



POLICY BRIEF 2

TOWARDS INCLUSIVE MSME SECTOR GROWTH IN NEPAL



POLICY BRIEF 2 examines the gendered impact of COVID-19 on the MSME sector in Nepal, with a special focus on agriculture, food processing, garment and handicraft supply chains.

This policy brief draws from the study 'Gendered Impact of COVID-19 on Local and National Supply Chains in Nepal,' which was conducted by UN Women Nepal in 2022. The research was led by the Institute for Integrated Development Studies. The study found that women entrepreneurs were hardest hit during the

pandemic. They experienced a larger share of layoffs and consequent income losses. Given the informal nature of their engagement in Nepal's supply chains, they also faced access barriers to social protection measures that further exacerbated gender inequalities in the sector and society at large.¹

This policy brief aims to share evidence-based recommendations and solutions on enabling a resilient and equitable post-pandemic revival of the MSME sector in Nepal.

¹ A total of 600 MSMEs from four selected value chains in agriculture, food processing, handicrafts and small-scale garment manufacturing in Kailali and Kavre districts were surveyed through a telephone interview. This was part of UN Women's initiative to support the economic recovery and resilience of the participants who took part in their project 'Leveraging Women's Leadership and Empowerment in Value Chain, Mainly Agro-Based, Food Processing, Handicraft and Small Garment Manufacturing.' Fourteen focus group discussions in seven municipalities were also organized, with equal representation of women- and men-led enterprises across the four subsectors.

“The heavy involvement of women in the informal sector poses a major challenge, as it remains beyond the government’s oversight, regulations, social protection schemes and control, and it continues to be deprived of the public provisions and protections provided at minimizing the impact of COVID-19.”

- “Gendered Impact of COVID-19 on Local and National Supply Chains in Nepal,” a study conducted by UN Women and IIDS in 2022

The micro, small and medium enterprises (MSME) sector is the growth engine and backbone of Nepal’s developing economy. These businesses play an important role in generating employment opportunities, sustaining livelihoods, mobilizing and using local resources, eliminating economic inequality in rural and underdeveloped regions of the country and assisting big industries in their growth while also making efficient use of the country’s resources (IIDS 2020).

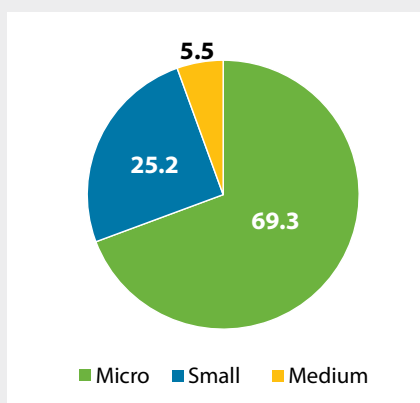
MSME Landscape

The MSME sector engages almost 2.5 million workers in Nepal. This accounts for 84.7 per cent of the 3.2 million

people who make up the country’s workforce. The largest share of workers, almost 69.3 per cent, are concentrated in micro enterprises. Women comprises 37.9 per cent of the total workforce engaged in the sector, with the largest concentration of women as workers in microenterprises (69.3 per cent) followed by small and the rest in medium enterprises. As of 2018, only 26.7 per cent of women were employed as managers of MSMEs, with the highest in microenterprises (30.6 per cent), followed by 11 per cent in small and around 8.9 per cent in medium enterprises (National Economic Census 2018).



62.1%
male workforce



37.9%
female workforce

Source: National Economic Census 2018

“The pandemic has led to the closure of businesses and financial distress and insecurity, leaving many without a regular income or effective social security safety nets.”

(Johri et al., 2021)

Gendered nature of the sector

Women-led MSMEs play an important role in creating economic opportunities. They also drive female workforce participation in the formal economy across local supply chains. This translates into improved gender equality outcomes, inclusive human development and sustainable national gross domestic product (GDP) growth. There

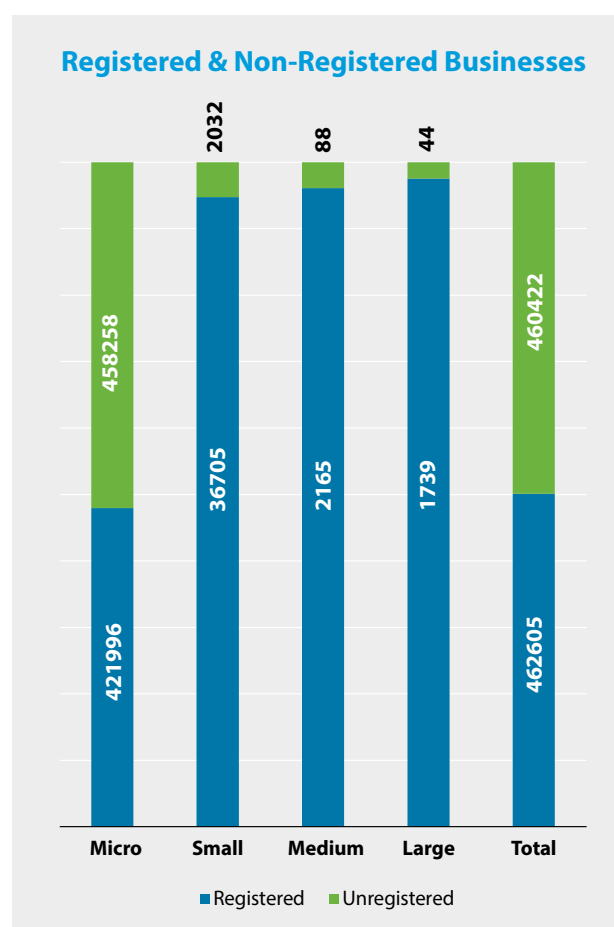
are several factors that influence women’s access, control and participation, affecting gender parity in the sector. Persistent social norms that exacerbate gender inequalities influence women’s paid and unpaid work. These are circular pathways that act as both a cause and consequence in shaping women’s leadership and participation in the sector.

The unregulated sector includes a higher concentration of women-led enterprises and a larger female workforce

The highest proportion of unregistered and unregulated establishments fall in the micro-enterprise sector, which constituted 99.5 per cent of all unregistered MSMEs in 2018.² This trend discounts and disregards the economic contribution of the unregulated sector, rendering its workforce 'invisible' in the policy space. Owing to this invisibility, such enterprises and their workers are unable to access social protection benefits, formal credit and other concessional schemes. Given these constraints, women-led enterprises and female workers engaged in the unregulated sector are not only predisposed to financial shocks and distress but also lack the resilience to withstand them. This also compromises their ability to revive or build back their businesses.

Differential impact on incomes and businesses

Around 13 per cent of registered SMEs in Nepal are either fully or partially owned by women (TAF 2021). The Federation of Women Entrepreneurs' Association of Nepal estimates that around 15 per cent of women-run businesses have completely collapsed since the pandemic (FWEAN 2021). An International Labour Organization study, which was based on a national survey on Nepal's MSME sector during COVID-19, highlighted the pandemic's disproportionate impact on women-led businesses, which included a higher proportion of female



Source: National Economic Census 2018

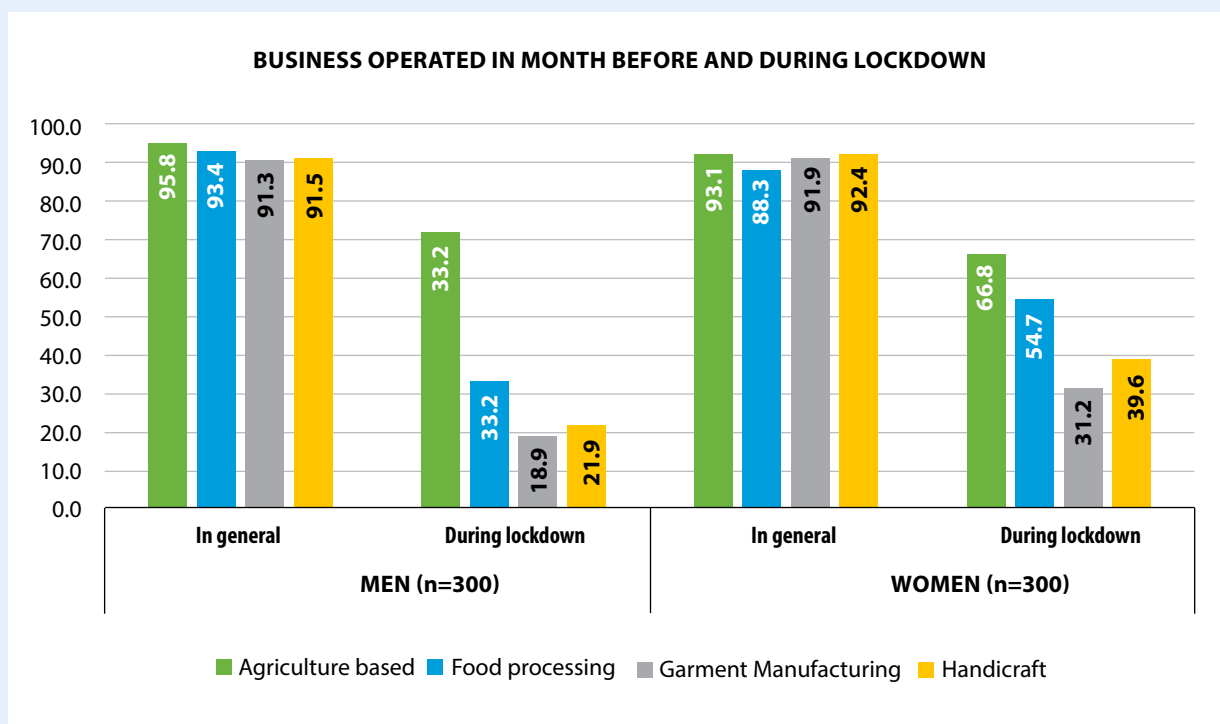
employee layoffs and pay cuts (ILO 2020). Several small and medium enterprises (SMEs) that had a higher number of female workers struggled to reopen due to strained resources and the inability to pay outstanding financial obligations.

Increased care work responsibilities and restricted mobility impacted business days operated by women led enterprises.

There was a significant difference between the average number of business days operated in a month before and during the lockdown. On average, 50 per cent fewer operating days were recorded across sectors due to mobility restrictions. The most significant differences were observed in handicraft and garment manufacturing sectors, with around 60 per cent fewer business operating during the lockdown. Small-scale businesses such as home-based enterprises, cottage industries and other micro-enterprises were severely affected, so much so that many went out of business. In the agriculture sector, women-led businesses operated at a rate of 5 per cent less compared to male-led businesses. However, in the other three sectors – food processing, garment manufacturing and handicrafts – women-led businesses operated more often than those run by men. These enterprises were mainly those run from home, which meant mobility restrictions did not impact their active working days. It is likely that this reality, however, also imposed a double work burden on women, given other research that found a significant increase in women's care work responsibilities during the lockdown.

² Combined for both male- and female-led enterprises.

Figure: Average Percentage of Business Days Per Month Before Lockdown vs. During Lockdown



Source: UN Women and IIDS. (2022). "Gendered Impact of COVID-19 on Local and National Supply Chains in Nepal." Refer to footnote 1.

Procurement challenges as well as reduced production and supply

During the pandemic, MSMEs faced an unprecedented three-way shock that involved the supply side, the demand side and financial shocks. The supply-side shock affected women MSME entrepreneurs far more than their male counterparts. These impact trends were found to be similar across agriculture, food processing, garment and handicraft sectors. In the agriculture sector, it was noted that the most severe impacts were specific to the decreased demand of products, which affected product prices. Transportation shortages and higher tariffs in addition to increases in the price of raw material were other factors that hit the sector.

In the food processing sector, the decrease in product prices did not have a severe impact; however, limited transport facilities, the increased cost of transportation and a decrease in demand (given that purchasing power was severely constrained due to diminished incomes) had adverse effects. Likewise, in the handicraft sector, a shortage of raw material fuelled an increase in their prices. There was also a dip in the demand for handicrafts, with unsold inventory piling up for business owners. A greater percentage of women entrepreneurs reported procurement issues in the supply chain, escalating prices and a raw material shortage as key factors that impacted their business. The study's findings suggest that women MSME entrepreneurs are more likely to engage in the supply side of businesses. Therefore, any 'shock' that affects the supply side makes them more vulnerable, resulting in disproportionate effects on their businesses.

Source: UN Women and IIDS (2022). Gendered Impact of COVID-19 on Local and National Supply Chains in Nepal. Refer to footnote 1.

Social security and access constraints

The insurmountable problems caused by the pandemic were made worse due to the inability of women-led MSMEs to access government support (UN Women and IIDS 2022). Several research studies cite considerable gaps in the information disseminated by the government during the pandemic (TAF 2020). The information was mostly distributed in the Nepali language, hindering the ability of women not proficient in the language to access and/or understand the information. Although information was disseminated over mobile phones, radio and the internet, the gender gap in cell phone ownership and access to the internet in Nepal was a disadvantage for women (Acharya 2021).

Credit and financial inclusion

Women entrepreneurs prefer cooperatives over banks to access credit (UN Women and IIDS 2022). Despite their higher interest rates, cooperatives are usually easier for women to access, as they have relatively less demanding procedural requirements compared to banks and other financial institutions. Credit access challenges are more acute for women in rural areas, single women with children and those from lower socioeconomic backgrounds.

Increased care work burden

It is evident that the pandemic and lockdown restrictions increased women's care work. For women entrepreneurs, the increased work demand at home also affected their economic activities at work. The study's research participants highlighted "the double burden of family and work as a major issue that contributed to mobility restrictions and further loss in business during the pandemic" (UN Women and IIDS 2022).

Digital divide and financial illiteracy impacts access to financial technology

In Nepal, the financial sector's rapid adoption of for digital services in banking (i.e. financial technology or 'fintech') created an urban-rural divide, due to inadequate financial literacy and training among rural populations. This disparity was even more pronounced for rural women compared to their male counterparts. Rapid digitization of financial services supported entrepreneurs during the pandemic; however, women were disadvantaged due to lacking resources, knowledge and confidence on using fintech. Limited internet access created another obstacle for those living in certain regions.

“ *The study's findings show that the impacts of COVID-19 on MSMEs included decreased product prices, increases in the price of raw materials, decreased demand for products, lack of transportation facilitates and labour shortages. The findings also indicated that women-led businesses tend to operate mostly at the local level. Women entrepreneurs across sectors seem to have less knowledge and information of market demands, as they tend to engage more with the supply side of supply chains.* **”**

-“Gendered Impact of COVID-19 on Local & National Supply Chains in Nepal,” a study conducted by UN Women and IIDS in 2022

The study highlighted the pandemic's gendered impact on local and national supply chains, which need redressal through the following targeted strategies and interventions:

#1

Carry out a review of GESI policies in the MSME sector

The Government of Nepal has implemented a number of measures to promote and incentivize women-led enterprises, with the goal of giving them more equitable access to hassle-free credit.

- A 25 per cent and 50 per cent tax reduction on land registered to women and 35 per cent fee waiver on business registration fees.
- Free registration of women-owned microenterprises through a provision in the Industrial Enterprises Act.
- MSME financing programmes for women, including a project-based financing scheme (introduced in 2014/2015) to ease access to credit through commercial banks; however, data suggest that none of the commercial banks implemented this policy or disbursed any loans (UNSE 2020).
- A monetary policy (introduced in 2018/19) directing commercial banks to approve collateral-free, subsidised and low interest loans to women entrepreneurs; however, data from 2019 indicate that only 170 women benefited from this scheme that year (UNSE 2020).

These schemes have not been as effective as envisaged. It is therefore important that a gender equality and social inclusion (GESI) review be carried out to understand the factors that would better influence their effective and efficient rollout.

Over the years, the government has succeeded in planning and implementing measures to promote women's participation and leadership in the MSME sector. As a result, the proportion of women-led MSMEs (26.7 per cent) and female limited liability company proprietors (11 per cent) has increased substantially. However, research indicates that 'surrogate entrepreneurship'³ to avail benefits, such as concessional loans, is also on the rise in Nepal. There is a need to plan effective strategies to mitigate this problem and capture authentic data on women-led and managed MSMEs to assess the situation on the ground.

#2

Address the problem of 'surrogate' entrepreneurship.

#3

Ensure visibility and strengthen access channels.

As most women-led businesses are in the micro and home-based, unregulated sector, they lack visibility in the formal economy. Unregistered enterprises are effectively 'invisible' – unable to benefit from government schemes, rendering them vulnerable to economic shocks. Without access to safety nets and available support, these enterprises are most likely to be hit the hardest. This also impacts the 'workforce' engaged in such businesses. The invisibility issue needs to be addressed through robust data collation and effective policies to mitigate access barriers.

Two notable changes in Nepal's supply chain post-pandemic are the increased engagement of youth in agriculture and returnee migrant workers re-entering the labour market. The cosmetics/beauty industry, small-scale garment stores and the dairy industry are sectors that will grow in scale. It will be important to tap potential sector growth in the coming years and plan skills training opportunities (re-skilling/upskilling) for female workers in these sectors. Mentoring women entrepreneurs to be new business leaders in these emerging sectors will help foster an inclusive MSME trajectory. Budget provisions should be earmarked for these interventions.

#4

Promote skills and human capital in new emerging markets.

#5

Conduct research, support capacity building, build partnerships and raise awareness.

Commission research studies to better understand the trends and constraints of women's participation in the MSME sector. Build partnerships with development agencies and civil society to create awareness on MSME-related schemes and concessional provisions. Set up innovative models to expand outreach to women and assist in their application processes. A situational analysis of women-led MSMEs post-pandemic should be carried out to understand the impact. Strengthen the Federation of Women Entrepreneurs' Associations of Nepal to play a more proactive role and build strong networks at the provincial and local levels.

³ Research has found that some women-registered enterprises in Nepal are not actually run by women. They do not operate these ventures. Instead, these enterprises are often run by their husbands or other male family members, mostly likely to benefit from the government's interest and tax concessions given to women as a disadvantaged group (Acharya 2018).

A women-led MSME revival package should be developed in consultation with key stakeholders. This package can be costed and rolled out in phases. As part of the post-pandemic revival package, the 2020-21 monetary policy mandated that commercial banks allocate at least 15 per cent of lending to MSMEs by FY 2024. It will be relevant to monitor this lending from a GESI perspective.

#6

Roll out a women-led MSME revival package.

#7

Enable inclusive access to Women Entrepreneurship Development Fund.

The Women Entrepreneurship Development Fund (WEDF) was established in 2015 with the express aim to help women entrepreneurs access credit.⁴ By the end of 2018, almost 1,888 loans amounting to NPR 332.8 million were disbursed under the fund.⁵ Several issues impede proper utilization of the fund: a complicated application process, the mandatory requirement of credit history for loan approvals, a loan cap, the rural-urban divide in access and lack of awareness about the fund (UNESCO 2020). A stakeholder consultation should be planned to identify inclusion barriers and appropriate mitigation measures planned to enhance access to the fund.

It is a well-known fact that female entrepreneurs prefer cooperatives over banks to access credit despite the steep interest rates. Research suggests that women are more aware of this option and find cooperative procedures less complicated than those of banks. Furthermore, cooperatives often have dedicated grassroots workers assigned with the task of increasing their client base and volumes of credit disbursed. A rethink of Nepal's existing lending modalities and their functioning is key to enhancing female entrepreneurship, especially in the rural areas.

#8

Rethink credit lines and lending modalities.

“In a way, the pandemic has been a revelation. I have even heard some women entrepreneurs call it a ‘blessing in disguise.’ For one, it has shown us the importance of being digitally literate and has pushed a lot of entrepreneurs to be more tech-savvy and explore different areas like e-commerce or e-marketing.”

-Woman who took part in a key informant interview for the study

#9

Close the rural and gender digital divide and enhance fintech knowledge.

A working strategy to close Nepal's digital divide and promote fintech knowledge will go a long way in enhancing financial literacy and inclusion. It will help leverage the advantages of digital finance and e-marketing. A public-private partnership with e-commerce platforms can promote forward and backward linkages without the need for middlemen. This will open up a potential consumer base and unexplored markets for rural cottage industries and handicrafts.

4 The WEDF is an initiative by the Ministry of Industry offering collateral-free loans up to NPR 500,000 at subsidised rates (with 6 per cent interest).

5 Nepal Rastra Bank Progress Report 2018.

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