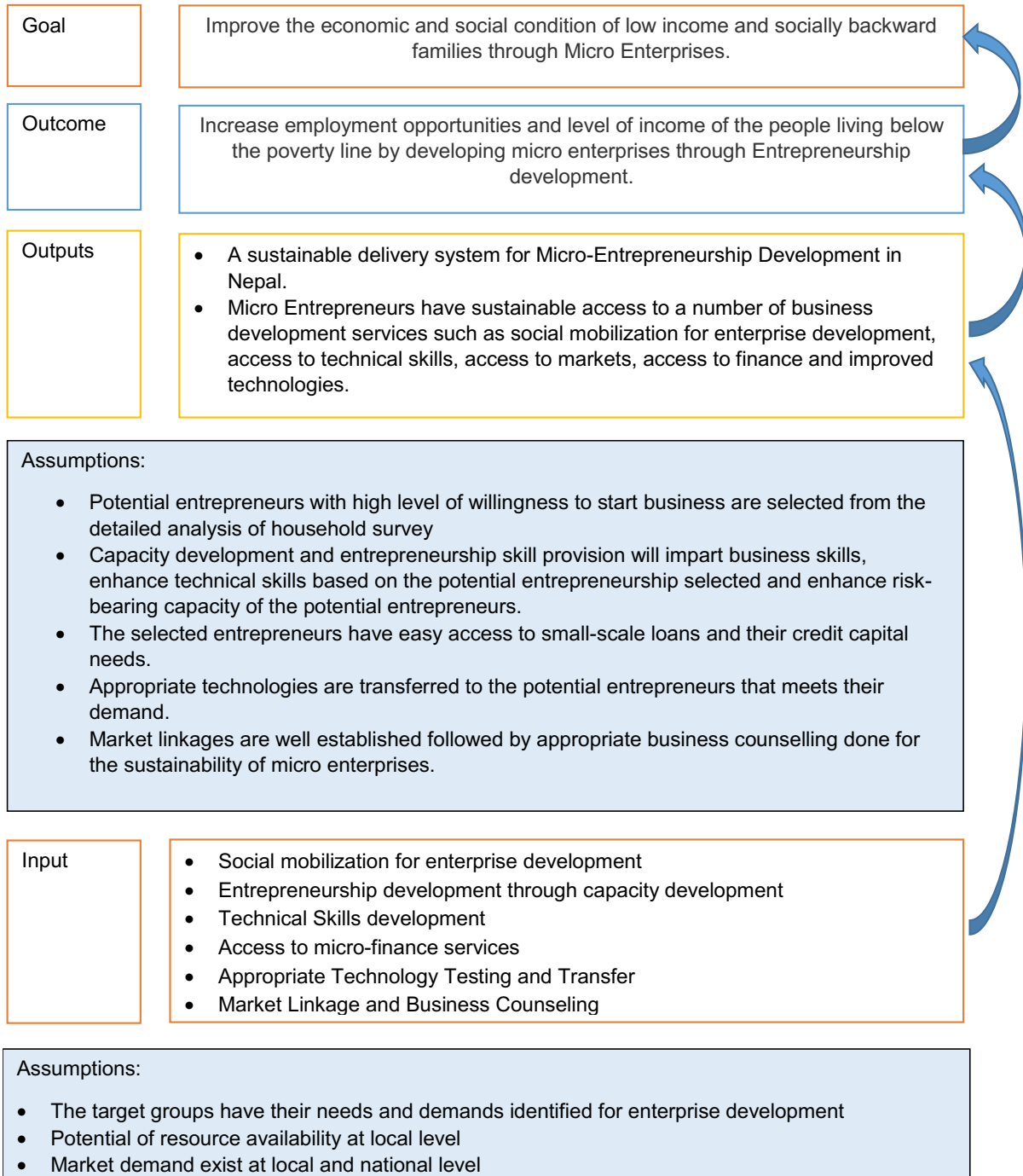
## 4. Impact evaluation of the ISPs

- Extent of matching/mismatching to the real requirement
- Ranking of the ISPs in terms of success and/or failure
- Duration/follow-up of the ISPs
- Procedural attractions/distractions to the ISPs
- Missing/desired ISPs, if any



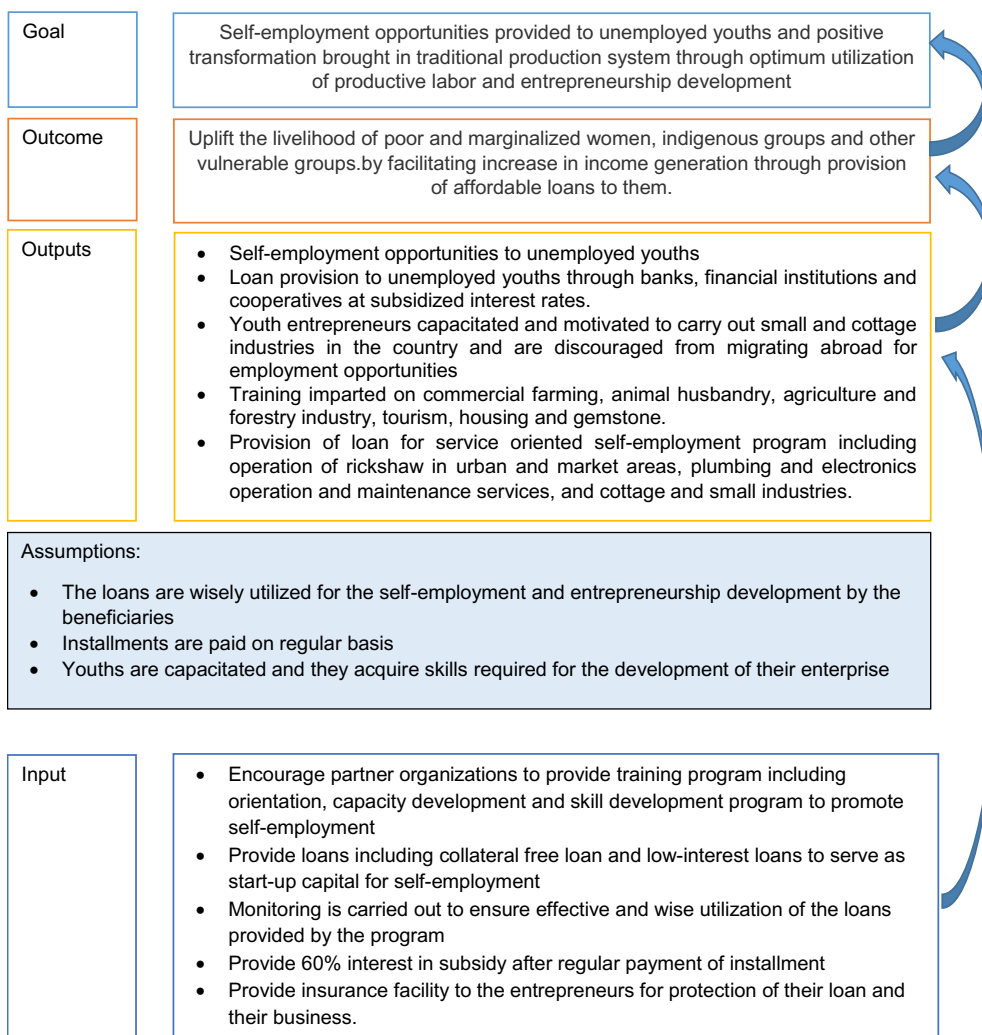
## Appendix 4

### Theory of Change of MEDPA programme



## Appendix 5

### Theory of Change of YSEF



## Appendix 6

EDI: Status of gender

Type of enterprise	Unit	Male	Female	Total
ISP supported enterprise	N	71	171	242
	%	29.30%	70.70%	100.00%
ISP not supported enterprise	N	106	37	143
	%	74.10%	25.90%	100.00%
Total	N	177	208	385
	%	46.00%	54.00%	100.00%

## Appendix 7

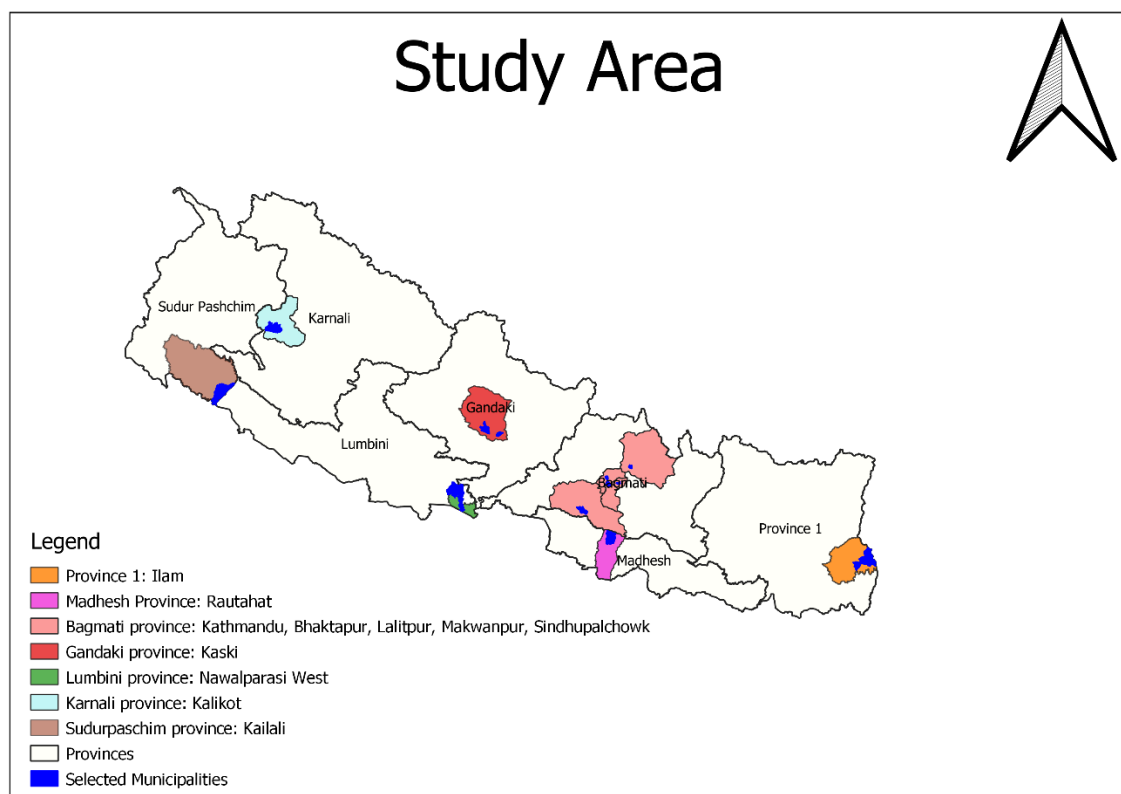
EDI: Status of ethnicity

Caste/Ethnicity	Unit	Type of enterprise		Total
		ISP supported	ISP not supported	
Brahmin / Chhetri/Thakuri	N	94	66	160
	%	58.80%	41.30%	100.00%
Dalit	N	13	13	26
	%	50.00%	50.00%	100.00%
Janajati	N	114	27	141
	%	80.90%	19.10%	100.00%
Newar	N	11	19	30
	%	36.70%	63.30%	100.00%
Madhesi	N	3	10	13
	%	23.10%	76.90%	100.00%
Other	N	0	2	2
	%	0.00%	100.00%	100.00%
Muslim	N	0	3	3
	%	0.00%	100.00%	100.00%
Tharu	N	7	3	10
	%	70.00%	30.00%	100.00%
Total	N	242	143	385
	%	62.90%	37.10%	100.00%

## Appendix 8

<i>Socio-Demographic Characteristics of entrepreneurs</i>	
<b>Demographic characteristics</b>	<b>Entrepreneurs</b>
<b>Total (N)</b>	<b>385</b>
<b>Gender (%)</b>	
Male	46
Female	54
<b>Caste/ethnicity (%)</b>	
Brahmin/Chhetri/Thakuri	41.6
Janajati	36.6
Dalit	6.8
Newar	7.8
Madhesi	3.4
Muslim	0.8
Tharu	2.6
Others	0.5
<b>Age (%)</b>	
<=19	1.6
20-29	19
30-39	33.8
40-49	32.5
50-59	10.6
>=60	2.6
<b>Education (%)</b>	
Illiterate	1.1
Literate	7.5
No formal education	6.7
Primary	20.9
Secondary	54.6
Bachelors	8.1
Masters	0.6
Above Masters	0.6
<b>Provincial distribution (%)</b>	
Province 1	17.1
Madhesh	12.7
Bagmati	30.9
Gandaki	10.9
Lumbini	16.1
Karnali	8.1
Sudurpaschim	3.6

## Appendix 9: Study Area



## Appendix 10: Sampling strategy

Province	Ecological Region	Randomly selected district	No. of Municipality	Ward No.
Province 1	Hill	Illam	Suryodaya Municipality	1
Madhesh	Terai	Rautahat	Chandrapur Municipality	4
	Mountain	Sindhupalchowk	Melumchi Municipality	3
Bagmati	Hill	Kathmandu, Bhaktapur, Lalitpur	Kathmandu Metropolitan City, Bhaktapur Sub-metropolitan city, Lalitpur Sub-metropolitan city	16
	Hill	Kaski	Rupa Rural Municipality	2
Lumbini	Terai	Nawalparasi West	Sarawal Municipality	5
Karnali	Mountain	Kalikot	Khadachakra Municipality	2
Sudurpaschim	Terai	Kailali	Janaki Rural Municipality	4