

FINAL REPORT

MAPPING POLICY LANDSCAPE OF MICRO
ESTABLISHMENT DEVELOPMENT

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Table of Contents

1.	Introduction	1
1.1.	Introduction to Micro Enterprises	1
1.2.	Economic Overview of Nepal	2
1.3.	Conditions of Micro Enterprises in Nepal	4
1.4.	Research Objectives	5
1.5.	Research Methodology	5
2.	Literature Review	6
2.1.	Relationship between Micro Enterprises and Economic growth	6
2.2.	Some Major Efforts on Micro Enterprise Development	7
2.2.1.	INDUSTRIAL ENTERPRISES ACT, 2020 (2076)	7
2.2.2.	Micro Enterprise Development Program (MEDEP) and Micro Enterprise Development for Poverty Alleviation (MEDPA)	7
2.2.3.	Poverty Alleviation Fund	8
2.2.4.	Youth and Small Entrepreneur Self-Employment Fund (YSEF)	8
2.2.5.	The Livelihoods and Forestry Programme (LFP)	9
2.2.6.	Project for Agriculture Commercialization and Trade (PACT)	9
2.2.7.	Private Sector Microfinance Bank, FINGOs and Cooperatives	9
3.	Data Collection, Analysis and Discussion	10
3.1.	Number of Cottage and Small Industries Registered	10
3.2.	Relationship between Employment Trends and Number of Industries Established	10
3.2.1.	National Unemployment Trends and Number of Micro Enterprises Registered	10
3.2.2.	Province Wise Employment Trends and Number of Industries Registered	11
3.3.	GDP Growth Rate and Number of Micro Enterprises Registered	11
3.3.1.	Comparison of the GDP Growth Rate of Nepal and Total Number of Enterprises Registered	12
3.3.2.	Comparison of the Provincial GDP Growth Rate and Total Number of Enterprises Registered	12
3.3.3.	Micro Enterprises and Gross Value Added (GaV)	12
3.4.	Distribution of Micro Entrepreneurs created through MEDEP and MEDPA projects Sector Wise	13
3.4.1.	Correlation between Province Wise Micro Entrepreneurs created through MEDEP/MEDPA and Employment	13
3.5.	Poverty Alleviation Fund	14
3.6.	Training Provisions for Youth Employment	14
3.7.	Discussion	17

3.7.1.	Relationship between Micro, Cottage and Small Industries and Employment	17
3.7.2.	Relationship between Micro, Cottage and Small Industries and GDP and GaV	19
3.7.3.	Incentives for Micro, Cottage and Small Enterprises	20
4.	Conclusion	21
	References	22

List of Tables and Figures

Table 1	Number of Micro Establishments in various Industries	5
Table 2	Income Tax Concessions in Industrial Enterprises Act 2020	7
Table 3	Number of Small and Cottage Industry Registered	10
Table 4	Province Wise Employment	10
Table 5	Correlation Analysis of Established Industries and Unemployment Rate	11
Table 6	Correlation between Province wise Employment Trends and Number of Industries Registered	11
Table 7	Correlation between Number of Industries Registered and GDP growth rate of Nepal	12
Table 8	Correlation between Provincial GDP Growth Rate and Provincial Registrations	12
Table 9	Correlation between the GDP growth rate of Nepal and Number of Enterprises Registered	13
Table 10	Total Micro Entrepreneurs created Province Wise through MEDEP/MEDPA	14
Table 11	Correlation between ME created by MEDEP/MEDPA and Provincial Employment	14
Table 12	Employment Status by Geographic Region	15
Table 13	Various Skills Development Training Programs and Number of Trainees	16
Table 14	Various Entrepreneurial Training Programs and Number of times conducted	16

Acronyms and Abbreviations

CSIBD	Cottage & Small Industry Development Board
CTEVT	Council for Technical Education and Vocational Training
GaV	Gross Added Value
GDP	Gross Domestic Product
GEM	Global Entrepreneurship Monitor
LFP	The Livelihoods and Forestry Programme
ME	Micro Entrepreneurs
MEDE	
P	Micro Enterprise Development Program
MEDP	
A	Micro Enterprise Development for Poverty Alleviation
MSME	Micro, Small and Medium Scale Enterprises
PACT	Project for Agriculture Commercialization and Trade
PAF	Poverty Alleviation Fund
SME	Small and Medium Enterprises
YSEF	Youth and Small Entrepreneur Self-Employment Fund

1. Introduction

1.1. Introduction to Micro Enterprises

Microenterprises are very small businesses often locally based, have limited access to capital and employ fewer labors. Micro, Small and Medium Scale Enterprises (MSMEs) are fundamental in promoting economic growth since the operational nature of these enterprises significantly affect the income distribution, tax revenue, efficient utilization of local resources and employment. Micro-enterprises not only promote local resources but also employ that segment of labor force having difficulties to participate in the labor market, such as the unskilled laborers.

Nepal classifies its industrial enterprises into the following categories: micro industries, cottage industries, small industries, medium industries and large industries, based on fixed capital investment, annual transaction, number of employment and energy utilization (Industrial Enterprise Act, 2020). According to the Industrial Enterprise Act, 2020 micro-enterprises are those enterprises with fixed capital investment up to Rs. 2,000,000.00 (Two Million), with annual transaction of less than Rs. 10,000,000 (Ten Million), engaging up-to 9 people¹. Further, given the cultural and ethnic diversity of Nepal, cottage industries, defined by the Act as

¹

enterprises that employ traditional skills, arts and craft using local resources, function with similar operational capabilities to that of micro enterprises.

Micro-enterprises play fundamental role in employment generation, resource utilization and thereby possess the capacity to stimulate a country's economic growth. In particular for a least developed country like Nepal, in which according to Central Bureau of Statistics (2017) 908,000 of the total working-age population are unemployed, micro, cottage and small enterprises can be pivotal in making the labor force self-sustained and stimulate production that benefit national economy.

Enterprises activities similar to those of micro and cottage enterprises have operated in Nepal for decades due to its craftsmanship history (Ghimire, 2011). The government initiatives to promote micro and small enterprises can be traced back to 1940 AD with the establishment of 'Cottage Skills and Awareness Office'. Since then, government has initiated numerous projects and programs, some in collaboration with external agencies, to promote micro, cottage and small industries in Nepal with the primary aim to reduce income inequality and alleviate poverty. These initiatives exist both in terms of policies and programs that either aim to appease the operational difficulties for micro and small enterprises and others that promote market driven approach to self-sustainability through entrepreneurship and job creation.

However, although collective efforts have been made through these projects that have operated throughout the Provinces and addressed varied industries, the unemployment gap within the labor force can still be identified. Further, these policies have been targeted on the root-level for poverty alleviation and generally towards industries that are agro/forest based. It can be noted that the Government of Nepal has been implementing policies to alleviate poverty from which the impact in terms of economic growth measured by the average GDP growth has not been reflected.

1.2. Economic Overview of Nepal

Nepal is a small country with a population of 29 million. The demographics of the country has morphed with more urban dwellers in which 63 percent of the population reside in the urban area and only 37 percent reside in the rural. The working age (15 + years) share 71.5 percent (20.7 million) of the total population. Traditionally an agriculture based economy, one out of every five employed is working in the 'Agriculture, Forestry and Fishing' sector.

A huge part of Nepalese economy operates in an informal sector which employs 62.2 percent of the working age. In Fig (1), the total employment which includes both the

formal and informal sector², it can be seen that the agriculture sector alone employs 21.5 percent of the total labor force.

Sector of employment	Male	Female	Total	Male	Female	Total
	thousands			percent		
Total	4 446	2 640	7 086	100	100	100
Formal	1 792	884	2 675	40.3	33.5	37.8
Agriculture	58	32	90	1.3	1.2	1.3
Non-agriculture	1 734	852	2 586	39.0	32.3	36.5
Informal	2 655	1 756	4 411	59.7	66.5	62.2
Agriculture	595	839	1 434	13.4	31.8	20.2
Non-agriculture	2 035	869	2 904	45.8	32.9	41.0
Private households	25	48	73	0.6	1.8	1.0

Figure 1 Formal and Informal Sector Employment

Industry	Male	Female	Total	Male	Female	Total
	thousands			percent		
Total	4446	2640	7086	100	100	100
Agriculture, forestry and fishing	652	871	1523	14.7	33.0	21.5
Mining and quarrying	43	16	59	1.0	0.6	0.8
Manufacturing	719	353	1072	16.2	13.4	15.1
Electricity, gas, steam and air conditioning supply	27	7	34	0.6	0.3	0.5
Water supply	34	9	42	0.8	0.3	0.6
Construction	867	111	978	19.5	4.2	13.8
Wholesale & retail trade, repair of motor vehicles & motorcycles	695	545	1240	15.6	20.6	17.5
Transportation and storage	315	7	322	7.1	0.3	4.5
Accommodation and food service activities	204	167	371	4.6	6.3	5.2
Information and communication	48	13	60	1.1	0.5	0.9
Financial and insurance activities	63	55	118	1.4	2.1	1.7
Real estate activities	14	3	17	0.3	0.1	0.2
Professional, scientific and technical activities	35	9	44	0.8	0.3	0.6
Administrative and support service activities	57	7	64	1.3	0.2	0.9
Public administration and defence; compulsory social security	105	29	133	2.4	1.1	1.9
Education	304	254	558	6.8	9.6	7.9
Human health and social work activities	78	92	171	1.8	3.5	2.4
Arts, entertainment and recreation	30	4	34	0.7	0.1	0.5
Other service activities	119	37	156	2.7	1.4	2.2
Private households	25	48	73	0.6	1.8	1.0
Activities of extraterritorial organisations and bodies	12	5	18	0.3	0.2	0.2

Figure 2 Employment by Industry³

The GDP growth rate of Nepal was 7 percent p. a. in the year 2019. Although an agro-based economy, the contribution of the services sector has significantly increased over the years in the GDP growth rate of the country. The agricultural sector contributed 27 percent of the GDP whereas non-agricultural sector covered the 73 percent of the total GDP in FY 2017/18 (MOF, 2018). Similar trends can be seen in sector wise contribution in which primary, secondary and tertiary sector contributed to the GDP

² AWO International has defined 'Informal Sector' as "private unincorporated enterprises owned by individuals or households that are not constituted as separate legal entities independently of their owners, and for which no complete accounts are available that would permit a financial separation of the production activities of the enterprise from the other activities of its owner(s)".

Central Bureau of Statistics defines Informal Sector using criterion employment, in which informal enterprises have less than ten labors.

³ Nepal Labor Force Survey 2017/18; Central Bureau of Statistics

growth rate at 2.9 percent, 9.6 percent and 7.2 percent respectively in FY 2017/18. Primary sector comprises of agriculture, forestry, fishery, and mining and quarrying, secondary sector comprises of manufacturing, construction, electricity, gas and water whereas the tertiary sector includes service sectors such as wholesale and Retail Trade, Hotel and Restaurant sector, transport, communication, financial intermediation, real states, renting, health, education and many more (Source of this classification?)

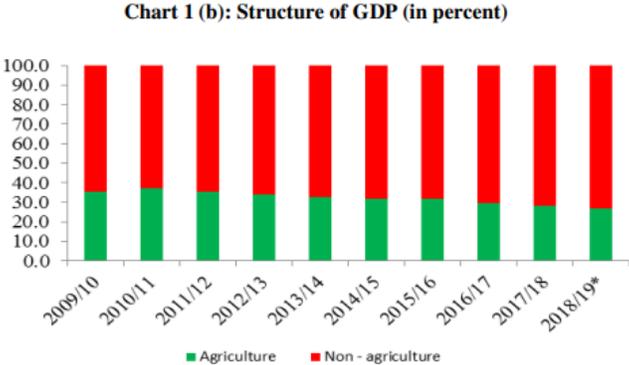


Figure 3 Contribution of Agricultural and Non Agricultural Sector in GDP of Nepal

Figure 3 highlights the decreasing trend in the contribution of agricultural sector in the GDP structure of Nepal.

1.3. Conditions of Micro Enterprises in Nepal

Micro enterprises have been defined by the Industrial Enterprises Act 2020 as separate category of enterprise from Cottage or Small industries, however data exclusively of micro enterprises are difficult to obtain. This issue persists first due to the lack of standard definition of micro enterprises in which the existing systems and policies incorporate and overlap micro enterprises with cottage and small industries. Many government initiatives have been targeted under the heading of ‘cottage and small industries’, which inculcate development of micro enterprises as well. According to Ghimire (2011), during 1970 to 1990, various cottage industries development programs were initiated to provide industrial and technical service program, handicraft design program, village industries program, sales management program, training program. Similarly, Department of Cottage and Small Industries (DCSI) was established to promote various cottage and small industries.⁴

However, the registration office for micro enterprises has only recently been streamlined under the Industrial Enterprises Act, 2020. After enactment of federal and provincial laws ‘micro entrepreneurship’ and ‘cottage and small scale industry’ with fixed capital as prescribed by the Act and under the respective provincial law are registered and regulated by the respective local governments. Thus, the data on micro enterprises are not centrally available and exclusive data only on ‘micro enterprises’ although defined as a separate entity from cottage and small industries are extremely challenging to obtain.

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Further, the economy of Nepal comprises a large informal sector, under which numerous micro enterprise oriented economic establishments operate. Since these enterprises are not registered, the contribution of the sector to the economy are largely overshadowed. Although, Labor Force Survey 2017/18 has identified this sector in its national survey, however due to lack of formal registration, determining the economic input and generated output from this sector is challenging. Thus, the real contribution of micro enterprises in economic growth of Nepal remains undocumented.

For those micro establishments, in lieu of the number of people engaged from 1 to 9, registered National Economic Census 2018 Analytical Report No.1, has provided the following data in terms of operation industries with total number of people engaged:

S.N.	Industry	Number of Micro Enterprises (As per the size)	Number of People Engaged
1	Agriculture, Forestry and Fishing	21,972	56,867
2	Mining and quarrying	394	599
3	Manufacturing	98,983	233,881
4	Electricity, gas, steam and air conditioning supply	898	2,792
5	Water supply; sewerage, waste management and remediation	2,129	6,937
6	Construction	1,285	3,745
7	Wholesale and retail trade; repair of motor vehicles and motorcycles	494,623	915,618
8	Transportation and storage	2,920	9,766
9	Accommodation and food service	127,768	288,727
10	Information and communication	1,969	7,269
11	Financial and insurance activities	14,106	55,813
12	Real estate activities	163	539
13	Professional, scientific and technical activities	7,844	16,952
14	Administrative and Support Services	6,197	19,479
15	Education	24,314	118,295
16	Human health and social work activities	17,570	53,656
17	Arts, entertainment and recreation	2,527	6,525
18	Other service activities	54,880	98,869
	Total	880,542	1,896,329

Table 1 Number of Micro Establishments in various Industries

From Table (1), it can be seen that out of the total micro establishments, highest number of people are engaged in ‘Wholesale and Retail Trade’ followed by ‘Accommodation and Food Services’. ‘Manufacturing’ industry employs the third highest employment whereas ‘Agriculture, Forestry and Fishing’ micro establishments employ sixth highest number of people compared to the 18 industries.

1.4. Research Objectives

The study aims to trace existing government policies towards the growth of micro enterprises, cottage and small industries and government initiatives to promote entrepreneurship. It evaluates the employment effect these established industries in the national and provincial economy in terms of Gross Domestic Product (GDP) growth rate and Gross Added Value (GaV).

Additionally, the paper examines the policy gaps that exist between government initiatives and micro enterprise, cottage and small industry promotions. It analyzes the existing policies and addresses any gap that are allowing a certain section of the beneficiaries to benefit more than the others.

1.5. Research Methodology

The study is an exploratory research focused on evaluating the present micro-enterprise policies and its impact on employment generation and GDP growth. Further, the paper conducts policy review in terms of identifying if there are gaps in the policy to address if certain industries/sectors are being over-served than the others. The paper provides policy recommendations for government to bridge the gap between unemployment and entrepreneurship through micro enterprise development programs.

For the purpose of the study, primary information regarding the registration processes, impending challenges and issues and prospective remedies were collected through telephonic interview with the spokesperson of Department of Industry, Government of Nepal and relevant personnel of Federation of Nepalese Chambers of Commerce and Industry (FNCCI). Relevant existing policies and economic statistics were obtained from various secondary sources such as the national survey publications and official government websites.

1.6. Limitation of the Study

Pandemic conditions from COVID-19 restricted the research in terms of obtaining primary data with the respective micro entrepreneurs and stakeholders. Further, it impeded meeting the relevant government officials and visiting government offices to obtain relevant information. With additional primary research, the recommendations concluded through this research will be further substantiated.

2. Literature Review

2.1. Relationship between Micro Enterprises and Economic growth

Micro and small enterprises have contributed in economic growth and poverty alleviation throughout small and large economies. A case study on Botswana revealed that while Botswana ranked as one of the 24th poorest country in the world in 1966 in terms of GDP, by 2007 it ranked

as one of the middle-income countries with per capita income more than US\$5,000 (Citation here). By 2014, Botswana was ranked 56 out of 189 countries in ‘Doing Business’ ranking. The Global Entrepreneurship Monitor (GEM) research indicated that approximately 90 percent of the registered businesses were Small and Micro-Enterprises. This indicated that the significant improvement of the GDP per capita of Botswana and the GEM ranking were linked to the growth and operations of small and micro-enterprises.⁵

Similarly, according to Jibir, Ahmed, & Bello (2018), Nigeria has extensively focused on achieving economic growth through micro and small enterprises. The research revealed that there was a positive correlation between the contribution of small and medium enterprises activities, including the utilization of local resources and employment creation, towards the performance of the economy in terms of GDP. Similar results were drawn from the research conducted by Nagaya (2017), in which it was concluded that SMEs enhanced economic growth through various channels such as employment and poverty reduction in India.

Micro and small enterprises have played major role in stimulating industrial growth in many developing countries, particularly in Asia as well(UNCTAD: 2001). According to Harvie, & Lee (2002), SMEs contributed nearly half of the GDP of regional east asian economies during 1997-1998. According to Asian Development Bank (ADB), SMEs accounted for approximately 96 percent of all the enterprises and 62 percent of the national labor forces. Further, SMEs in China and India accounted for more than 40% of the total export values, followed by 26% in Thailand, 19% in the South Korea, and 16% in Indonesia (ADB 2015).

2.2. Some Major Efforts on Micro Enterprise Development

2.2.1. INDUSTRIAL ENTERPRISES ACT, 2020 (2076)

Industrial Enterprises Act, 2020 governs the various policies and exemptions given to Micro-Enterprises. In that, some of the policies that are relevant to Micro-Enterprises are as follows:-

2.2.1.1. Income Tax Concessions

S.N.	Industry	Act
1.	Manufacturing industries producing fruit based cider, brandy or wine established in any undeveloped region	25% exemption on the rate of income tax for up to 10 years from the date of commencement of business

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https://www.academia.edu/8614083/THE_ROLE_OF_MICRO-ENTERPRISES_ON_ECONOMIC_GROWTH_A_CASE_OF_SMMES_IN_BOTSWANA).

2.	Manufacturing Industries apart from those mentioned in S.N. 1 established in Under developed, Undeveloped and Least Developed Region	90%, 80% and 70% exemption respectively up to 10 years of commencement of commercial production
	Local tea producing and processing industries, dairy industries and clothes producing industries	50% exemption on the rate of the income tax levied on the income from the sale of such products
	Cottage and Small Scale Industries with fixed capital investment of Rs. 10 Million (Nepalese Rupees Ten Million) which are already in operation by the time of commencement of this Act and coming into operation pursuant to this Act	50% exemption on the income tax as applicable

Table 2 Income Tax Concessions in Industrial Enterprises Act 2020

2.2.1.2. Duty Exemption

Micro Industries already under operation at the time of commencement of this Act and being registered pursuant to this Act are entitled to 100% income tax exemption. Previously, the exemption was available only for up to 5 years from the date of commencement of business or transaction.

2.2.2. Micro Enterprise Development Program (MEDEP) and Micro Enterprise Development for Poverty Alleviation (MEDPA)

MEDEP was a project implemented by UNDP with Government of Nepal (Ministry of Industry, Commerce and Supplies) in 4 phases: Phase I: 1998 to 2003, Phase II: 2004 to March 2008, Phase III: March 2008 to July 2013 and Phase IV: August 2013 to July 2018 for poverty alleviation through entrepreneurship from micro-enterprises. MEDEP was a holistic initiation towards poverty alleviation that integrated entrepreneurship, credit, market promotion and follow-up services. It was targeted towards low-income families (families living on or below the poverty line) and service delivery organizations at the national and district levels. The major objectives of MEDEP were:-

- Poverty reduction of low-income families by sustainable micro-enterprise development with 70 percent women participation
- Capacity building of micro-enterprise service delivery mechanism
- Facilitation of government policies and guidelines on micro-enterprise development

By the end of the project, MEDEP created 142,437 entrepreneurs. Out of 142,593 MEs, 37,304 were graduated, 29,417 became resilient, and 1,317 were able to convert their enterprises to Small and Medium Enterprise (SME). Throughout of MEDEP, 231,746 jobs were

created^{6,7} Average contribution of microenterprise income to per-capital family income was Rs. 11.50 thousand.

Similarly, MEDPA is a replication of the MEDEP project, under the Phase IV of MEDEP, to develop capacity of the government to deliver Micro Enterprise Development (MED) program. MEDPA/MEDEP has been able to create micro enterprises in all the 75 districts in Nepal.

2.2.3. Poverty Alleviation Fund

The Nepal Poverty Alleviation Fund (PAF), initially established in 2004 through “Poverty Alleviation Fund Ordinance 2004”, is a specially targeted demand-driven program to improve the economic situation of the lower strata of the society with particular attention to groups that have traditionally been excluded due to reasons of gender, ethnicity, caste, and location.

PAF has intervened in 58 districts by engaging in income generating activities (IGA), capacity building, social mobilization and small scale community infrastructure (PAF, 2013). Through Phase 1 and Phase 2, it has spent around 394.6 million US \$. The study identified that each loan product created 1.7 person jobs.

2.2.4. Youth and Small Entrepreneur Self-Employment Fund (YSEF)

The government of Nepal established Ministry of Youth and Sports (MOYS) in 2008 and launched YSEF for promoting youth labor interests. YSEF provides collateral free, low-interest loans of up to NPR 200,000 to serve as start-up capital for self-employment. YSEF also offers training in commercial farming, livestock management, agro- and forestry-based businesses, and traditional trades. Any unemployed person from the age group of 18 to 50, not involved in any occupation, entrepreneurship and income generating activity are eligible to apply for the loan. YSEF has created a total of 72,789 number of self-employments.

2.2.5. The Livelihoods and Forestry Programme (LFP)

This program was initiated through the assistance of Department for International Development (DFID), UK. It aimed at creating a sustainable forest based micro enterprises, which included furniture production, veneer making, Nepali paper making, squash (juice) production, essential oil distillation from non-timber forest products, charcoal briquette making, honey production, sal leaf plate making, allo cloth weaving, candle making and candy making. By the end of the project, LFP created 500 pro-poor community forest enterprises with 349 completely forest based enterprises (Center for International Development and Training , 2013).

⁶ <https://medpa.moics.gov.np/Home/MedepInformation?infol=18>

⁷

2.2.6. Project for Agriculture Commercialization and Trade (PACT)

PACT was a project implemented in coordination with The World Bank by Ministry of Agriculture (MOAD) and Livestock Development to “improve the competitiveness of project supported smallholder farmers and agribusinesses within selected commodity value chains”. Upon the request of MOAD, 467 grant schemes were provided as micro grants to micro entrepreneurs with simplified selection process capped at US\$10,000 each.

2.2.7. Private Sector Microfinance Bank, FINGOs and Cooperatives

According the Report by NRB, there are 87 micro-finances registered as of Poush end, 2076. Out of the total loans and advances, only 14.88 percent has been dispersed to institutions. Further, out of the 87 micro-finances, 39 are available in all 77 districts.

3. Data Collection, Analysis and Discussion

3.1. Number of Cottage and Small Industries Registered

State	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	Total
Province No.1	2455	4095	3387	4333	1904	16174
Province No.2	2583	2819	2318	4820	3187	15727
Bagmati Province	7530	8419	8275	10057	5532	39813

Gandaki Province	2234	3039	2598	3180	2371	13422
Province No.5	5330	4809	4494	5637	3774	24044
Karnali Province	742	1225	1202	1579	506	5254
Sudurpashchim Province	1280	1864	2043	2433	1288	8908

Table 3 Number of Small and Cottage Industry Registered⁸

It can be inferred from Table (3) that the maximum number of industries have been registered in Bagmati Province and the least amount of number in Karnali Province.

3.2. Relationship between Employment Trends and Number of Industries Established

Province	Working-Age Population	Employed	Proportional Employment
Province 1	3556	1208	2407.17
Province 2	3973	1261	2249.04
Bagmati Province	4865	2129	3100.94
Gandaki Province	1868	606	2298.78
Province 5	3437	1139	2348.26
Karnali	1163	288	1754.74
Sudurpashchim Province	1883	455	1712.23

Table 4 Province Wise Employment

Similarly, Table (4) identifies that given in the industries registered, proportional employment (proportional to the total labor force population in the given province) can be seen highest in Bagmati Province and lowest in Sudurpashchim Province.

3.2.1. National Unemployment Trends and Number of Micro Enterprises Registered

		No. of Establishments Registered	Unemployment Trend ⁹
No. of establishments registered	Pearson Correlation	1	0.303
	Sig. (2-tailed)		0.62
Unemployment Trend	Pearson Correlation	0.303	1
	Sig. (2-tailed)	0.62	

Table 5 Correlation between Unemployment Trend and Established Industries

⁸ Economic Survey 2018/19; Ministry of Finance

⁹ National Unemployment Rate is the number of unemployed to the number of labor force of the population that is a percent of unemployed labor force to the total labor force.

3.2.2. Province Wise Employment Trends and Number of Industries Registered

		Number of Registrations ¹⁰	Provincial Employment
Number of Registrations	Pearson Correlation	1	.938**
	Sig. (2-tailed)		.002
Provincial Employment	Pearson Correlation	.938**	1
	Sig. (2-tailed)	.002	

** . Correlation is significant at the 0.01 level (2-tailed).

Table 6 Correlation between Province wise Employment Trends and Number of Industries Registered

3.3. GDP Growth Rate and Number of Micro Enterprises Registered

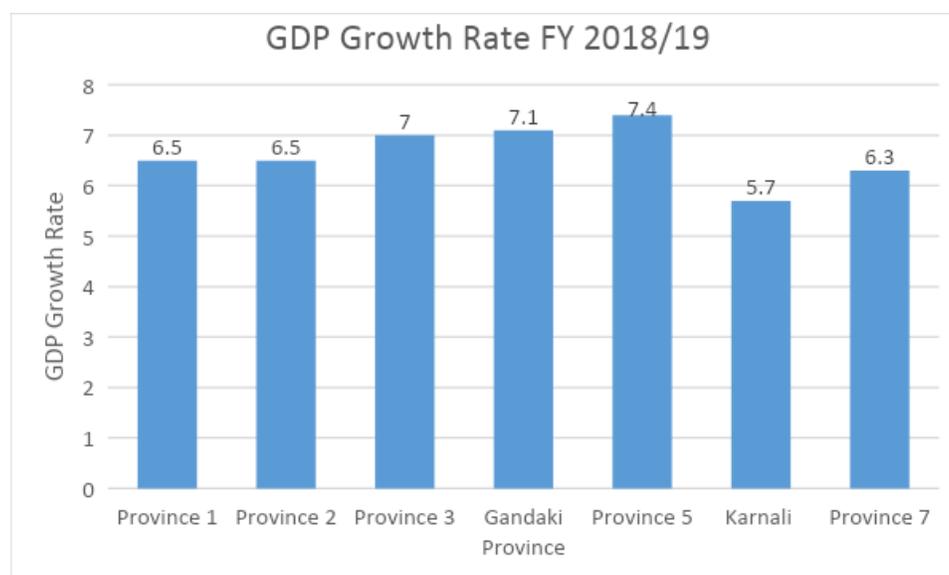


Figure 4 Province Wise GDP Growth Rate FY 2018/19¹¹

Figure (4) reveals the GDP growth rate of various provinces as published on the Economic Survey 2018/19 by Ministry of Finance (MoF). The highest GDP growth rate is seen in Province 5 whereas the lowest GDP growth rate is seen in Karnali province.

		Number of Registrations	GDP growth rate of Nepal
Total in a Given Year	Pearson Correlation	1	.161

¹⁰ A sum total of industries registered from 2013/14 to 2017/18 has been used to derive the correlation between Unemployment and Industries registered.

¹¹ Economic Survey 2018/19; Ministry of Finance

	Sig. (2-tailed)		.796
GDP growth rate of Nepal	Pearson Correlation	.161	1
	Sig. (2-tailed)	.796	

3.3.1. Comparison of the GDP Growth Rate of Nepal and Total Number of Enterprises Registered

Table 7 Correlation between Number of Industries Registered and GDP growth rate of Nepal

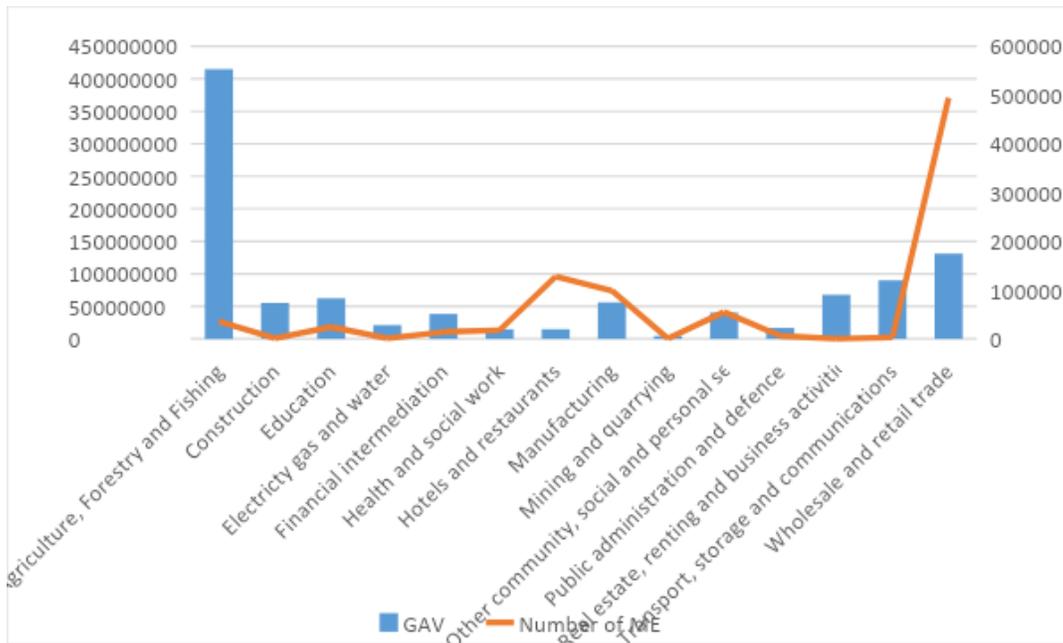
3.3.2. Comparison of the Provincial GDP Growth Rate and Total Number of Enterprises Registered

		Province Wise GDP growth	Total Provincial Registrations
Province Wise GDP growth rate	Pearson Correlation	1	.663
	Sig. (2-tailed)		.105
Number of Registrations	Pearson Correlation	.663	1
	Sig. (2-tailed)	.105	

Table 8 Correlation between Provincial GDP Growth Rate and Provincial Registrations

3.3.3. Micro Enterprises and Gross Value Added (GaV)

Table 9 Correlation between the GDP growth rate of Nepal and Number of Enterprises Registered



3.4. Distribution of Micro Entrepreneurs created through MEDEP and MEDPA projects Sector Wise

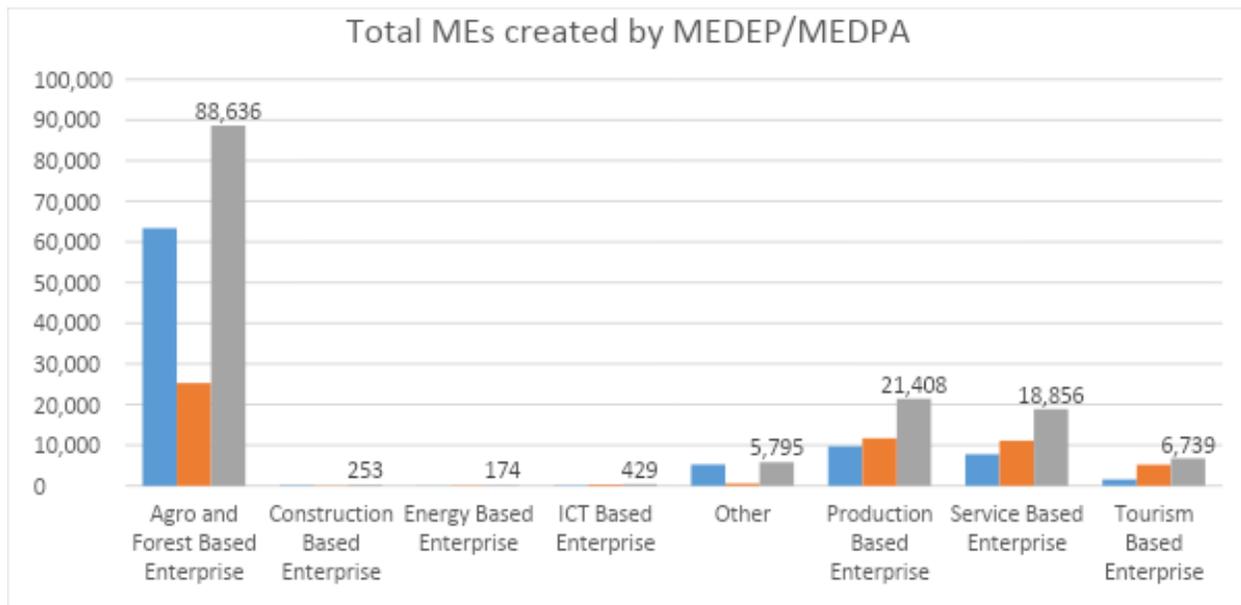


Table 10 Micro Entrepreneurs created through MEDEP/MEDPA

3.4.1. Correlation between Province Wise Micro Entrepreneurs created through MEDEP/MEDPA and Employment

Province	Number of ME
Province 1	20,264

Province 2	17,505
Bagmati Province	31,201
Gandaki Province	15,331
Province 5	24,983
Karnali Province	15,851
Sudurpashchim Province	17,043

Table 11 Total Micro Entrepreneurs created Province Wise through MEDEP/MEDPA

	Number of ME Registered		Province wise registration
Number of ME Registered	Pearson Correlation	1	.828*
	Sig. (2-tailed)		.021
Province wise registration	Pearson Correlation	.828*	1
	Sig. (2-tailed)	.021	

*. Correlation is significant at the 0.05 level (2-tailed).

Table 12 Correlation between ME created by MEDEP/MEDPA and Provincial Employment

3.5. Poverty Alleviation Fund

According to DMI & Bright Future International JV (2018), PVA created 1.7 person jobs. This indicates that the project has been able to provide self-sustenance to the unemployed sector however providing only partial employment, mostly at household levels.

Major Sector	Family Member Involved (number)			Employee Involved		
	Hill/Mountain	Terai	Total	Hill/Mountain	Terai	Total
Agriculture	556	261	817	0	0	0
Livestock	2810	572	3382	7	2	9
Manufacturing	7		7	0		0
Service	184	12	196	1		1
Trading	284	320	604	1		1
Total	3841	1165	5006	9	2	11

Table 13 Employment Status by Geographic Region

From the report submitted to PAF, Table (9), it can be seen that livestock and agriculture has been able to provide highest level of self-sustenance whereas in terms of creating employment in the community level, only livestock enterprises have been able to provide job creation. One of the objectives of PAF was to promote community employment through micro enterprises. However, it was found that most of the enterprises were households, out of which 94.2 percent of them are not even registered. Further, the study indicated that access to revolving loans provided through PAF did not discourage the labor force from migrating for foreign employment.

However, it was noted that the seasonal migration to countries such as India and internal migration have reduced.

3.6. Training Provisions for Youth Employment

The government of Nepal has initiated many projects with the promulgation of the Council for Technical Education and Vocational Training (CTEVT) Act of 1993, the National Technical and Vocational Education and Training Sectoral Policy of 1999, the Technical Education and Vocational Training and Skills Development Policy of 2007, and the Nepal Technical and Vocational Education and Training Policy of 2012, aimed at intervening in the labor market to make the youth more competitive.

According to a study conducted by Blattman, Fiala, & Martinez (2014) on the Youth Opportunities Program implemented by the government of Uganda to aid the unemployed youth to become self-employed artisans, when grants were provided for vocational trainings and business start ups, it resulted in self-employment through skilled work and cottage industry. Further, these businesses formalized their operations and were hiring out labor, comprehensively leading to an increase in investment, work and income.

Generally off-the-job training, World Bank Group (2018) study found that there was no positive association between training and wage earnings. Further it concluded that the training provided by various initiatives in Nepal are considered poor due to its “insufficient and inequitable access, poor quality, and low market relevance”. It implies that the training provided to the youth has not been sufficient enough to meet the competitive needs of the labor market.

Cottage & Small Industry Development Board (CSIBD) has listed the following progress/achievements from the B.S. 2039 to 2068/069 in the field of training for the Micro, Cottage and Small Industries.

S.N.	Programs	Numbers
1	Skill Development Training (No. of Person)	115,746
2	Entrepreneur Development Training -EDP (No. of Person)	16,049
3	Entrepreneur Motivational Training (No. of Person)	2,866
4	Management Training (Accounting, Marketing & Industrial Mgmt. etc) (No. of Person)	1,258
	Total	135,919

Table 14 Various Skills Development Training Programs and Number of Trainees¹²

S.N	Programs	Numbers
1	Entrepreneur Development Programme	9,038
2	Industry Promotion Programme	19,018

¹² https://csidb.gov.np/ck/filemanager/userfiles/Publication/4_Folds_Brochures_Design_English_resize.pdf

3	Technical and Counseling Services to Industries and Entrepreneurs (Scheme Preparation and Distribution are included)	74459
4	Women Entrepreneur Development Pogramme	
	• Entrepreneur Development Programme	233
	• Industry Promotion Programme	818
	• Interaction Programme	101
	• Industry Visit Programme	37
	• Skill Development Training	6,089
	• Management Training	179
	• Entrepreneur Development Training	263
	• N.G.O. Joint Programme	712
	• Market Link Programme	29
5	Design Development Collection and Distribution	6,146
	Total	14,607

Table 15 Various Entrepreneurial Training Programs and Number of times conducted¹³

Table (14) reveals that over the 10 years, CSIBD has provided various skills, entrepreneurial management and motivational training to 135,919 individuals and Table (15) reveals that a total of 14,607 various Entrepreneurial and Skills development program has been conducted to train the labor force for entrepreneurship and employment in the job market.

Additionally, figure (5) exhibits the training undertaken by a sample of observations based on Nepal Labor Force Survey, 2009. The highest number of training has been taken for basic computing skills followed by dressmaking/tailoring. Similarly, some of the least amount of trainings have been obtained under Business and Accounting, Beautician services and Agriculture and Livestock Management.

¹³ https://csidb.gov.np/ck/filemanager/userfiles/Publication/4_Folds_Brochures_Design_English_resize.pdf

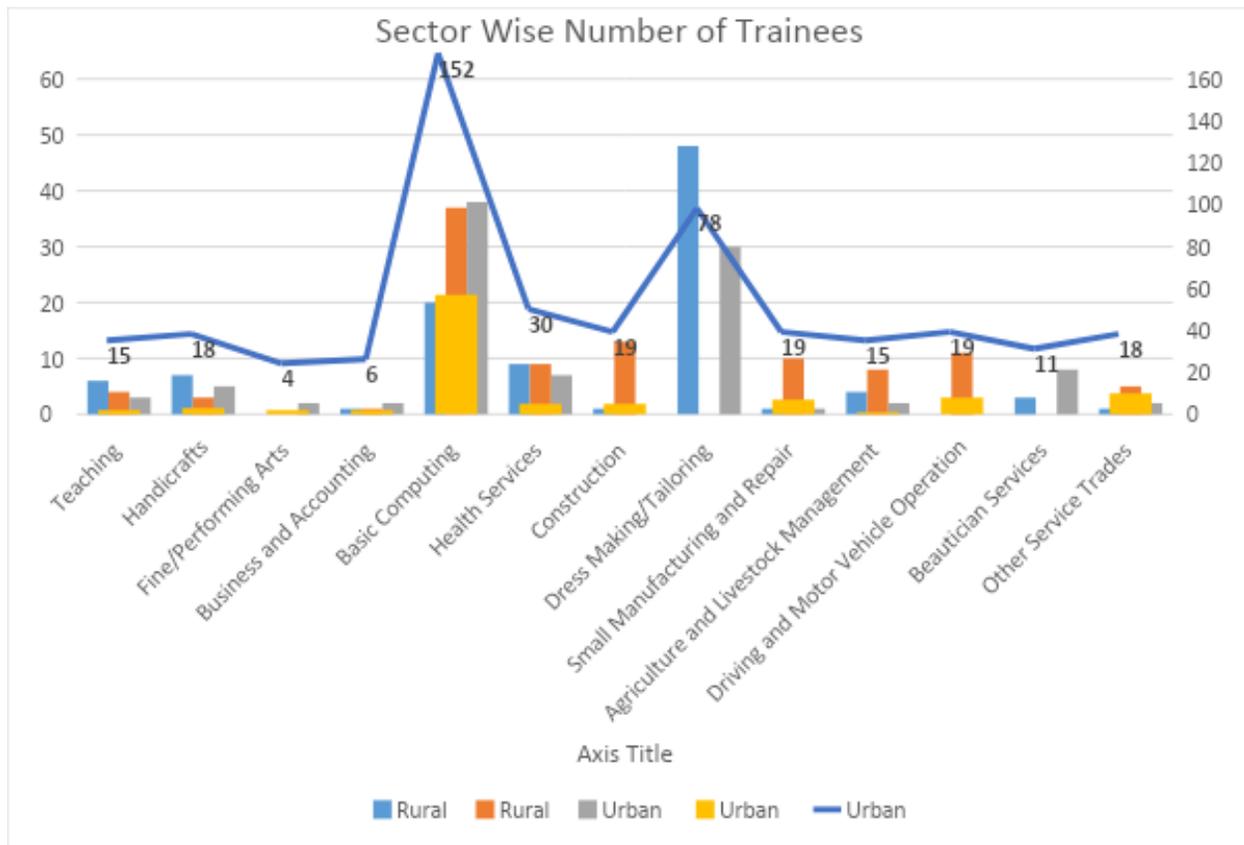


Figure 5 Distribution of training fields



Figure 6 Distribution of Skill-based Trainings Taken

3.7. Discussion

3.7.1. Relationship between Micro, Cottage and Small Industries and Employment

The table (5) indicates a positive correlation between number of establishments registered and unemployment trends in Nepal. In Table (6), a positive correlation is observed between province wise employment and number of industries registered. The result indicates that although the number of established industries have not been able to affect the unemployment trends in Nepal on a macro level, on a provincial level increase in industries registered have positively affected the number of people employed.

Unemployment trend reflects the number of unemployed in a given time period upon the total labor force. Given that more than 450 thousand youths enter the Nepal's labor market annually¹⁴, a positive correlation between unemployment trends and no. of industries registered indicates that although numerous cottage and small industries are being registered throughout Nepal, its ability to absorb the labor force is not significant enough on a macro level. However a positive correlation between provincial employment and number of industries indicate that the establishment of industries generate some employment at a provincial level.

Agriculture sector has employed the highest proportion of labor force as shown in Figure (2). It has also produced the highest GaV compared to other industries and contributed 27 percent of the GDP in FY 2017/18. However, out of the 21.5 percent of the total labor force employed in agriculture, 20.2 percent are engaged in informal sector. It indicates that a large segment of employment and operations in the informal sector have the potential to significantly contribute to the GDP growth rate and GaV of Nepal. Most of the informal sectors are micro entrepreneurial in nature which have not been registered and their contribution to the economy remains under-shadowed.

Further in terms of number of hours worked, agricultural sector has the lowest average usual hours worked per week compared to other industries, with an average of only 36 hours¹⁵. Additionally, according to the labor force survey, 55 percent of the total labor force were engaged in production/processing of subsistence food stuff, out of which 1,898,000 were potential job seekers due to being underemployed or unemployed. It indicates that although the labor force has been engaged in Agricultural Sector, labors engaged in Agricultural, Forestry and Fishing sector are mostly engaged for self-sustenance and those employed are either underemployed or unproductive.

In terms of training provision, individual projects such as MEDPA/MEDEP have executed demand driven approach to micro entrepreneurial development and strengthened District Development Committees (DDCs) and local business organizations (International Labour Office,

¹⁴ Three year fourteenth plan, 2017/18-2018/19. Kathmandu: National Planning Commission

¹⁵ Labor Force Survey

2005). However, as per the sampling study conducted by (World Bank Group, 2018), the maximum number of trainings have been taken for Basic Computing skills and no substantial training has been obtained for entrepreneurial development. Only 4 percent of the total observations took training on Agricultural and Livestock Management whereas only 1 percent took training on Business and Accounting. Given the heavy dependence of Nepalese economy as well as the labor force in Agricultural Sector, it can be seen that the training received have not been sufficient to increase the labor productivity and output.

CSIBD was established in B.S. 2049 under the Development Committee Act-2013 for micro, cottage and small industries support and promotion. However, over the span of 10 years the board has provided entrepreneurial training and motivational programs for total of 135,919 individuals when statistically, 450 thousand youths enter the Nepal's labor market annually.

Recommendation 1:- Establish an Integrated National Data point for Micro Enterprises

- It is recommended that to statistically understand the actual impact of micro enterprises which are generally locally based, the central government bodies such as the National Planning Commission, Cottage & Small Industry Development Board coordinate with the local government and create a national data base for easy access.

Recommendation 2:- Formalize Informal Sector of the Economy

- Introduce policies and plans that integrate the informal sector of the economy. Recognition of the sector through local government and initiate plan of action to formalize registrations of such establishments.
- Track informal economy through local governments and implement policies to upgrade their operations into micro and cottage industries.

Recommendation 3:- Increase the productivity of the Agro-businesses through Intensive Trainings and Business Development Services

- Focus extensively on methods to engage labor in the agribusinesses to increase their labor productivity and assist in curbing underemployment.
- Increase the number of trainings provided in 'Agricultural and Livestock Management' to formalize the agribusinesses.
- Increase the Entrepreneur Motivational Training for Agribusinesses to encourage the production shift from basic sustenance to market capitalization.

3.7.2. Relationship between Micro, Cottage and Small Industries and GDP and GaV

Table (7) indicates that there is no relationship between the GDP growth rate of Nepal and number of industries registered. However, in terms of provincial GDP growth rate, Table (8) indicates a strong positive correlation between them. The correlation analysis implies that although total number of cottages and small industries registered has not been able to impacts Nepal's GDP growth rate, in the context of provinces of Nepal, there exists a relationship between the number of industries registered and the GDP of the given province.

It can be seen from Figure (3) that the contribution of the agricultural sector in the GDP of Nepal has been declining over the years. Although the percentage contribution of the sector in declining, Agriculture still incorporates 27 percent of the GDP. Given its significant role in the Nepalese economy, many government initiatives and projects have been targeted towards 'Agricultural, Forestry and Fishing sector'. For example, MEDEP/MEDPA project created 88,636 micro entrepreneurs in the agricultural sector alone, Poverty Alleviation Fund has also majorly targeted poverty alleviation through self-sustenance agricultural and livestock enterprises whereas The Livelihoods and Forestry Programme (LFP) encouraged forest based enterprises.

According to the National Economic Survey 2018/19, Paddy as a food crop occupies more than 80 percent of the total cultivated land whereas the major exports remain agricultural products like cardamom, tea, coffee, ginger, lentil, vegetables etc. Nepal's agricultural imports crossed NRs. 200 billion in 2016/17 although GDP contribution and GaV of agricultural sector remains the highest (Simkhada, 2019). Further, in terms of contributing to the economic growth, the agricultural sector has been lagging, with the production increasing only by 3.2 percent in the last two decades. Although, projects such as PACT has been able to increase agribusiness productivity by 40 percent in a mix of commodities processed for the local market (milk) as well as others with a significant share for export markets (coffee, ginger, honey), for smaller enterprises agro initiatives have largely focused on self-sustenance, providing minimal agricultural advisory services and market linkages.

Recommendation 4:-

- Expand government initiatives for micro enterprises development that focus not only on poverty reduction through self-sustenance but also as agents for economic growth and employment creating hubs that promote community employment.
- Initiate projects to graduate micro establishments into small industries to increase their economic activity.
- Targeted Business Development Services to commercialize the huge sector of Paddy and other major crops through technical agricultural trainings and study, establishment of marketing cooperatives and export houses.
- Improve market linkage services, provide advisory services to increase market competitiveness.

3.7.3. Incentives for Micro, Cottage and Small Enterprises

According to Industrial Enterprises Act, 2020, manufacturing industries providing fruit based cider, brandy or wine in an underdeveloped region are exempt 25 percent of the income tax up to 10 years of the date of commencement of the business. Local tea producing and processing, dairy industries and clothes producing industries receive 50 percent exemption on the rate of the income tax levied on the income from the sale of such products. Further, Cottage and Small Scale Industries with at least 10 Million (Nepalese Rupees Ten Million) which are already in operation by the time of commencement of this Act and coming into operation pursuant to this Act are applicable to 50 percent exemption on income tax. Micro enterprises are entitled to 100 percent income tax exemption.

With the enactment of the revised Industrial Enterprise Act, 2020, 100 percent tax concession for micro-enterprises has been incorporated which was previously allowed only up to 5 years from the date of commencement of the business or business transaction. Further, no registration charges are applicable for micro enterprises. In light of these stipulations, the government of Nepal has made progress in encouraging micro establishments to register their businesses. The act has also allowed the local government to play active roles in micro enterprise development by giving authority for registration. It has levied various non-compliance fines and punishments, under which operating an unregistered micro enterprises are fined Rs. 5,000.00 and Cottage and Small Industries are fined Rs.25,000.00. It is expected that such initiations will allow the largely informal sector in which micro enterprises operate will be formalized and their economic activities be traced to be part of the national survey and data.

On further evaluation of the Act, it is evident that the government has encouraged manufacturing industries in the under developed, undeveloped and least developed regions by providing high tax exemptions of 90%, 80% and 70%. Manufacturing industry has contributed 5.6 percent of the GDP and provided employment to 15.1 percent of the labor force, which is the third highest employment providing industry in FY 2018/19. In terms of registered micro establishments, manufacturing sector engages 12 percent of the total people engaged in micro establishments and constitutes 11.24 percent of the total registered establishments. The average growth for the past 10 years has remained 3.8 percent annually. According to International Labour Office (2005), among the Micro and Small Enterprises, manufacturing enterprises employed the most labors.

However given the tax incentives, the manufacturing sector of Nepal has not been it's engine of growth. Central Bureau of Statistics (2014) stated that most manufacturing industries in Nepal are basic industries that lag behind in technology. Thus, given the agro based economy of Nepal, Food and Beverages sector has contributed highest in the GaV (Central Bureau of Statistics, 2014). In this regards, manufacturing industry has the potential to contribute more than it is contributing at present. Some of segment in which micro enterprises can venture into manufacturing industry are through forward linkages by manufacturing the agro products generated through primary sector.

The government initiatives have targetted 'Agricultural, Forestry and Fishing' sector. As a secondary step to the initiatives, the government requires recording data of it's trainees, grant receivers and track their progresses. Forward linkage strategies can be implemented to the agro businesses in terms of processing their primary product and venturing into the manufacturing sector.

Recommendation 5:-

- Promote forward and backward linkages between agricultural sector and manufacturing sector to create a synergy between the agricultural enterprises and the manufacturing enterprises aiding in the in their contribution to the GDP growth rate.
- Facilitate sub-contracting of primary sector outputs to secondary sector through incentive schemes.

4. Conclusion

The findings of this study has revealed that the government intervention in the development and promotion of micro, cottage and small industries have been note worthy. However, some of the aspect that the government may need to focus are as follows:-

- Creating a national data base to obtain relevant data on micro enterprises that may assist in conducting extensive research to understand the impact of such enterprises in the national economy.
- Acknowledging that 450,000 new labor force enter the labor market annually and that the economic activity of the nation has not been able to absorb the additional labor force.
- Promoting micro enterprises as a means to absorb the labor force.
- Providing market relevant trainings to the work force, establishment of seed capital and incubation cells to promote entrepreurship.
- Conduct extensive research in the lack of productivity in the agricultural sector and provide technical trainings to the agro entrepreneurs to commercialize their products.

- Build market linkages, provide business advisory services and establish export houses to promote agri-businesses.
- Coordinate with the local government to formalize informal sector and increase their operational productivity to make the 62.2 percent of the labor force active participants in the economic activity.
- Create incentives for forward linkages between agricultural and manufacturing sector to increase productivity at both ends.

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