Building Resilient Micro, Small and Medium ENTERPRISES

NBI
National Business Initiative
राष्ट्रिय व्यवसायिक पहल

ILO
International Labour Organization

UKaid
from the British people

Ref. No. :

FOREWORD

It gives me immense pleasure to publish this study report titled "Building resilient micro, small and medium enterprises". COVID-19 is a global pandemic, which shakes the whole world in this century and undeniably the worst economic crisis facing the nascent Nepalese republic. As a country, we have faced and survived decade long armed conflict, mega earthquake, and economic lockdown in a short historical span of the past 25 years. All of them had a severe toll in our society in general and our economy in particular but none so severe and pervasive as the ongoing pandemic.

The National Business Initiative was established in 2003 with a vision to promote responsible business in Nepalese society such that the business sector can collectively take action in support of a just, inclusive, peaceful and sustainable society even during the most challenging of times. During and after the conflict NBI advocated for and supported the business community to advance responsible practices as one of the tools of mitigating risks posed by armed conflict. Ever since promotion of responsible business has been the core of what NBI does and stands for.

Immediately after the Earthquake of 2015, we realized that disaster preparedness is one area that Nepalese business should prioritize more on. Accordingly, we published "Emergency Disaster Preparedness: A Guide for Executives" and encouraged the business community to invest in preparedness. During early days of pandemic, NBI doubled down on our efforts and swiftly published another guide for COVID pandemic preparedness and safe operations of businesses. We are overwhelmed with the support and good wishes business community and our stakeholders including the Nepal government and the international community has shown.

COVID 19 has disrupted all sectors of the economy, most particularly the micro, small and medium enterprises (MSME) which constitute nearly 90% of our entire economic ecosystem. Consequently, we had the least amount of economic activities among all our South Asian peer countries during this period and the country has experienced severe economic contraction. Building back in a post disaster situation is challenging particularly in the case of COVID because the disaster itself is not over yet. The report outlines in detail the impact COVID had in the MSME sector of Nepal and suggests a way forward on how we can transform this crisis into a sustainable growth opportunity to adopt comprehensive structural reform that would not have been possible or would not have been prioritized under normal circumstances. In addition, the report has also highlighted some of the actions that the government and private sector can take for attainment of sustainable development goals in the altered context.

I would like to thank FNCCI, CNI FNCSI, NBI Executive Committee as well as our member business organizations and their representatives, government representatives and stakeholders from all other organizations for participating in this study and providing their valuable inputs. I also would like to acknowledge Mr. Aakash Shrestha's efforts to help prepare this report and appreciate the work of NBI secretariat in organizing and coordinating the dialogues. The study was conducted in collaboration with the International Labor Organization (ILO) supported by UKAID and NBI is always grateful towards our partners.

Kush Kumar Joshi,
President,
National Business Initiative (NBI).

National Business Initiative NBI 2005

नेपाल घरेलु तथा साना उद्योग महासंघ
Federation of Nepal Cottage & Small Industries
FNCSI
च. नं. / Ref. No.:

Date: 25th February 2021

Few Words

The COVID-19 pandemic has obstructed the progress of world economy as well as Nepal. Its crisis have restricting impact on achieving the target of developing sustainable of micro, cottage and small industries in Nepal. COVID-19 has hampered the smooth functioning of economic activities through industrial sector. Industrial output has fallen due to the lack of imported raw materials, direct supply disruptions, lack of labor mobility and traffic restrictions. The lockdown has direct impact on jobs and earning of large segment of society, which reduces the consumers demand for goods and services. Consequently, major industries are operating below their production capacity. This will lead to increase in wastes, thereby reducing the operational efficiency and sustainable industrial operations.

In this context, National Business Initiative (NBI) in collaboration with International Labor Organization (ILO) has initiated a project titled "Enabling resilient Micro Small and Medium Enterprises (MSMEs) recovery in response to impact of COVID-19". Under this project, NBI has developed an evidence-based recommendations report for resilient MSME recovery titled "Building Resilient Micro Small and Medium Enterprise".

In my view, this report reflects the necessary measures to be taken for MSMEs to recover the businesses in response to the impact of COVID-19 and also shows the way of the country can seize the economic recovery after COVID.

I wish all the success of project and report.

Thank you.

Umesh Prasad Singh
Officiating President

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MESSAGE

We are glad that National Business Initiative (NBI), in collaboration with International Labour Organization (ILO), under the project titled "Enabling Resilient Micro Small and Medium Enterprises (MSMEs) recovery in response to impact of Covid-19" has prepared the recommendation report "Building Resilient Micro Small and Medium Enterprises (MSMEs)" which has been presented to the Ministry of Industry Commerce and Supplies.

The FNCCI, as well as some of its member organizations, feels honored for being involved in the series of dialogues and inputs in the preparation of this recommendation report.

The report reflects the hard work that NBI has put together for the recommendations on measures to be taken for MSMEs to recover the business in response to impact of Covid-19.

Covid-19 has certainly made a huge impact in the economy last fiscal year, wherein the nation's growth rate was minus 2 percent. First quarter of current fiscal year was also not encouraging. Although the economy is reviving to some extent, the MSMEs are still suffering very hard.

Despite the report had some limitations, being based on desk review, it has aptly identified the issues of MSMEs, and presented valuable recommendations. There is always an ample scope for further study on this, to find out in more details and update the report, so that to enable private sector further to lobby with the concerned agencies to address and solve the problems of MSMEs.

I am confident that this study report has provided the much needed base for all the stakeholders to work together to address the MSMEs related issues. I am equally confident of the solidarity among the private sector, and assure of FNCCI's continuous support and cooperation to maintain this unity to contribute the nation's happiness and prosperity.

Shekhar Golchha
President

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Foreword

We are delighted to acknowledge that National Business Initiative (NBI) has done a commendable job in conducting this study on "Enabling Resilient Micro, Small and Medium Enterprises (MSMEs) recovery in response to impact of COVID-19" and develop policy recommendations. CNI got the opportunity to be involved in several dialogues and put forth our views and suggestions leading to the finalization of this study report.

Resilience is measured by one's capacity to recover from difficult circumstances and return to the erstwhile state. For MSMEs, resilience can mean how capable enterprises are to continue doing business (and even grow) in the face of adversity such as a pandemic, external and domestic economic shocks, or sudden change in business regulations.

Although the pandemic will pass, the true test of resilience is during the long run. Even without these so-called adversities, many MSMEs find it difficult to run their businesses. In such normal times, it is the business ecosystem that determines how resilient an enterprise can be. The ecosystem comprises all the regulations that govern an enterprise's day-to-day operations- accessibility to finances, skilled human resources and raw materials- widespread availability of government support systems- and of course, continued demand for their goods and services.

We agree with this report's conclusion that monetary and fiscal policies can support MSMEs in the short run, although the government must strive to provide long-term support also, beyond what these tools can offer. In the long run, to make Nepali MSMEs truly resilient, Nepali consumers should start promoting Nepal-made goods and services. Since Nepalis are still lacking in this regard, the Confederation of Nepalese Industries (CNI) has begun a campaign "*Make in Nepal: Swadeshi*" to passionately advocate to fellow Nepalis to choose domestically produced goods and services. We believe the findings of this report will help the Government of Nepal to introduce the right policies to help Nepali MSMEs become more resilient. CNI endorses this report and assures continuous support and cooperation for the upliftment of private sector and especially, MSMEs.

CONFEDERATION OF NEPALESE INDUSTRIES ★ 2002 ★

Satish Kumar More
President, CNI

Contents

List of Abbreviations

ADB	Asian Development Bank
B2B	Business to Business
BFI	Bank and Financial Institutions
CBS	Central Bureau of Statistics
CRR	Credit Reserve Ratio
DoI	Department of Industries
ECP	Economic Contingency Plan
FNCCI	Federation of Nepalese Chambers of Commerce
FWEAN	Federation of Women Entrepreneurs Association of Nepal
FY	Fiscal Year
GDP	Gross Domestic Product
GoN	Government of Nepal
ICT	Information and Communications Technology
ILO	International Labor Organization
IPR	Integrated Property Rights
IRD	Inland Revenue Department
MCSE	Micro, Cottage, and Small Enterprise
MCSI	Micro, Cottage, and Small Industries
MICE	Meetings, incentives, conferences and exhibitions
MoF	Ministry of Finance

MSE	**Medium and Small Enterprise**
MSME	**Micro, Small, and Medium Enterprise**
MoCTCA	**Ministry of Culture, Tourism and Civil Aviation**
MTEF	**Mid-term Expenditure Framework**
NCGS	**National Credit Guarantee Scheme**
NDDB	**National Dairy Development Board**
NRB	**Nepal Rastra Bank**
NTB	**Nepal Tourism Board**
NTIS	**Nepal Trade Integration Strategy**
OCR	**Office of Company Registrar**
OECD	**Organization for Economic Cooperation and Development**
PSLP	**Priority Sector Lending Program**
SAFTA	**South Asian Free Trade Alliance**
SAWTEE	**South Asia Watch on Trade, Economics and Environment**
SDG	**Sustainable Development Goals**
SME	**Small and Medium Enterprise**
TDS	**Tax Deductible at Source**
UNDP	**United Nations Development Programme**
WTO	**World Trade Organization**

1. Worst Economic Crisis Facing Nepalese Republic

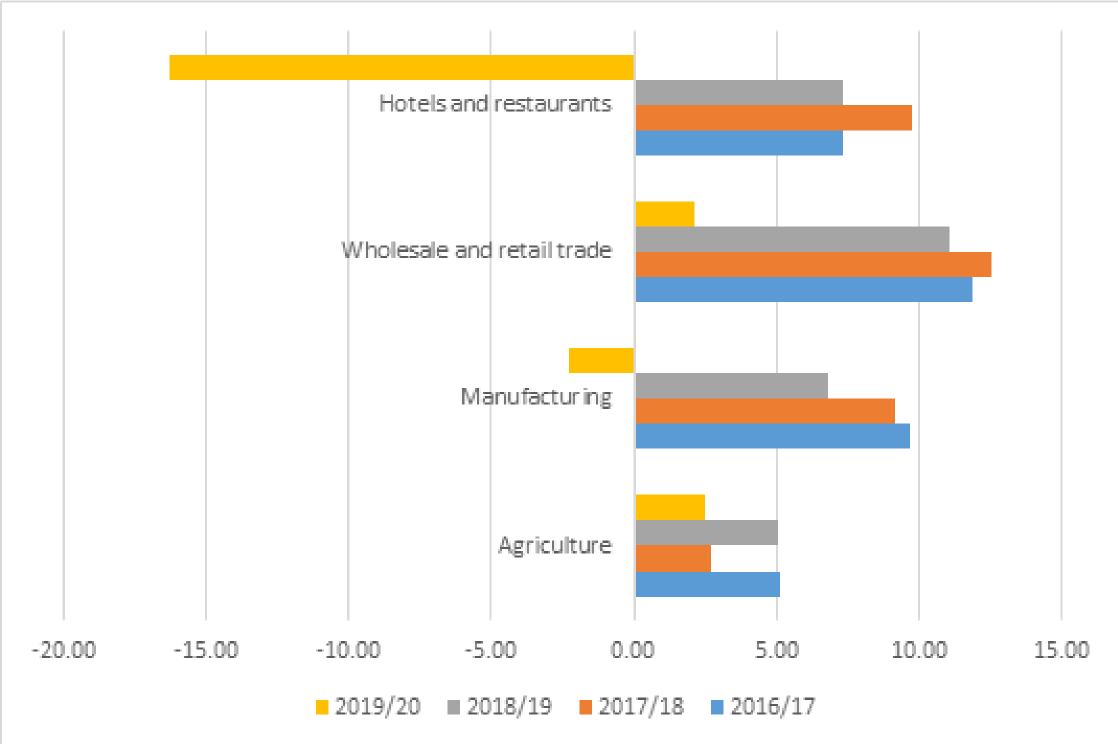
Nepal is currently in the midst of an unprecedented crisis. The onslaught of COVID-19 pandemic and the subsequent measures taken by the government to contain its spread has significantly impacted multiple sectors of the Nepalese economy.

IN light of the limited fiscal and administrative capacity of the government and relatively feeble health care system in the country, Nepal adopted extreme social distancing measures by imposing nati onwide lockdown, closing borders with neighboring countries, and restricting domestic and international flights. Nepal experienced its biggest economic shock between the period of March and July, as all types of mobility was restricted in the country and economic activities, except essential goods, were completely halted. According to the World Bank (2020), in July the economic activities – measured in terms of mobility, retail and recreation, workplace mobility, visitor arrival, domestic credit, and export – was the lowest in Nepal when compared to other South Asian nations. Subsequently, the economy experienced a significant downfall. While the lockdown was lifted on 22 July 2020, owing to the upsurge in COVID-19 cases the government imposed another set of prohibitory orders in different economic hubs of Nepal, and the economy and its actors continued to suffer. Above and beyond, a looming economic crisis, potentially the worst in the past three decades, lurks.

The estimated economic loss of Nepal in the first month of nationwide lockdown was between NRs 8.5 billion to NRs. 16.9 billion (World Bank, 2020). The industrial sector loss alone ranged between NRs. 1.7 billion to NRs. 4.2 billion and the service sector loss ranged between NRs. 5.7 billion to NRs. 9.98 billion (ADB, 2020). The economic loss further exacerbated with the prolonged restriction in economic activities. The World Bank (2020), in September, projected that the quarterly economic indicators of Nepal after the imposition of the lockdown fell by 14.5%, suggesting considerable decline in economic output of the country.

The spill-over effect in terms of disruptions in supply, and contraction of demand hindered the growth of all sectors of the economy. Despite the lockdown being imposed only on the fourth quarter of FY 2019/2020, the abysmal performance of different sectors on annual economic indicators depicted a substantial impact of the containment measures on the national economy.

Figure 1: Economic Growth Rate of Different Sectors



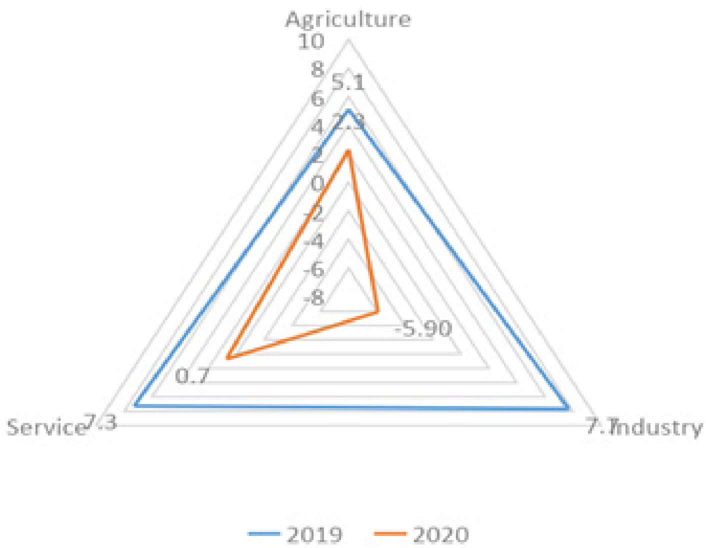
Source: National Accounts of Nepal 2019/20, CBS, 2020

ADB (2020), in its Nepal Macroeconomic Update of September mentioned that the three imperative sectors of the country – agriculture, industry and service – declined to 2.6 percent, 3.2 percent, and 2.0 percent respectively in FY 2019/20.

The World Bank (2020) in September identified that with significant disruptions in tourism, transport, and wholesale and retail trade, the service sector of Nepal in FY 2019/20 deteriorated to 0.7 percent. Given the contraction of industrial capacity utilization to 46 percent from 80 percent and shortage of labor and raw materials, the industrial sector of the country experienced negative growth of 5.9 percent.

Furthermore, fixed investment in the country declined by 15.1 percent and private investment dropped by 17 percent. The export earnings fell by 8.0 percent in FY 2019/20.

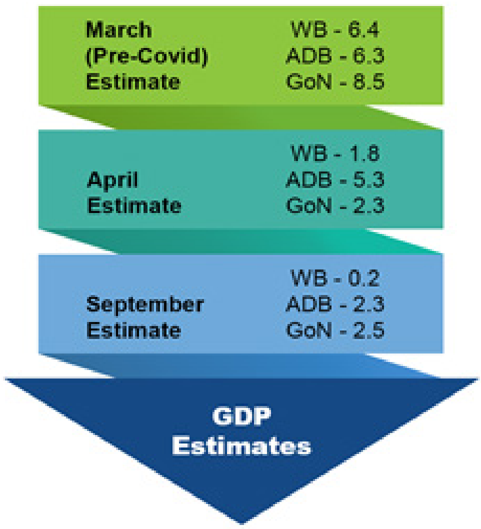
Figure 2: Comparison of Sectoral Growth.



Source: World Bank, South Asia Economic focus | fall 2020

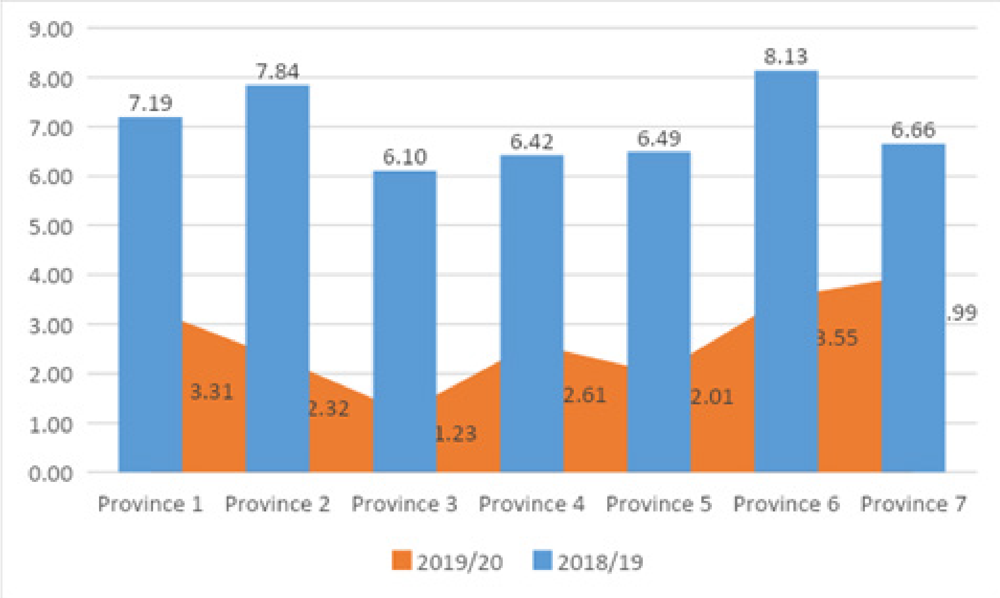
Owing to the unpropitious developments, the economic growth of Nepal is projected to experience a sharp decline. The preliminary estimates of GDP growth of Nepal for FY 2019/20 of the government (CBS, 2020) and World Bank (2020) is 2.3 percent and 0.2 percent respectively as opposed to the pre-COVID estimation of 8.5 percent and 6.4 percent.

Figure 3: GDP Growth Estimates of Nepal



Source: World Bank, ADB, and CBS, 2020

Figure 4: Provincial Economic Growth



Source: National Accounts of Nepal 2019/20, CBS, 2020

Bagmati Province is the most affected region with a sharp decline in growth from 6.10 percent in FY 2018/19 to 1.23 percent in FY 2019/20. Sudurpaschim province is likely to experience the highest growth of 3.99 percent (CBS, 2020).

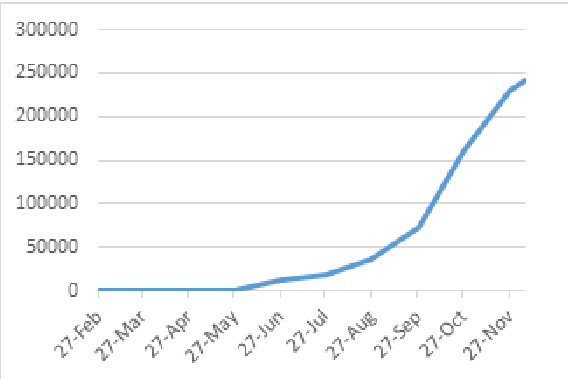
The Covid-19 pandemic has indeed portrayed the high level of vulnerability of the Nepalese economy towards external shocks. The contractions in different imperative sectors can indeed drive the economy to dire straits and climbing back to normalcy could take a considerable amount of time.

The ripple effect has weakened the private sector, especially Micro, Small and Medium Enterprises (MSMEs) and informal economy, abrogating years of achievement made by Nepal in terms of private sector development and poverty reduction. It has indeed dented the very sectors that could provide respite to the economy by helping it bounce back to recovery path. As reported in July 2020, Micro and Small Enterprises (MSEs), experienced a drop in their monthly income by up to 95 percent (UNDP, 2020). Additionally, according to Nepal Rastra Bank (2020), majority of enterprises in Nepal (67 percent) reported in July 2020, that they could not sustain for more than three months given the pandemic does not recede.

Unemployment in Nepal is already skyrocketing with more than 60 percent of formal and informal workers having lost their job (UNDP, 2020). Additionally, the melt-down of Nepalese economy is likely to exacerbate with a decline in remittance, a sector that represents more than a quarter of Nepal's economic output. Despite the remittance inflow surging to record numbers on a month-by-month basis, the overall remittance inflow for FY 2019/20 has declined by 3.2 percent (NRB, 2020). It is projected that deterioration of foreign economies that Nepal is heavily reliant on and the re-commencement of operation by informal channels like *hundi* can result in decline of remittance in the coming months. It is apparent that the reliance on remittance was a slippery slope and the huge economic shock has posed a significant threat of Nepal digressing towards more poverty. Equally threatening is the widespread informality in Nepal. Currently more than 94 percent of total workforce in Nepal work in the informal economy (ILO, 2018). The informal enterprises have experienced a significant, if not complete, halt in their economic activities for more than six months. This is likely to countermand the achievement of Nepal in terms of poverty alleviation and push many Nepalese back to living under the conditions of extreme poverty. The World Bank (2020) projected that the pandemic could push one-third of the Nepalese below the international poverty line.

While Nepal has already started experiencing an economic catastrophe, much damage is yet to be recorded in the national figures. Today, even though the majority of restrictions on mobility and economic activities have been lifted, the rapid spread of COVID-19 cases in the country has barred the economy from a full-fledged recovery.

Figure 5: Trend line of COVID-19 Cases in Nepal



Source: Ministry of Health, COVID19-Dashboard

The recovery of Nepalese economy seems difficult given the persistence of COVID-19 outbreak and the ambiguity in the regulatory environment. In view of the situation, the economic activities in Nepal are likely to be disrupted for a prolonged period, pushing the country into a deeper recession and the country might face a tough recovery.

Given the weak fiscal capacity along with plunging revenue, the government of Nepal, unlike many other nations, cannot afford to provide huge stimulus packages in the form of operational cost for businesses, unemployment benefits, coverage of basic and fixed expenses of businesses including staff salary and others. In the previous fiscal year, the tax revenue of the government decreased by 5 percent and customs duty alone plunged by 11.2 percent, increasing the fiscal deficit of Nepal moderately to 5.8 percent (NRB, 2020). In addition, the widespread informality in the country makes it more difficult to cushion the adverse economic impact and save the majority of people from falling into the absolute poverty bracket.

Besides, the revival of Nepalese economy is highly dependent on revitalization of foreign nations that either send remittance or are trading partners of Nepal. While the Nepalese import declined by 21 percent, narrowing down the trade deficit, it had ramifications in the manufacturing, agriculture, and service sector as supply of raw materials for industry, fertilizers and seeds, and goods and services for wholesale and retail trade were disrupted. This implies that the corrosion of the Indian economy alone can adversely impact the Nepalese economy. According to ADB (2020), the situation is bleak for South Asia as it is expected to contract by 6.8 percent, the worst in decades.

2.Micro, Small and Medium Enterprises: The Backbone of Nepalese Economy

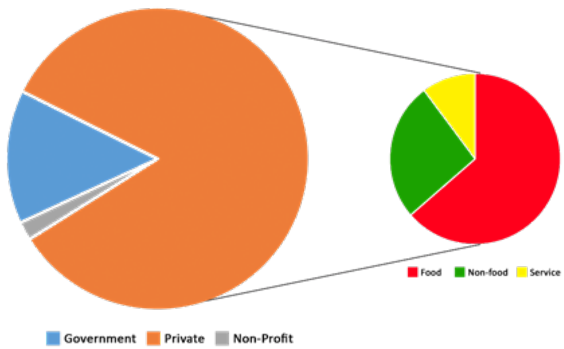
2.1 The Nepalese Economy

Nepal is a growing economy with an average GDP growth rate of 4.6 percent over the past ten years. It achieved an average economic growth of 7.3 percent in the past three years, illustrating significant improvement of the country in the economic front (MoF, 2020).

The private sector in the country – households and businesses – constitute an imperative fragment of the economy with 83.4 percent consumption, out of which 63.6% is food, and 26.2% and 10.2% are non-food items and services, respectively.

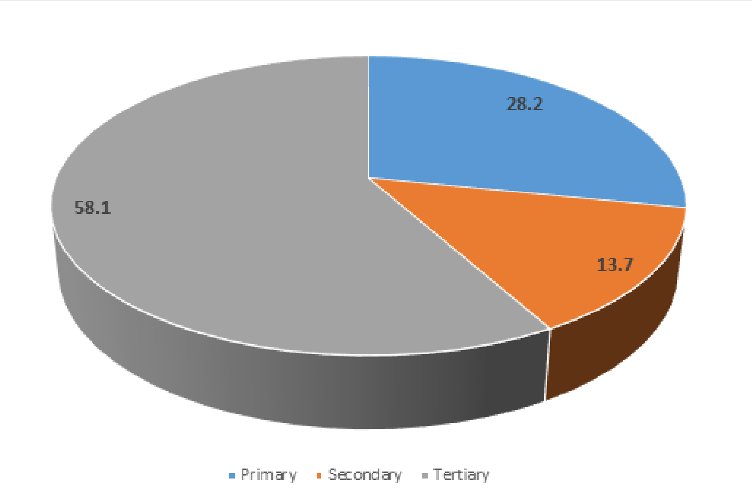
Private sector further constitutes three domineering sectors – primary, secondary, and tertiary. The primary sector comprises agriculture, forest, fishing, and mining. The secondary sector entails manufacturing, construction, electricity, gas and water. The tertiary sector or the service sector is currently the largest contributor (58.1 percent) to the economy of Nepal.

Figure 6: Consumption Pattern in Nepal



Source: Nepal Economic Survey, MoF, 2020

Figure 7: Sectoral Contribution to GDP



Source: Nepal Economic Survey, MoF, 2020

Table 1: Contribution to GDP by Different Sub-sectors

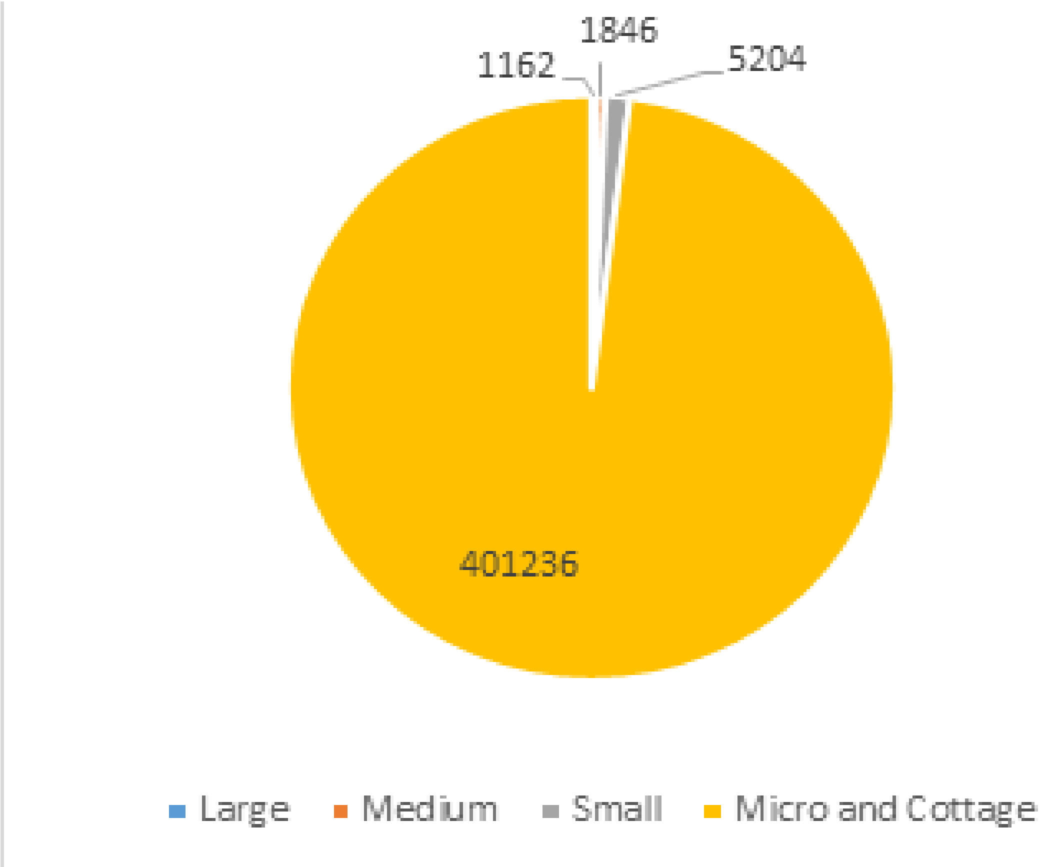
In percent

SN	Sub-sector	2018/19	2019/20
1	Agriculture and Forestry	26.9	27.1
2	Manufacturing	5.7	5.1
3	Construction	7.3	7.2
4	Electricity, Gas and Water	1.2	1.4
5	Wholesale and Retail Trade	14.4	13.9
6	Hotel and Restaurant	1.9	1.4
7	Transport	7.2	6.4
8	Financial Intermediation	6.3	6.6
9	Real Estate	11.6	11.9
10	Health	1.7	1.9
11	Education	7.1	7.7

Source: Nepal Economic Survey, MoF, 2020

There are currently 8,212 industries formally registered in Nepal, out of which 14 percent are large, 23 percent are medium and 63 percent are small-scaled in nature.

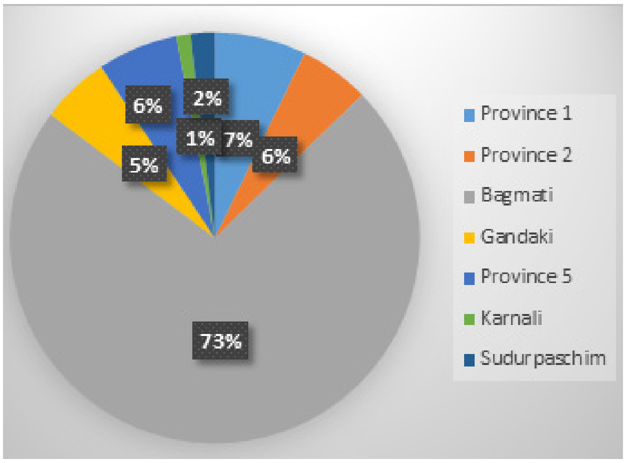
Figure 8: Total Registered Industries in Nepal



Source: Nepal Economic Survey, MoF, 2020

The number of Micro, Small and Medium enterprises is significantly higher in Nepal. The formally registered enterprises equal 401,236. The figures depict that in Nepal, more than 99 percent enterprises are Micro, Small and Medium Enterprises (MSMEs). According to FAO (2009), MSMEs in Nepal account for 70 to 80 percent of the total value of industrial production, 80 percent of employment, and 70 percent of the value of all exports. The 2018 National Economic Census shows that 99.8 percent of commercial establishments (both formal and informal) in Nepal employ less than 100 and 96 percent employ less than 10 workers, depicting the prominence of micro enterprises in Nepal.

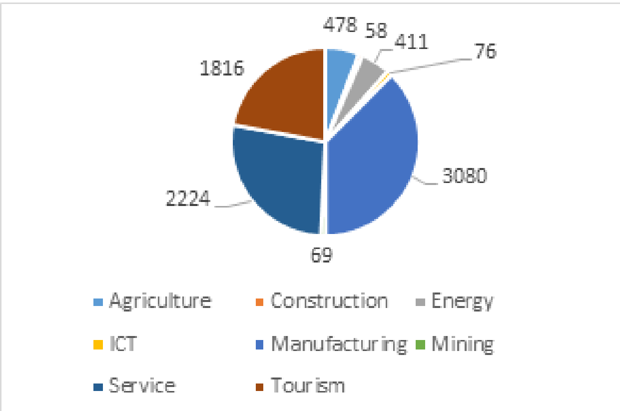
Figure 9: Province-wise Industry Registration in Nepal



Source: Nepal Economic Survey, MoF, 2020

Out of the total number of registered enterprises in Nepal majority are necessity based - food, accommodation, clothes and shoes, construction, training institutes among others. The penetration of innovative enterprises is minimal in Nepal. Information and Communication Technology (ICT) based industries account to a mere 0.9 percent. Additionally, province 2, province 5 and Karnali have yet to host ICT based enterprises.

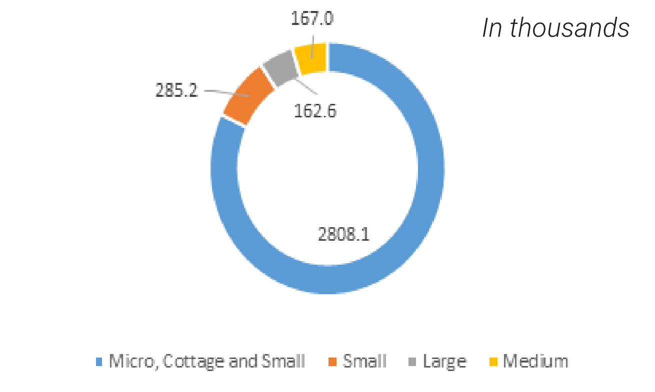
Figure 10: Sector-wise Registration of Industries in Nepal



Source: Nepal Economic Survey, MoF, 2020

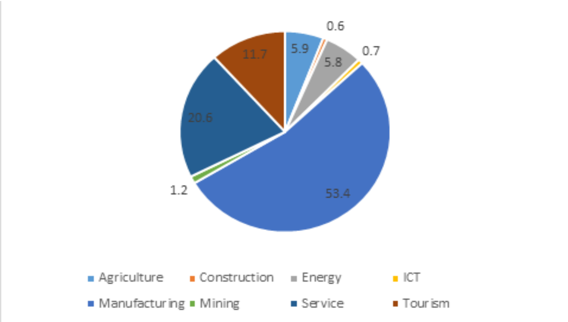
The total registered enterprises in Nepal have a capacity to generate employment for approximately 3.4 million (12.19 percent of total population) Nepalese out of which more than 80 percent is generated by micro and small industries. Micro enterprises alone employee about 60 percent of the total employed population of the county.

Figure 11: Estimated Employment by Industrial Type



Source: Nepal Economic Survey, MoF, 2020

Figure 12: Employment by Sub-Sectors



Source: Nepal Economic Survey, MoF, 2020

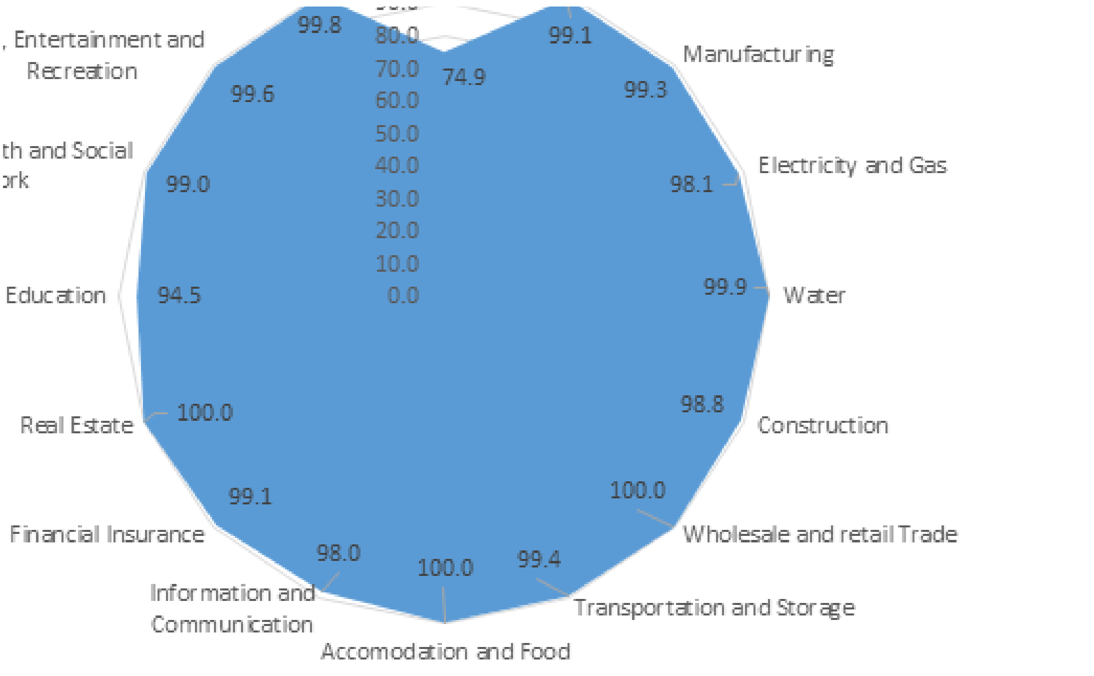
Among the economically active population in Nepal, about 4.7 million individuals are currently in foreign employment. There exists a huge gap between the demand for employment and supply of employment opportunities in Nepal. The unemployment rate stands tall at 11.4 percent.

Informal sector constitutes a large portion of the Nepalese economy. According to the ILO (2018), 94 percent of the total workforce of Nepal is employed in the informal sector. National Economic Census 2018, published by CBS (2018), states that out of 923,356 commercial establishments of Nepal 49 percent are informal in nature. Likewise, 45.4 percent operate as home-based or street-based businesses. All of these portray a widespread informality in Nepal.

2.2 Micro, Small and Medium Enterprises

A general overview of Nepal depicts that MSMEs are the backbone of the economy. The statistics reflect that MSMEs have not only contributed immensely to the national economy but also have benefitted the majority of Nepalese individuals through employment creation.

Figure 13: Prominence of MSMEs by Sector ***In percent***



Source: National Economic Census, CBS, 2018

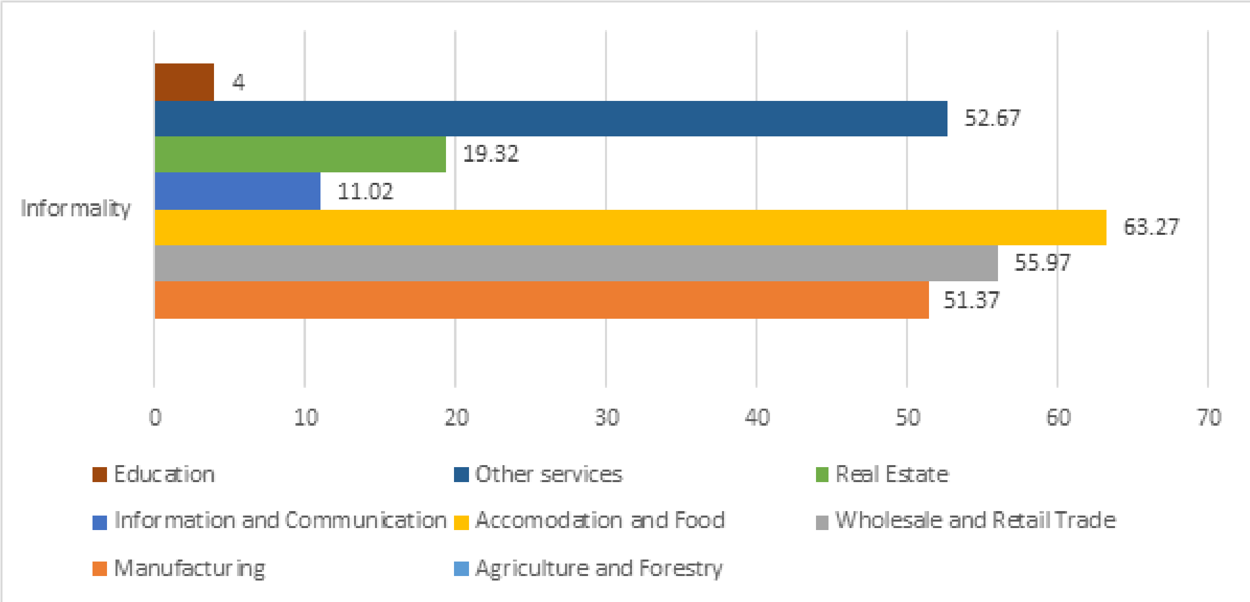
Table 2: Number of Formal and Informal Enterprises Employing Less Than 100 Employees

SECTOR	MSEs
Wholesale and Retail Trade, Repair of Motor Vehicles and Motorcycles	498006
Accommodation and Food	130501
Manufacturing	103326
Other services	57426
Education	38573
Human Health and Social work	19799
Agriculture and Forestry	18158
Financial Insurance	17830
Transportation and Storage	3164
Arts, Entertainment and Recreation	2811
Information and Communication	2739
Water Supply, Sewerage, Waste Management and Remediation Activities	2523
Construction	1588
Electricity, Gas, Steam, and Air Conditioning Supply	1218
Mining and Quarrying	657
Real Estate	207

Source: National Economic Census, CBS, 2018

Strategies to revive MSMEs in Nepal should focus on retail and wholesale trade, repair and maintenance, accommodation and food (tourism), manufacturing, and agriculture sector. The contribution of MSMEs to employment is highest in manufacturing, trade and service sectors. Additionally, the policies and programs should also consider the informal sector.

Figure 14: Informality in Selected Sectors



Source: National Economic Census, CBS, 2018

While MSMEs play a significant role in the Nepalese economy, these enterprises are equally vulnerable to economic shocks. Given the low level of investment in these enterprises, their cash to asset ratio are relatively lower compared to large firms. This implies that MSMEs are highly dependent on their day to day operations and sales in order to sustain. Additionally, MSMEs have limited access to capital in Nepal which confines the enterprises to attain working capital loans from formal channels.

MSMEs of the informal sector rely on semi-skilled to unskilled workers. Given their limited capacity, in terms of both skills and resources, they will face exceptional difficulty in coping with hard economic times.

Also, a substantial number of MSMEs in Nepal are informal in nature, which makes them all the more vulnerable. The drop in economic activities will significantly increase the risk of these enterprises being bankrupt. Furthermore, since these enterprises are not under the purview of the government or any kind of policies and regulations, helping them sustain or revive will be equally challenging. For instance, policies that provide moratoria in interest repayment or taxes will not have any effect on these enterprises (UNDP, 2020).

Disruption in economic activities of MSMEs will impair the economy both in terms of production as well as employment. Thus, for the revival and sustained recovery of the Nepalese economy, a special focus should be provided to the MSME sector. Appropriate measures to help MSMEs sustain and grow will not only provide respite to the entire Nepalese economy but also will safeguard as well as benefit the largest chunk of economically active population.

"80% of the Micro, Small, and Medium Enterprises (MSMEs) have already closed their doors since the start of the health emergency. It has created a warning call for mass bankruptcy among wide-range of business sectors within the country. Informal economy and the contact-intensive sectors are hardest hit amid the prevailing unfavorable business environment, and are expected to take the longest time to recover during the post-crisis situation. Confidence of the entrepreneurs, businessmen, and investors alike across the country has reached record low."

- **Bishwamber Pyakurel**

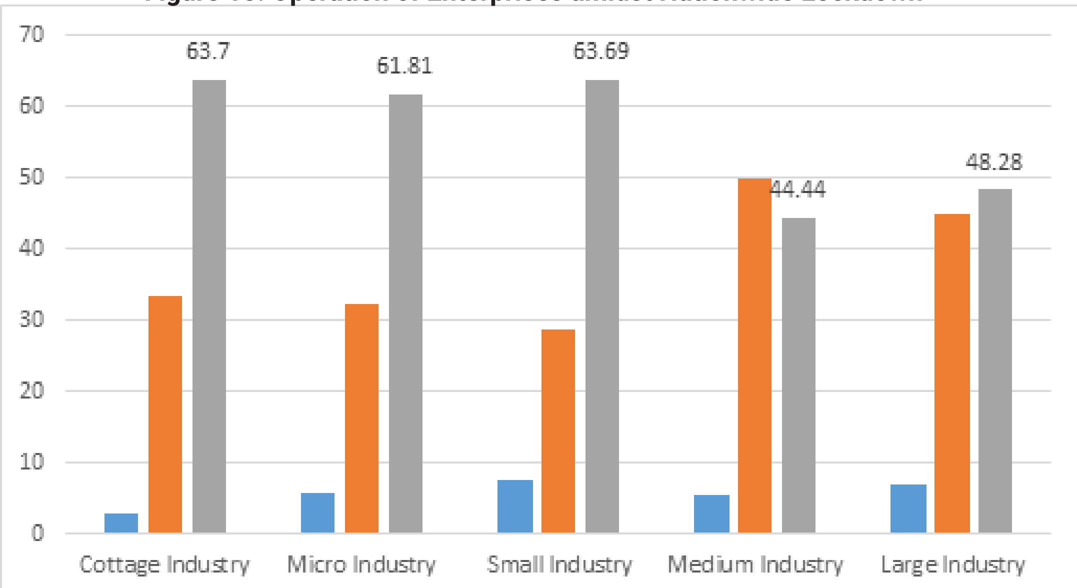
3.Impact of COVID-19 on MSMEs

3.1 Overall Impact

Despite the country experiencing significant upsurge in enterprising sector, it has not matured and strengthened enough to withstand substantial economic shock. According to the Federation of Nepalese Chamber of Commerce and Industries (FNCCI), the MSMEs including start-ups and the informal enterprises are most affected by the outbreak of COVID-19. In August 2020, it announced that as a result of the current economic crisis, the existing 0.4 million micro and cottage industries in Nepal are on the verge of collapse.

According to Nepal Rastra Bank (2020), 61 percent of the enterprises remained completely closed, while 35 percent operated partially during the four months of nationwide and partial lockdown in Nepal.

Figure 15: Operation of Enterprises amidst Nationwide Lockdown

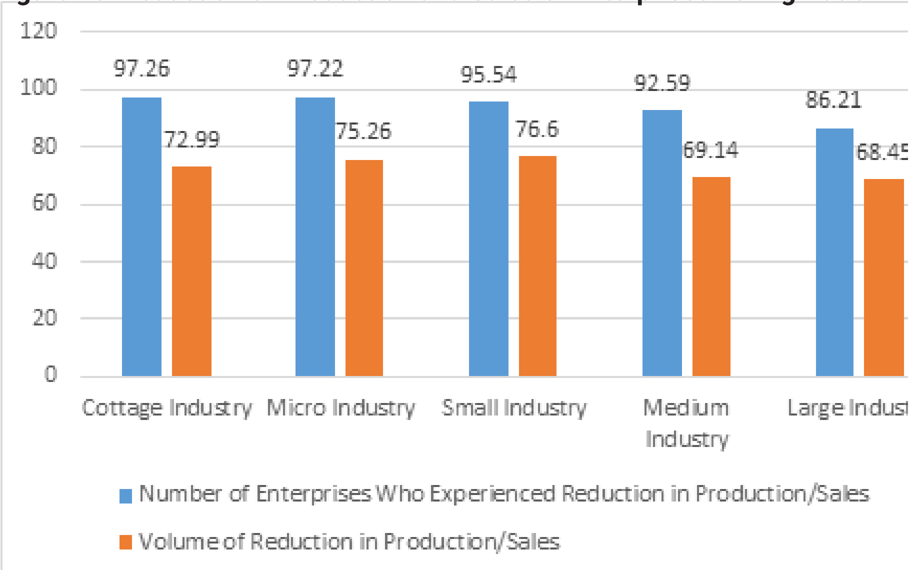


Source: Nepal Rastra Bank, 2020

According to a survey conducted by UNDP (2020), the lockdown subsequently disrupted the operation of MSMEs. These enterprises operated only 1 to 17 days as against the 29 to 30 days of operation prior to the nationwide lockdown. This indeed depicts the level of economic catastrophe in the nation as MSMEs in Nepal have an important role in production, employment, and export. Among the most affected businesses due to decline in operation time were food and accommodation, trade, and repair and maintenance.

According to NRB (2020), 96.7 percent enterprises reported that they experienced a decline in production and sales by 73.8 percent when compared to previous times. FNCCI mentioned that 10 percent industries in Nepal with working capital of less than NRs. 2 million succumbed to the crisis.

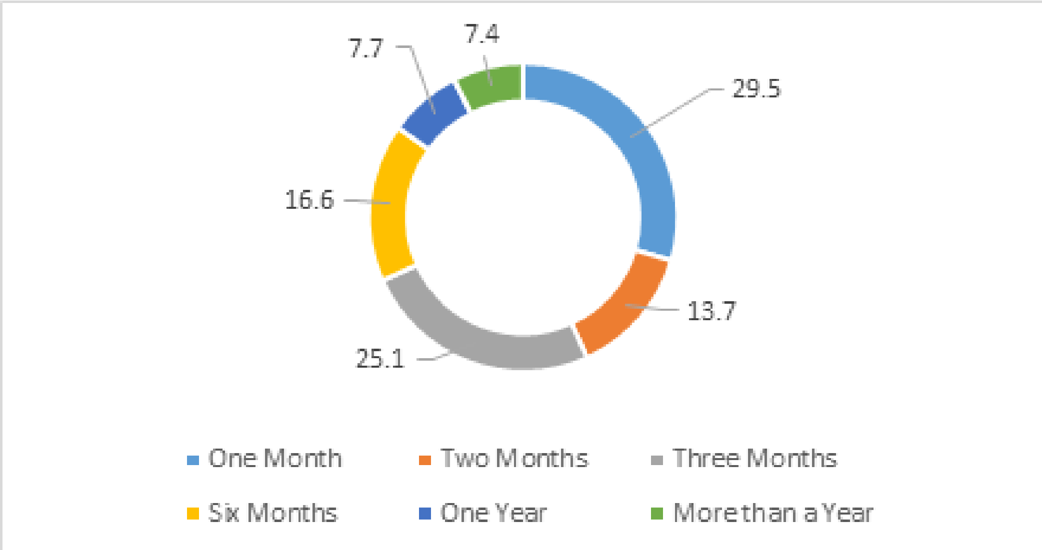
Figure 16: Reduction of Production and Sales of Enterprises During Nationwide Lockdown



Source: Nepal Rastra Bank, 2020

The UNDP survey illustrated that the monthly sales revenue of enterprises declined from NRs. 0.1 million-0.5 million to a mere NPR. 883 – 0.073 million. The relatively well performing sector during the time was dairy and livestock. However, the enterprises in dairy and livestock business also experienced a decline in monthly revenue to NRs. 0.07 million from previous revenue of 1.9 million.

Figure 17: Number of Months that Enterprises Can Sustain



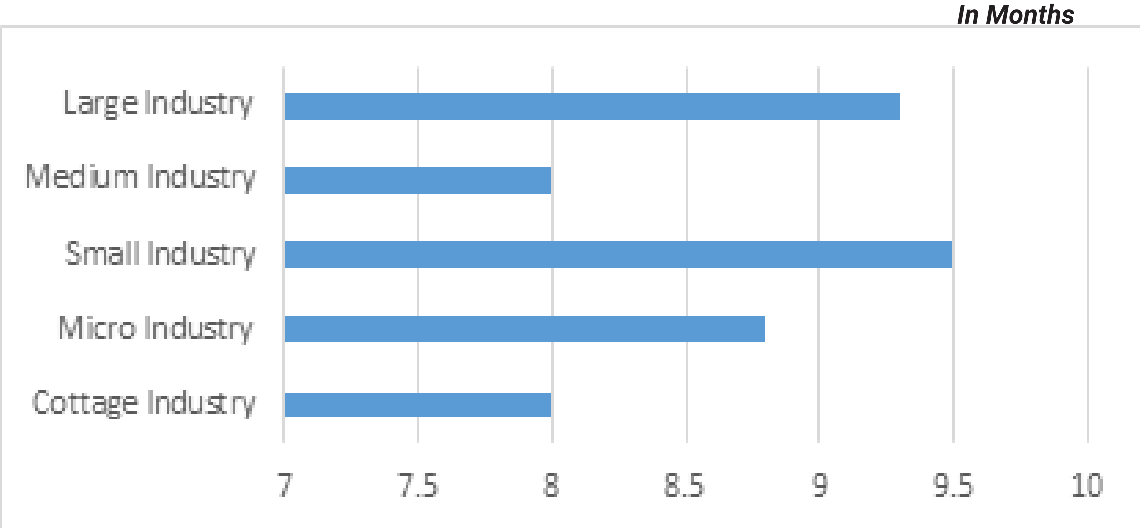
Source: Nepal Rastra Bank, 2020

Majority of enterprises in Nepal (more than 67 percent) on July 2020 reported that, given the current situation does not recede, they cannot sustain for more than three months. 29.5 percent reported that they could only survive for a month. Likewise, the UNDP also reported that the enterprises could only sustain for 1.5 to 3.5 months.

Even if the situation goes back to the pre pandemic times, the Nepalese enterprises, on an average, will take 8.6 months to return to normalcy. The business community, real estate and hotels and restaurants will take the highest time of more than 13 months for revival. While at that, other sectors including agriculture, manufacturing, retail business and construction are also likely to take substantial amount of time to revive.

Figure 18: Time Required for Nepalese Enterprises to Get Back to Normalcy

In Months



Source: Nepal Rastra Bank, 2020

The disruption in supply and contraction of demand is likely to continue even though the restrictions on economic activities and mobility are lifted. Thus, the fear of enterprises that, as long as COVID-19 persists recovery can be tough, is valid.

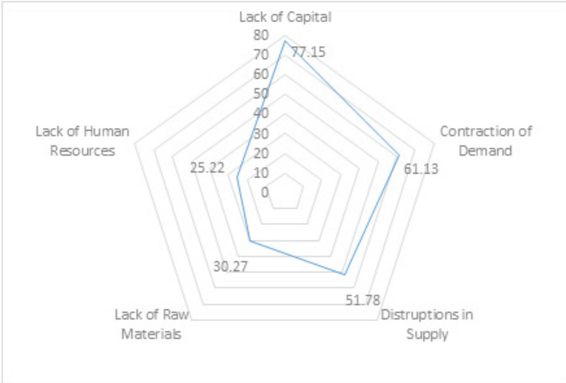
The difficulty faced by MSMEs is signaled by the surge in unemployment scenario of the country. Currently, the enterprises have fired 22.50 percent of their workforce. Micro and cottage enterprises account for the highest number of employee layoffs – 27.80 and 30.52% respectively. Additionally, on an average, the Nepalese enterprises have reduced the salary of the employees by 18.19%. This scenario indicates that Nepalese enterprises are likely to face a tough recovery as decreased purchasing power of the individuals will contract the consumer demand in the economy and exacerbate the vulnerability of the businesses.

According to UNDP, more than 60 percent of formal and informal workers – 3 in 5 workers – employed in MSMEs lost their jobs during the nation-wide lockdown period in Nepal. On an average, enterprises who previously employed less than five workers – micro or cottage enterprises - have reduced 50 to 60 percent of paid workers.

According to the Department of Industry (DoI), one percent businesses in Nepal have changed their modality during the lockdown period in order to sustain. As evinced by the crisis triggered by Covid-19 pandemic, necessity-based enterprises are more vulnerable to economic shocks while the ICT based innovative businesses – ecommerce, video conferencing app, software companies – are more resilient.

According to Nepal Rastra Bank, the major challenges faced by Nepalese enterprises during the crisis period that accelerated their downfall were in the form of lack of capital for basic expenses, contraction in demand, disruptions in supply, lack of raw materials and lack of human resources.

Figure 19: Challenges Faced by Nepalese Enterprises During Nationwide Lockdown



Source: Nepal Rastra Bank

According to Federation of Women Entrepreneurs Association of Nepal (FWEAN), as a result of the inability to conduct any form of economic activities for four months, almost 90 percent of industries in Nepal struggled to pay rent and bank interest. According to NRB, enterprises are finding it equally difficult to pay salaries and wages of the employees.

Similarly, the pandemic imposed a demand shock on the Nepalese economy. While initially the pandemic impacted the tourism sector demand with significant drop in tourist arrivals, the imposition of nationwide lockdown contracted the demand of broader sectors (World Bank, 2020). In the first two months of the lockdown period, the demand or capacity utilization of industries had declined by 25 percent. Likewise, on the individual front, the inability to conduct physical economic transactions, threat of contaminating the virus and widespread unemployment reduced the demand of almost all products in the market. Since the start of Covd-19 outbreak in Nepal, the demand for both production and consumption materials have declined. Similarly, the disruptions in supply mostly affected the MSMEs in Nepal who did not have an alternative to supplying the products physically. Consequently, businesses operating in agriculture, manufacturing as well as service sectors experienced a substantial decline in sales.

While the pandemic already created an uncertain environment for enterprises, the ad-hoc decisions of the government exacerbated the ambiguity. The imposition of sudden nationwide lockdown on March 24, 2020 and indecisiveness from the government on the modality of reopening the economy for a prolonged period of time made hundreds of daily wage workers reluctant to walk home. After the workers reached home or had already walked many miles to reach home, the government decided to allow certain sectors of the economy like construction and manufacturing to operate. However, the construction sites and manufacturing industries faced shortage of labor as the majority had already left the town. Consequently, even after the lockdown was lifted, enterprises faced difficulty in reactivating and reviving their business.

Additionally, the inability of the government to disseminate information on its plans and strategies barred businesses to plan beforehand for factors like stocking raw materials or for building their survival strategy.

The rigid policies of the government posed a challenge to e-commerce businesses, who had potential to maintain some level of economic activity in the country. Additionally, in the presence of stringent policies it was difficult for individuals to change their business modality.

3.2 Short-term Recovery Measures

OECD (2020) in their survey among OECD countries to ascertain the policy responses of governments to combat the economic impact of COVID-19, identified that currently, majority of countries are adopting monetary and fiscal measures - like easing monetary conditions to support lending, increasing access to loan by Small and Medium Enterprises (SMEs), granting wage subsidies and providing income and profit tax reliefs and deferrals - to cushion the economic impact on businesses. These measures have been undertaken to maintain the short-term liquidity in the economy that will eventually help enterprises to sustain. Most of the relief measures have been introduced for SMEs and the self-employed - the most vulnerable groups. The World Bank identified that out of 845 SME policy instruments available in the world, 328 are related to debt finance like provision of loans or guarantees, 205 are related to employment support and 151 are related to tax rebates.

Nepal has also adopted a series of monetary and fiscal measures to combat the adverse effect of COVID-19 on the economy. While some of the plans and programs of the government have been implemented, some still have not been prioritized for implementation. The delay can be attributed production to the relatively limited fiscal and administrative capacity of the government. Currently, the implemented programs are funded by external borrowing with numerous development partners.

The following table depicts the plans and policies introduced by the Government of Nepal and their current status.

Table 3: Short-term Measures

S.N	Plans, Programs and Policies	Remarks
1.	Waived penalties and fee for late interest payment and electronic transactions	- Delay in between promise through budget and monetary policy, and working procedures caused a significant number of businesses to be unable to avail these services
2.	Inland Revenue Department (IRD) extended tax filings for VAT and excise duty.	
3.	Electricity fee waiver to manufacturing industries, 50 percent discount at low demand times	
4.	Announced Social Security for entire lockdown period to be contributed by the government.	- Difficulty in fulfilling the documentary compliances barred many MCSIs from availing these services
5.	Reduction of tax for MSMEs.	
6.	Exempted VAT on import of iron or steel used in hydropower projects.	
7.	50 percent seed investment for innovative businesses.	
8.	Pledged to contribute to Credit Reserve Ratio (CRR) by 3 percent and bank rate by 5 percent to maintain liquidity in banks and financial institutions (BFIs).	- The informal sector was completely left out of the documented relief measures
9.	NRB introduced refinance facility to agriculture, manufacturing and tourism enterprises including MSMEs.	
10.	Directed banks and microfinance to reduce interest rate by 2 and 3 percent point respectively for selected sectors. Mobilized fund for subsidized loan at 5 percent interest.	
11.	Moratorium on debt repayment up until mid-July	- Fiscal measures certainly shift resources from one sector to the other, but if the recipient sector continues to suffer, then it poses a threat to sustainability of the measures
12.	Directed BFIs to provide 10 percent discount on accrued interest.	
13.	Announced working-capital loan up to 10 percent of existing loan to affected sectors with relaxed repayment schedule	

The aforementioned policy responses depict that the GoN has till date promised to adopt a wide array of fiscal and monetary measures to help enterprises cope with the pandemic induced economic crisis. Past studies and recommendations of development agencies including the World Bank suggests that the actions taken are commendable from a short-run perspective. Given the substantial reduction in economic activities and subsequent decline of income of numerous MCSEs in the county, it was seemingly necessary for the government to introduce programs and policies that would help ease critical expenses of MSMEs, allowing them to sustain through the crisis period.

However, the administration of the said relief measures has been poor as the demand for loans have been increasing, whereas, the government has been struggling to provide funds for the same. Additionally, many micro, cottage and small enterprises claim to have still not received such benefits. Given the circumstance, different private sector organizations have formed a struggle committee in order to demand for relief and rehabilitation packages, especially for MSMEs in the sector (Shrestha, 2020).

It is very essential to look into the unique political economy of Nepal in order to take account of country-specific data and assess the workability of the globally renowned policy measures while formulating policies torescue the economic scene of Nepal amid the current public health emergency. Given that the public debt in Nepal has already reached an alarming level and engaging a deficit strategy to finance public expenditure with additional external borrowing can be unreasonably burdensome for the economy. Also, there is no room for further tax cuts in the economy. Monetary interventions of the NRB have not been able to show effective transmission into the economy based on past observation. Also, the present context shows excess liquidity in the market in lieu of expected shrinkage in money supply because of significantly reduced demand in the credit market.

- Bishwamber Pyakurel

A series of factors point to fact that the GoN should now take a departure from fiscal and monetary measures and should work on introducing suitable policy reforms that would not only support and sustain the previously implemented actions but also would pave the way for medium- and long-term recovery.

Firstly, Nepal recently underwent a massive transformation and adopted a federal structure of governance. While the transition unleashed numerous opportunities for Nepal, it also resulted in added fiscal burden for the government and its taxpayers. In the period between July 2020 to March 2020, before Nepal was hit by the COVID-19 pandemic, the government expenditure increased by 9.4 percent as a result of increased recurrent expenditure in the administrative front and the fiscal transfers to lower tiers of government. As 96 percent of taxes in Nepal is collected through only 15 districts, equitable distribution of fiscal resource throughout Nepal has been a challenging task. This implies that, even prior to the announcement of different relief measures to various economic actors, the taxpayers of Nepal were experiencing a huge amount of added burden. The negative impact of the crisis post March 2020, where numerous taxpayers including business entities are unable to accumulate their basic operational expenses, can augment the pressure on taxpayers, threatening the entire fiscal balance of the nation.

Nepal has already come to realize the threat in practicality. In the first three months of the current fiscal year (FY 2020/21 – mid-July to mid-October) the government revenue decreased by 9.1 percent[2] . As of November 10, 2020, the government revenue stood at NRs. 227.21 billion up against the recurrent expenditure of NRs. 251.37 billion. With the government is being unable to finance even its recurrent expenditure, distribution of economic relief packages can be regarded as a fragile program.

Realizing the same, as a remedy, the government has chosen to finance the increasing expenditure by borrowing, both externally and internally. As per the Financial Comptroller General Office (2020), Nepal experienced a swift rise in external debt in the third quarter of FY 2019/20, the debt to GDP ratio increased from 30.2 percent to 34.51 percent[3] . The debt to GDP ratio further increased to 40.16 percent in the fourth quarter of FY 2019/20. Currently, the external debt to GDP ratio stands at 22.45 percent and internal debt to GDP ratio is 17.71 percent. The per capita debt of Nepal has surged by 27.1 percent from NRs. 36,000 approx. in 2018 to NRs. 45,753 in September 2020, while the per capita income increased by a mere 5 percent approx. in the same period.

The World Bank (2020) has projected that in the worst-case scenario the debt to GDP ratio of Nepal can reach as high as 51.3 percent[4] . In the first quarter of the current fiscal year itself, the government has received foreign aid of NRs. 85.4 billion, which is 39 percent of the total loan received in last fiscal year. Depending on debt can have a contagion effect on the Nepalese economy as it can have a serious effect on long term debt sustainability of Nepal

The funds accumulated through debt are currently being channeled by BFIs towards different crisis hit enterprises in the form of low interest loans or refinance facilities. It is imperative for the loans to be invested in productive sectors if Nepal wants to enhance its ability to pay back the loans and maintain its debt sustainability. However, in the past few years Nepal experienced a surge in unproductive loans in sectors like real estate, wholesale and retail trade, consumption-based loan, among others.

2 MOF https://mof.gov.np/uploads/document/file/Ashoj%20_Buletin_Final_20201113040951.pdf
3FCGO, 2020 https://www.fcgo.gov.np/uploads/tabnoticelist/2020-08-17/Quaterly_Debt_Position_of_Government_of_Nepal_GoN__4th_Quarter_as_on_20770331__July_15,20201.pdf
4http://documents1.worldbank.org/curated/en/473551595429740654/pdf/Nepal-Development-Update-Post-Pandemic-Nepal-Charting-a-Resilient-Recovery-and-Future-Growth-Directions.pdf


I Nepal
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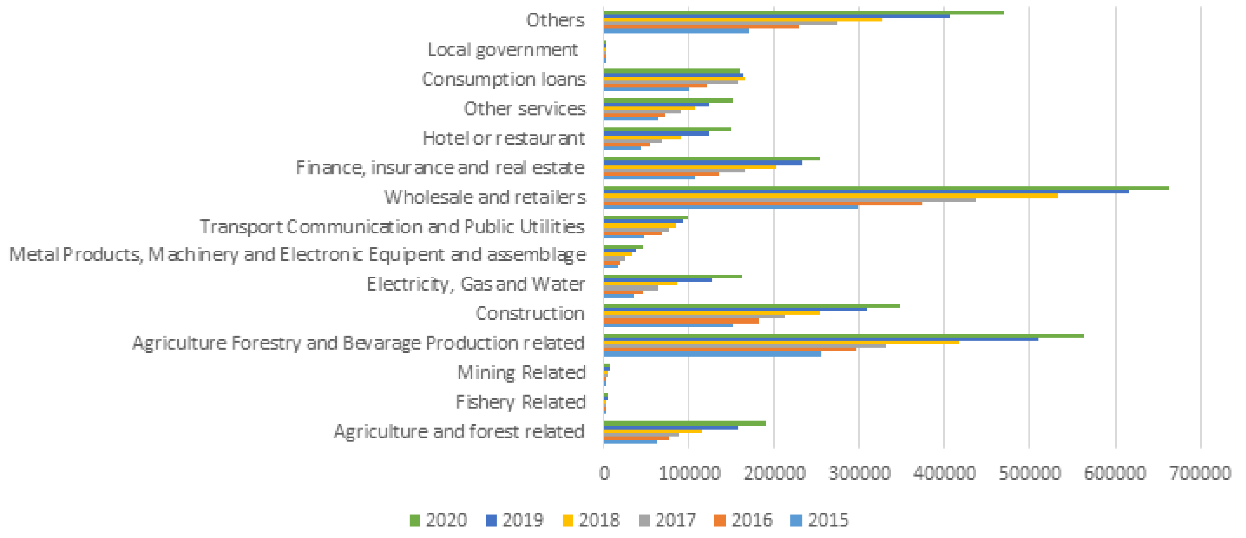
Figure 20: Loan Disbursed to Different Sectors



Source: Monthly Statistics, NRB, 2015 - 2020

It should be worthwhile to note that the loan disbursement does not imply an increase in production capacity of the economy which will give higher return when compared to the invested capital. A surge in COVID-19 cases or commencement of second wave can hinder the recovery of tourism, retail and wholesale trade as well as agriculture sector, endangering debt sustainability of the country.

It is thus high time for the government to realize that moratorium on taxes and debt repayment and injection of additional capital in enterprises in the form of debt is a band aid. While the entire country is facing a contraction in demand and skepticism in productive investments, the applied measures if not backed with suitable policies can make the enterprises more vulnerable in the future – as enterprises have to pay their unpaid liabilities along with added debt acquired to help ease their current situation. If the COVID-19 pandemic continues to disrupt economic activities in the current fiscal year as well, the fiscal and monetary measures applied currently will be deemed to have only pushed the difficulty of crisis-driven enterprises and not solved the predicament.

3.3 Recent Developments

It has been almost three months since the government relaxed major economic restrictions in the country. Owing to the same, the different imperative sectors of the economy have been able to conduct at least some form of economic activities that could help them sustain and revive from the previous shock.

Table 4: Improvement in MCSI Performance After the Ease of Lockdown Measures

Indicators		June	November
Operation Status	Full	Full	45.61
	Partial	Partial	41.38
	Closed	Closed	13
Production/Sales		27.71	48.69
Employment		73.57	89.13

Source: Nepal Rastra Bank, 2020

The macroeconomic statistics, based on three months data from mid-August to mid-October, published by NRB depicts that Nepal is gradually heading towards normalcy, paving way for economic recovery. However, numerous challenges still prevail which can impede the recovery process.

Remittance inflow in the first three months of FY 2020/21 increased by 12.6 percent, as opposed to the drop of 5.1 percent in the same period of the previous month, illustrating positive signals in terms of consumers' ability to spend. However, there is looming uncertainty regarding the surge in remittance inflow despite major economic shock and subsequent downturn of the world economy, and relying on it can make the economy more vulnerable in the future. Additionally, the number of new Nepali workers taking approval for foreign employment in FY 2020/21 declined by 96.8 percent, and workers renewing their approval declined by 78.6 percent. The figures can have substantial effect on future income and spending capacity of Nepalese households, subsequently contracting the demand for goods and services and impeding sustained recovery of MCSEs.

While Nepal enjoyed the narrowing down of trade deficit by 15.1 percent, the decline in imports impacted all major sectors of the economy. Despite the increase in export to India and other countries by 19.4 percent and 7.4 percent, export to China decreased by 53.2 percent. The past three months realized a steady increase in imports which indicates that the economy is slowly reviving. This implies that manufacturing, wholesale and retail trade, construction, and other services sensed some form of respite in the current fiscal year.

With the reopening of domestic flights after seven months, the tourism industries located in major tourism hubs of Nepal have started experiencing increased tourism traffic. Nepal Tourism Board (NTB) highlighted that in October alone, Nepal received 1,874 tourists. The hotel and restaurant sector, one of the worst hit industries in Nepal, have thus started to resume operations and minimize the incurred loss throughout FY 2019/20.

Investments in agriculture, manufacturing (cement, handicraft, textile, paper), packaging and processing, printing and publication, and construction industries have increased in the first quarter of FY 2020/21. The increased investment can highly contribute in sustenance and expansion of MSMEs whilst also enhancing the productivity and employment scenario of the country. However, the increased investment is attributable to the government relief measures of debt servicing and interest subsidies, and thus might adversely impact the economy if it is not backed up with favorable policies for the private sector to flourish. According to NRB, credit issuance to agriculture, industries, and construction sector has surged by 6 percent, 1 percent, and 1.8 percent respectively.

The e-commerce sector experienced its biggest boom in October, 2020 with its sale crossing NRs. 1 billion in two weeks. The phenomenal growth of the sector has greatly supported the retail trade sector in the country. The enterprises or start-ups engaged in the sector are most innovative and vibrant MCSEs of the nation.

In light of the recent development, the revival and recovery scenario of MSMEs in Nepal seems optimistic. However, there are many challenges to overcome. The COVID-19 pandemic has yet not receded and sectors like recreation and entertainment are still under complete halt. The consumer demand and participation in other sectors of the economy is still minimal. The operation of flights as well as import of goods and services have not resumed completely. Additionally, businesses have not recovered their previous loss and employment scenario is likely to be hampered for a prolonged time, which is bound to contract demand in the economy, making it more difficult for enterprises to survive. Thus, while the economy is experiencing some form of respite, it does not guarantee revival and resilient recovery.

While the injection of interest rate subsidies and capital investment by the government has the potential to work favorably in the short-run, the shrinking national treasury can pose threat in the longer run. During the first quarter of the current fiscal year, government revenue shrank by 9.1 percent which increased the fiscal deficit of Nepal, with the government being unable to finance even its recurrent expenditure (MoF, 2020). This implies that the government will not be able to provide the rehabilitation funds for a longer period of time as debt to GDP ratio of Nepal is already as high as 40 percent, and further exposure to foreign debt can pose a significant economic and financial risk to Nepal. Given the scenario, the current fiscal and monetary measures assisting different enterprises will dissolve in the near future, and if the COVID-19 does not subside by then, the enterprises will be all the more vulnerable with huge debt to repay. Thus, Nepal should now work towards introducing favorable policies for the private sector, helping them become more resilient to the external shocks.

4. Sectoral Impact and Potential Interventions

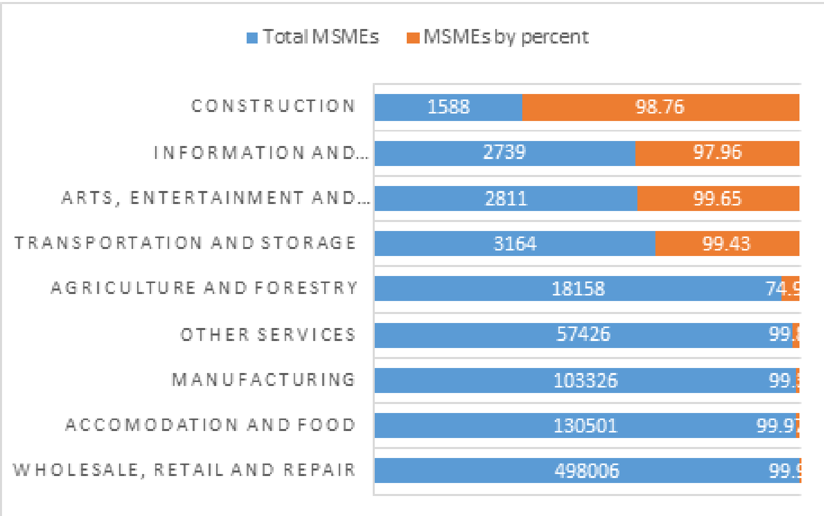
Figure 21: Degree of Impact on Specific Sectors

High	Medium	Low
Accommodation and Food Arts, Entertainment and Recreation Transport, storage and Communication	Manufacturing Wholesale and Retail Trade Repair of Motor Vehicles and Motorcycle Construction Agriculture, Forestry and Fishing	Real Estate Mining and Quarrying Finance and Insurance Education Human Health Public Administration

Source: Rapid Assessment of Socio-Economic Impact of COVID-19 in Nepal, UNDP, 2020

Given the prevalence of a high number of MSMEs in sectors that are most affected by the lockdown measures, it is important to understand the impact confronted by specific sectors.

Figure 22: Sector-wise Total Number of MSMEs



Source: National Economic Census, 2018

4.1 Agriculture

The agriculture and livestock sector realized a significant impact of the restrictions in mobility, and halt of economic activities. The impact was higher on small and landless farmers in the rural sectors.

Firstly, the agro-based enterprises were unable to transfer their products to market centers which resulted in significant loss of vegetables and dairy products. Farmers, especially women[5] who sold vegetables from door to door in vegetable carts faced excess difficulties (Shrestha & Leder, 2020). Additionally, the farmers reluctantly sold vegetables at significantly lower prices, as they could not access the market and the risk of vegetables being perished were high. The director of National Dairy Development Board (NDDB) claimed on September 2020, that the dairy sector had incurred a loss worth of NRs. 20 billion[6] as a result of nationwide lockdown. The collection of milk during the time declined by 50 percent.

Secondly, the sector experienced a significant drop in demand. While the largest consumers of agriculture products – hotels and restaurants and other commercial consumers – had to completely close all kinds of operations, the sector experienced subsequent demand shock. While the household consumption was already insufficient to provide any respite to the agriculture sector, the skepticism among consumers about animal products, especially milk and meat products, resulted in an additional drop. The rising threat of contamination also decreased consumers' confidence to visit market hubs to consume the agriculture products. In April, after the first few weeks of lockdown the poultry sector came to a complete standstill with daily estimated loss of NRs 220 million.

Lastly, the disruption of supply of agricultural inputs – fertilizers and seeds – impacted the harvest of the country.

The primary sector of Nepal, largely consisting of agriculture and forestry, experienced significant decline in FY 2019/20. The growth rate remains at 2.54 percent as opposed to 5.12 percent growth in FY 2018/19 and a ten-year average growth of 3.20 percent (MoF, 2020).

4.1.1 Potential Interventions

- In the medium term, this sector can benefit from interventions designed to provide small and sustenance-based farming operations to assess credit readily. Similarly, a well-put crop insurance mechanism can help businesses get rid of uncertainty. NRB's Priority sector lending program (PSLP) intends to ease access to credit for the agriculture sector has so far performed below par. Under the existing mechanism, NRB has directed all BFIs to allocate 10% of their loan portfolio to the agricultural sector at a subsidized interest rate of 5%. But owing to high administrative cost, small loan amounts, and a high-risk profile of small/marginal farmers the majority of BFIs have not been able to follow NRB's directive. In the medium term, better implementation of this scheme would translate to more farmers choosing a formal line of credit. Secondly, there needs to be better coverage of farm insurance for which the government currently endorses a subsidy on premium up to 75%. Given both these interventions are coordinated, a farmer can avail of formal lending by putting farm insurance as collateral to cover the risk.

- Private sector should be encouraged to invest in agriculture input market like chemical fertilizer by deregulating the sector from government monopoly. Likewise, promote competition in organic fertilizer and seed industry of Nepal so that farmers can benefit in terms of greater access and reduced price.

5 https://wle.cgiar.org/thrive/2020/06/24/counter-covid-19-nepal-we-must-support-small-scale-women-farmers
6 https://risingnepaldaily.com/business/dairy-sector-bears-losses-of-over-rs-20b-from-covid-19

- Government needs to expedite setting up of legal framework for contract farming and commodity markets. Boosting contract farming will help small and marginal farmers transition from substrnance farming to commercial agriculture, hence increasing the supply of agro-product in domestic and international markets. To ease this transition, the government can deregulate the market and allow private actors to compete so that the market can set new equilibriums as per the demands of farmers. The current focus on chemical fertilizers and a highly subsidized agricultural input has affected domestic producers of organic fertilizers and made it difficult for the pirate actor to compete. Reform will mean a reduction in lead time for fertilizers, a step forward towards mechanization and innovation, and an overall increase in yield for the sector. Similarly, promoting the commodities market will enable farmers to reduce their risks and focus on products that are in demand in the market.

- Integration of agriculture to e-commerce should be another priority. The current pandemic saw a rise in the use of e-commerce platforms across all verticals of the agriculture industry. The digitization of few certain segments of the supply chain i.e. payment and order placement has benefited the farmers to some extent, and this can be further strengthened if the reach of digitization can be extended to connect rural markets with urban centers. Ensuring product mobility will be easier if the farmers are no longer reliant on middlemen for logistical support. With E-commerce integration, farmers can deal with customers with a fair degree of autonomy.

4.2 Manufacturing

In FY 2019/20 the manufacturing sector of Nepal experienced a sharp decline (-2.27%) as opposed to the growth figure of 6.82 percent in the previous fiscal year (MoF, 2020). SAWTEE (2020) through their informal surveys identified that the majority of manufacturing industries had to halt their production after the imposition of nationwide lockdown, and the few industries that operated experienced difficulty due to disruptions in supply of raw material. As a result, the capacity utilization of industries fell by approximately 40 percent (from 74-80 percent to 49 percent). Furthermore, the manufacturing industries were impacted by both demand side shocks and supply side shocks. The export-oriented industries expect the demand to fall by 30 percent in the international market. While the reduction in household consumption resulted in decline in sales of the industries, the decline in import as well as restrictions in mobility limited the access of raw materials. Lack of a labor force was also one of the prominent problems faced by the industries.

While firms producing non-essential items were completely halted and faced significant sustenance challenges, the firms producing essential food items – dairy, mills –also experienced the wrath of economic restrictions. Subsequently, the industries struggled to pay wages of the workers. Additionally, the directive of the government to continue paying wages to the laborers despite lockdown made it exceptionally difficult for the firms (SAWTEE, 2020).

It was estimated that despite the reopening of the economy, these firms were likely to take substantial amounts of time to recover back to pre-pandemic times. In the survey conducted by NRB, the manufacturing industries responded that given the economic and travel restrictions were lifted, it would take 7.9 months for the firms to get back to normalcy.

4.2.1 Potential Interventions

- Taking into account that the pandemic is still ongoing, an intervention in the medium term to manage the risk associated with the supply chain can help businesses in this sector to deal with future uncertainty.

- Import duties levied on import of essential raw materials should be eased up to increase industrial output. The GoN on October 6th, 2020 decided to exempt VAT on the import of iron plates used in penstock pipes for hydroelectricity production. A similar approach to easing import restrictions can help boost industrial output in the medium term. Similar measure has been adopted by Indonesia. The government of Indonesia has removed trade barriers of up to 50 percent of goods in order to spur business activity in the country. By scrapping almost 749 harmonized system codes and expediting import processes for more than 500 importers, Indonesia plans to ease the import of raw materials to provide respite to the crippling manufacturing sector of the country.

4.3 Tourism

Tourism was one of the hardest hit sectors due to the pandemic. Even prior to the nationwide lockdown in Nepal, the upsurge in COVID-19 cases in rising number of nations resulted in limited travel, decreasing the flow of tourists in Nepal. The number of tourist arrival in Nepal in March 2020 (34,025) declined by 73 percent, when compared to the previous month (101,400). The total tourist arrival from January to September 2020 was 200,000, as opposed to 739,000 in the same period last year (MoCTCA, 2020). The mandatory halt in economic activities of the sector further exacerbated the hardship in the sector as it hindered the opportunities of domestic sales. The tourism sector faced a loss of NRs. 34 billion by July 2020. According to Ministry of Culture Tourism and Civil Aviation (MoCTCA), the loss by the end of August 2020, increased to NRs. 48 billion.

All kind of hotels and restaurants in the country, closed down operations for a longer period of time when compared to other sectors of the economy as the businesses were not allowed to fully operate until September 2020. The restaurants were only allowed to operate as takeaways. As a result, the hotel and restaurant sector in FY 2019/20 is expected to decline by 16.3 percent, the worst among all sectors (MoF, 2020). As a response to the crisis, the hospitality sector decreased the worker's salary and wages to 12.5 percent. Given the inability to pay rents and salary, more than 200 business in Thamel, the largest tourist hub in Kathmandu City, succumbed to the crisis in June 2020 (Neupane & Baral, 2020).

It depicts a challenging situation as the tourism sector is likely to face challenges up until 2021, putting 99.97 percent (130,501) MSMEs of the sector at risk. Additionally, 63.27 percent commercial establishments in the sector are informal, making it furthermore difficult for sustenance.

4.3.1 Potential Interventions

- Easing up mobility within and outside the country, and incentivizing individuals to travel. For the same, the government can reduce air fuel taxes and VAT in ground handling to make both domestic and international flight more economical.

- Setting-up of immigration offices in each of the states sharing border with India to enable easy entry into Nepal.

- Removal of tourism service fees for visit to national parks, museums, conservation areas, and others to attract individuals to different tourist destinations in the country. Such measures will benefit the MCSEs in the area, as it would incentivize both domestic and international tourist to visit the region.

- Removal of tourist VISA fees for international visitors will make Nepal an attractive as well as competitive tourist destination in terms of price.

- Extend mountain flight operations permission to airports based in the Southern region of Nepal. This can be an excellent way to extend the length of stay of tourists travelling to Nepal for Meetings, incentives, conferences and exhibitions (MICE) and entertainment tourism.

- Removal of stringent restrictions on operation time and sale of goods and services imposed on hotels and restaurants, allowing night-time sales of such businesses.

- For MCSEs operating informally through street vending, the government can remove policies that bar them from operating at different locations, especially in major tourist-hubs of Nepal.

4.4 Trade

According to the Nepal Economic Survey 2018/19, this sector contributes 14.37% to the GDP and employs about 40% of the total national workforce. It is also noteworthy that the sector has a high concentration of informal firms and thus 80% of the workforce employed in this sector are vulnerable to shock adjustment measures taken by the firms.

Wholesale and retail trade, consists of the highest number of MSMEs in Nepal. It provides employment to approximately 40 percent of the total workforce (MoF, 2020). National Economic Census (2018) shows that among the total enterprises in the sector, about 30 to 40 percent are engaged in trade of non-essential items like clothes (CBS, 2018). Enterprises under other services category are also largely non-essential by nature.

Since the market for non-essential items remained closed for at least six months, the sector was highly affected by the pandemic. The sector also suffered from contraction in demand and supply shocks. The trade of non-essential items like clothes, footwear, bags, books, and others dropped significantly, starting in the early days of COVID-19 spread. These items along with other luxury items fell further with rising unemployment and salary cuts. Likewise, people also refrained from accessing services like salon, repair and maintenance, and others. This sector is also vulnerable to labor shortage once the normalcy is reinstated.

Additionally, the outbreak of COVID-19 in China had already affected the wholesale and retail sector of Nepal in December and January 2020. The border restrictions that followed in March 2020, hampered the transportation of goods from India. The significant decline in imports of Nepal, affected the traders in Nepal. The constraints in transportation of goods and services also resulted in disruptions of supply of essential items, hampering the revenue of wholesalers and retailers in essential commodity trade as well.

The difficulty in supply of products to consumers gave platform to numerous ecommerce businesses in Nepal. However, given stringent policies and uncertain policy environment of Nepal, the ecommerce enterprises also faced immense difficulty.

Some of the major challenges within this sector facing Nepalese MSMEs are:

1. Lack of proper access to detailed information regarding the preparation of documents required for cross-border trade: The custom rules has only specified the type of documents required for import and export but there is no information regarding the procedure to prepare such documents. Hence a lot of time has to be spent on gathering information for the preparation of these documents which increases the total time to be spent on complying with documentary requirements. Also, apart from the list of documents required for import and export, Custom rules also specifies the additional documents like recommendations, license and certificate to be obtained from various institutions as per prevailing law. In order to comply with this provision, importers and exporters will have to spend time to read various laws to check if these laws require them to obtain additional documents or not. This further increases the time required for documentary compliance.

2. According to the Customs Regulation 2007, importer or exporter may clear the goods or perform other works related to customs or they may also appoint a licensed custom agent to perform such works for them. This gives them the choice. However, in practicality, traders have to mandatorily appoint a customs agent in practice. Hence, there exists discrepancy between what is mentioned in the law and what is actually in practice.

3. Currently, importers and exporters have to prepare physical copies of the all the documents that are required for cross-border trade. Even though Automated System for Custom Data (ASYCUDA), a computerized system designed by United Nations Conference on Trade and Development (UNCTAD) for automation of custom procedures has been adopted by Nepal, it has only been used for filing Custom Declaration or Single Administrative Document. The physical copy of all other documents along with the printed copy of Custom Declaration has to be prepared by the traders. Having to prepare and submit the physical copies to the custom authorities in both India and Nepal costs several days to the traders in Nepal. This has increased the total number of days required for documentary compliance significantly[7] . Here, the process of circulation of copies of CTD among Indian custom house of entry , Indian custom officer at border and Nepalese custom officer has increased the border compliance while importing from third country. Use of electronic data interchange system for sharing CTD along with other documents among various parties mentioned above could significantly reduce the border compliance time.

[7]Currently, the Custom Transit Declaration (CTD) has to be made in sextuplicate by the importer. Upon arrival of goods at Kolkata port, the Custom House endorses all the copies of CTD, hand over the original copy to the importer, sends duplicate and triplicate to Indian border customs officer by post and retains the remaining copy. Upon arrival at border land customs or border railway station, the importer has to present the original copy of CTD endorsed by the Indian Customs House of entry to Indian custom officer at border land custom station who then compares the original copy with duplicate and triplicate received by him and endorses all the copies of CTD. The Indian custom officer then hands over the original copy of CTD to importer, send the duplicate to Indian

4. The Memorandum to the Protocol of Treaty to Transit requires Submission of CTD, Bill of Lading, invoice, packing list, import license (whenever issued) and Letter of Credit (certified by Consular General). However, as the CTD already consists of all the entries of Letter of Credit, Bill of Lading, packing list and invoice which is declared to be correct by the exporter upon his signature, the requirement to submit these documents is an added burden to the importer/ exporter.
5. The trade and transit treaty agreement between Nepal and India specifies that Goods specified as sensitive goods from time to time with prior intimation to the Government of Nepal, shall be covered by insurance policy or bank guarantee. This provision has been made so that Indian customs is able to realize the duties in case Nepal bound goods do not reach Nepal. However, the basis of determining the list of sensitive goods is not clear and even the list is not made available in the timely manner. Also, only two insurance company, Indian National Insurance Company Limited and Oriental Insurance Company have authority to issue guarantees. This has led the premium level to be higher that what would have been in a more competitive setting (Taneja, Bimal and Dayal, 2016).

4.4.1 Potential Interventions

- Help the sector retain the labor force by either devising incentive systems for firms in this sector so that they will be less likely to adjust to the shock by cutting jobs or by the means of temporarily easing restrictions on the labor market and retail segment.
- Allow easy incorporation of ICT platforms for brick and mortar businesses that are likely to diversify their channel of sales to an e-commerce platform. The GoN can also, temporarily, devise a plan to promote a one-stop online integration process for existing retailers and wholesalers while asking BFIs to follow the same route in the view of proliferating e-payment options in Nepal.
- Remove restrictions like prohibition of street vending imposed on informal businesses engaged in retail trade.
- A comprehensive document detailing out the step by step procedure for both import and export, type of documents required and the purpose of the documents should be made so that the traders can have all the information regarding cross border trade from a single document. It will reduce the time required for preparing the necessary documents.
- Manual inspections of the goods by customs has increased the total time required for border compliance. Installation of scanners and using it for inspection of the goods being imported and exported at border custom office could significantly reduce the total time required for border compliance.
- An electronic data interchange system between the Indian Customs and Nepali Customs could also reduce the time required for border and documentary compliance. As mentioned above, the circulation of physical copy of documents like CTD among Indian Customs House of entry, Indian Custom office and Nepali Custom office at border which requires a lot of time could be entirely avoided with introduction of Electronic Data Interchange system.
- With the introduction of Electronic Cargo Tracking System (ECTS) for Nepal- bound cargoes from Vishakhapatnam (Vizag) port traders will be able to enjoy transshipment facility and they will not be required to carry out CTD at Vizag port and it will be done at Inland Clearance Depot (ICD), Birgunj. With this time and cost of third country trade is expected to be reduced significantly. Therefore, it is recommended that ECTS should also be extended to Kolkata-Haldia port from which highest volume of third country trade takes place. This will reduce the cost of third country trade for all the traders.

Custom House at the port of entry, send the triplicate to Nepalese custom officer. Then, after being endorsed by Nepalese Custom Officer at the corresponding Nepalese post, it retains the triplicate copy for the record.

- As mentioned above, currently only two insurance company, Indian National Insurance Company Limited and Oriental Insurance Company have authority to issue guarantees in cases of the sensitive goods as declared by India, which has caused the premium level to be high. The premium would be lesser in a more competitive setting. Hence, giving permission to other insurance companies to issues guarantees could significantly reduce the premium.

- For facilitation of trade, proper negotiation with the transit providing country i.e. India should be made. Through consultation with the stakeholders and experts, it has been found that traders have to comply with various documentary compliance required by the Indian side which has increased the time required for documentary compliance. With regards to such matter, proper negotiation should be made with India side so that time and cost involved in documentary compliance could be reduced.

5.Building Resilient MSMEs

While the government in the initial phase should focus providing short- and medium-term relief to prevent MSMEs from going bankrupt and revive, the government should also simultaneously build a long-term recovery plan that would not only attract new and innovative businesses but also would address the pre-existing challenges in the economic policy realm.

Nepal, in terms of economic development, has significantly lagged behind due to its lackluster performance in policy as well as administrative front. In order to realize sustainable, inclusive and resilient recovery, Nepal needs to resolve the many underlying problems that has stalled the growth of MSMEs in the past years.

The Economic Freedom of the World Report 2020, which ranks Nepal in 109th position out of 162 countries, has accentuated the factors – high government intervention, lack of property rights, difficulty in accessing sound money, restrictions on international trade and unfavorable business regulations - attributable to poor economic performance of Nepal. Similarly, the Doing Business Report 2020 of World Bank has underlined the abysmal performance of Nepal in indicators like starting a business (rank: 135), paying taxes (rank: 175), enforcing contracts (rank: 151), and getting electricity (rank: 135). Likewise, Transparency International's Corruption Perception Index ranks Nepal at 113th out of 180 nations with a score of 34 over 100, which infers that Nepal is one of the most corrupt countries in the world. Rampant corruption has immensely increased the cost of doing business in Nepal and has led to weeding out of competent business by the powerful ones. The Global Competitiveness Report (2019) of World Economic Forum ranks Nepal at 108 out of 137 countries.

Envisioning a long term and resilient recovery post the COVID-19 pandemic denotes that it is quintessential for Nepal to adopt a comprehensive reform strategy that addresses the aforementioned problems. For the same, Nepal can aim to achieve three key goals – improving current policy landscape, creating an enabling regulatory environment and providing access to greater economic opportunities.

5.1 Reforming Existing Legislative Provisions

5.1.1 Industrial Enterprise Act, 2020

Policy	Assessment	Recommendation
After the enactment of local, federal and provincial legislations, micro, cottage and small enterprises (MCSEs) who have fixed capital as prescribed under the respective provincial legislation shall be regulated by the respective authorities. Until then, all industries shall be regulated by the DOI.	Such provision would allow local and provincial governments to draft most compatible policies for MCSE based on the local realities. It would also save significant time and cost associated with complying with federal legislation.	The drafting and enactment of provincial industrial enterprise act should be prioritized, and a swift implementation should be ensured. Creation of universal database for registered industries in Nepal required to avoid future compliance if the industry wants to expand to other province or regions.
Income tax exemption of 100 percent to the Micro Industries, 50 percent to Cottage and Small-Scale Industries with at least NRs. 10 million.	Such provision has not been acknowledged by the Finance Act of fiscal year 2020. Section 142 of Income Tax Act, 2058 mentions that exemptions on income tax can only be made if the provisions are written in income tax act or amendments are made in income tax act by the yearly finance act.	The government should focus on harmonization of laws to make the business environment more certain and predictable.
Businesses are required to produce permanent address of firms.	The regulation blocks or hinders the registration of mobile enterprises like street vendors in nation which are often micro or small in nature. It also hinders the development of innovative businesses that might have been mobile in nature.	Amendment to the industrial enterprise registration form allowing businesses to register without a permanent address.
Section 17 of the Industrial Enterprise Act has provided categories to the industries. In the annexure, a long list of sub-categories of the industries are provided under which the enterprises need to be registered.	As industries need to fall under the classification of IEA, innovative enterprises or start-ups, especially e-commerce ventures, established with new ideas find it exceptionally difficult to register themselves formally due to absence of flexible policies that embraces innovativeness and creativeness of individuals.	Removal of such categories under which businesses need to be registered. Provision to bring pilot act for new business. Removal of requirement to be registered under IEA except for specific industries that need strict monitoring of quality and standard.

All medium and large enterprises and small and cottage industries with annual turnover over 150 million need to allocate at least 1% of the annual net profit on CSR activities. The fund needs to be allocated in specific sector as mentioned in Industrial Enterprise Regulation, 2019.	The provision whereby the enterprises need to spend the allocated CSR amount on sectors specified by the government makes it. Likewise, the need to submit plans and programs to DOI every year adds an extra post registration compliance process for the businesses. The time and resources allocated for complying to the mandatory CSR requirement can instead be diverted to other areas through which the enterprises can grow.	Removal of mandatory CSR for enterprises. For enterprises who voluntarily wish to conduct CSR, it should be tax-deductible. Private sector should be allowed to pool resources while engaging in CSR

5.1.2 Companies Act, 2006

Policy	Assessment	Recommendation
Nepal has not been able to provide an easy exit for businesses as companies who wish to be liquidated are liable to pay hefty fines to the government and is automatically blacklisted as per the Unified Directive issued by NRB. Blacklisted individuals are not allowed to seek any form of support including loans from BFIs. Additionally, in order to liquidate, the law requires an appointment of enquiry officer to investigate on liquidating company based on whose judgment, a liquidator is hired for finalizing the process by deciding on whether the company should be liquidated or restructured. (Companies Act, 2006)	In order to reap benefits through increased number of enterprises, competition and creative destruction, Nepal should do away with the cumbersome exit procedure. For the same, the compliance and time required for insolvency proceedings should be reduced. Such intervention is redundant as well as time consuming.	A process by which the court-appointed liquidator or restructuring manager reviews the application filed by the filer could suffice. Additionally, the establishment of Insolvency Administration Office as mentioned in the Insolvency Act would help direct all insolvency cases to one specialized unit instead of a wide spectrum of institutions like the Appellate court and OCR. It would streamline the insolvency process and reduce both cost and time associated

5.1.3 Income Tax Act, 2002

Policy	Assessment	Recommendation
Not consistent with Companies Act, 2006. Companies Act has removed the provision whereby a company with yearly transaction of less than NRs. 2.5 million was required to submit its audit report to the Office of Company Registrar (OCR). (Companies Act, 2006)	The instigation of such legislation is commendable as it would provide relief to small enterprises with limited financial capacity who had to pay substantial amount of money to hire auditors to prepare the audit report. However, the policy is not consistent with that of Income Tax Act of Nepal. Despite not having to submit the audit report to OCR, small enterprises in Nepal still need to hire auditors and prepare the report as per the prevailing Income Tax Act, 2058. If companies fail to do so, they are liable to hefty fines to the government.	Removal of the provision from Income Tax Act can help MCSEs ease financial burden which can be invested in acquiring other resources or in expansion.
Currently, the companies in Nepal need to pay taxes under a plethora of headings.	It not only results in increased confusion while paying taxes but also has made the entire tax payment procedure complicated resulting in high compliance cost.	Creation of tax code that is comprehensive and simple like the Goods and Service Tax, will indeed reduce the compliance process of filing and paying taxes for MCSIs.

5.1.4 Contribution Based Social Security Act, 2019

Policy	Assessment	Recommendation
Distribution of Contributions Based Social Security Scheme: The employer shall deduct 11 percent of the workers' basic remuneration and add 20 percent of the worker's basic remuneration to the total amount and deposit the fund to the total of 31 percent.	The private sector, especially MSMEs, face added burdens in terms of sourcing funds for an expanded social security fund coverage. The scheme imposes additional financial pressure on MSMEs that are already subject to tight liquidity. It makes it especially difficult for labor-intensive businesses. The added cost may act as a disincentive for MSMEs to function and might push many of them into informal economy for mere survival.	The government should assess the capacity of different enterprises as per the size of the business and impose different rates of contribution accordingly.

5.2 Create Enabling Regulatory Environment

The constitution of Nepal acknowledges the private sector as a strong pillar for national development and recognizes itself as a promoter, facilitator and limited regulator. However, currently, the involvement of government in different phases of operating a business is high. Consequently, it is very difficult to start a business, pay taxes and enforce contracts in Nepal.

5.2.1 Starting a Business

As depicted by the 135th rank of Nepal in starting a business of World Bank's Doing Business Report, the process of business registration in Nepal is complicated as well as difficult. Numerous problems in the form of duplication and redundancy in application process, bureaucratic hurdles, and high cost of registering a business, cumbersome post registration compliance, multiple regulatory agencies and presence of archaic laws has mired enterprise development in Nepal and pushed many MCSEs into informal sector. Nepal thus needs to solve these primary problems that individuals face while starting a business. Some of the potential solution are to appoint human resource with technical know-how for effective implementation of electronic registration, building necessary and secure infrastructure for accepting digital signature, reduction of incorporation fees and amendment of archaic and restrictive laws.

5.2.2 Bringing in Investment

Foreign Investment in Nepal in recent times has experienced an upward trend. However, Nepal still lags behind most of its South Asian counterparts. According to World Bank (2019) one of the major reasons for poor performance of Nepal in this front is because of restrictive policies like sectoral caps, elongated negative list and minimum threshold. Apart from these, policy inconsistency and uncertain doing business environment have also equally contributed to lack of investor confidence in the nation.

Additionally, Nepal does not allow any form of business to business (B2B) payment to foreign companies to prevent outflow of capital, which further makes the investment environment unattractive as it completely disregards modern form of businesses that have global value chains.

While the Nepal Rastra Bank (NRB) has introduced measures like automatic route and one window policy for making it easier for foreign investment to enter the nation, other regulations in the form of restricting business Visas or taking as long as nine months to process the VISA application further discourages foreign investors to invest in Nepal.

While policy consistency and harmonization is of utmost importance to attract foreign investment in Nepal, other aspects like amending tax laws that enable cross border transaction, ease in repatriation of earnings, reducing redundancies to acquire VISA are also equally important.

5.2.3 Paying Taxes

Currently, the post registration compliance related to taxation, enforcing contracts and myriad of laws has created a challenging scenario for enterprises, especially MSMEs and innovative businesses.

Nepal currently ranks 175th in the world (out of 190 economies) in terms of ease of paying taxes in World Bank's Doing Business Report. According to World Bank, an average Nepali spends 339 hours to pay a total of 34 different kinds of taxes, that is, 10 hours per tax. Additionally, taxation system of Nepal is complex and difficult to comply with. Likewise, many forms of taxation that are related to ecommerce ventures is not recognized in Nepal which bars the companies to conduct formal financial transactions. Nepal thus needs a structural reform in terms of taxation. Nepal should introduce a simple, easy to understand tax regime which will not only make it easier to include all forms of financial transactions but also will reduce the burden of compliance for MSMEs and startups. Additionally, it should coordinate and acquire required company information from OCR through universal database to reduce compliance. Nepal can also adopt more comprehensive and simpler taxation system like the goods and service tax implemented by India to make it easier for MSMEs to pay taxes.

5.3 Providing Access to Greater Economic Opportunities

5.3.1 Fair Competition

Syndicates, cartels, monopolies and collective price fixing have stalled the growth of various sectors in Nepal. Unless Nepal embraces policies that promote competition in the country, economic growth will be a far-fetched dream, only benefiting a small share of people who have influence. Such practice can specially be harmful for growth and resilience building of MSMEs towards economic shocks. Protectionist policies can safeguard the MSMEs from external competition, discouraging innovation in the sector leading towards more vulnerability of MSMEs towards new market conditions.

Nepal thus needs to gradually revoke the regulations that promote anti-competitive practices in the country. For the same, adopting policies that enable free trade by removing restrictions like tariff and non-tariff barriers on import of goods and services will be important. Similarly, policies that discourage syndicates and cartels should be implemented. Such practices has been highly promoted by corrupt practices that has been institutionalized by both the private sector and the government bodies. Therefore, implementing transparent and predictable competition laws consistent and non-discriminatory ruling should be imbedded. Such laws should also be applicable to government owned industries.

5.3.2 Access to Capital

In the past two decades, the financial sector of Nepal has experienced significant growth with increased reach and number of financial intermediations. However, access to financial services is still constrained in Nepal with small businesses unable to take credit from formal channels. Despite increased number of policies and intervention from the government through programs like deprived sector lending and priority sector lending, Nepal has not been able to realize the desired outcomes. One of the major reasons behind such abysmal performance is because of the fact that these programs do not solve the underlying problems of the general people as well as financial service providers (Ferrari, Jaffrin & Shrestha, 2007). Firstly, the lending procedure is time-consuming, costly and too complex for small enterprises to comprehend. Small enterprises need to submit the same document as that of large corporation for which they are not capacitated. Additionally, the businesses in order to lend from formal channels require immovable collateral, absence of which annuls their eligibility. Also, it is not financially sustainable for banks and financial institutions (BFIs) to provide such small loans without high degree of efficiency. The priority and deprived sector lending is not profitable for BFIs. It is cheaper for BFIs to pay penalty by defaulting on the lending requirements than actually providing credit to small businesses.

Although the regulatory framework of Nepal is not very binding, certain improvements and small fixes could help solve the aforementioned problems. Nepal needs to prioritize the implementation of secured transactions registry for movable assets. Creating a central registry would enable MSMEs or low-income households to take loans on the basis of movable collateral. Additionally, it would also resolve problems of information asymmetry as BFIs can easily access information regarding the assets. For ensuring proper flow of information, the Credit Information Bureau Nepal should also be strengthened. Currently, it keeps records of borrowers with above NRs. 1 million and it takes a long time for the bureau to update records. Likewise, ensuring electronic accessibility of information for shortening delivery time and availability of historic information can reduce the time of loan disbursement.

Additionally, in order to create an enabling environment, mandatory programs like deprived and priority sector lending should be abolished, and instead, the resources required to monitor these programs should be diverted towards providing technical assistance to BFIs in creating products for broader market segment, which would not only increase the amount and scale of loan disbursement but also would contribute to higher profitability of the BFIs. In addition to these sectors, the government should also ensure the growth of other complimentary sectors like insurance and credit rating agencies.

5.3.3 Economic Integration

International trade scenario of Nepal remains alarmingly poor. While trade with its neighboring countries, India and China, has improved exponentially in the past years, Nepal still needs to create international market by increasing its cooperation and coordination with other South Asian nations and beyond.

Currently Nepal has not been able to integrate with the global market. For example, 90 percent of the Nepalese garment, a product that Nepal has high comparative advantage on, goes to United States of America (USA). This implies lack of market diversification, which poses significant risk to the industries, as an economic shock in the USA will negatively affect the entire Nepalese garment industry.

The Nepal Trade Integration Strategy (NTIS) 2016 has identified numerous goods as well as services that the Nepalese economy has comparative advantage on and if exported, can benefit immensely. While Nepal has depicted promising performance on some goods, the performance on majority of goods are not satisfactory. The problems are largely attributable to lack of value additional services, inadequate infrastructure and stringent policies. For example, despite having high comparative advantage on ginger, with production capacity of 265,191 kg per hectare, Nepal has not been able to export ginger up to its potential. The prime reason behind the incompetency is Nepal's inability to secure enough markets. Currently, Nepal exports majority of its ginger to India – worth NRs. 497.3 million – in raw form that is ungrounded or uncrushed. Moreover, the export of ginger has declined from NRs. 703 million in FY 2017/18 to NRs. 497.3 million in FY 2018/19. The inability of Nepal to export processed ginger – grounded or crushed - has become a major barrier hindering Nepal from accessing broader market.

Additionally, despite being a member of World Trade Organization (WTO) and the South Asian Free Trade Area (SAFTA) Nepal faces a number of non-tariff barriers while exporting its products which continuously hinders the momentum of hassle-free cross border movement of goods and services. For instance, the blockages of shipments of Nepali ginger several times in the previous year's citing adulteration and chemical residue along with the order to obtain a separate license for the import authority had increased the cost of trading.

Apart from these, there are logistic issues and procedural obstacles, sub-optimal warehousing facilities and customs infrastructure, and the need for informal payments, increasing time and cost or both of exporters.

Thus, some of the major things that Nepal needs to do in order to help enterprises access broader international market are: establishment of quality testing labs and quality certification units; ease the process of export through transit points such as Kolkata port; and increase in trade agreements with multiple countries that focus on harmonized trade. The agreement should consist of measures to avoid tariff and non-tariff barriers in cross border trade. The issues on taxes on imports have important implications for the trade negotiators as the policies must not only include the frameworks on the matters of reducing custom duty, the agreement has to also eliminate or substantially reduce the para-tariffs so that a level playing field is created. Likewise, a major step in tapping the lucrative market for Nepali products could be with a trade agreement that eliminates or substantially reduces the tariffs and para-tariffs levied on meticulously chosen potential Nepali exports and committing to address the major non-tariff barriers. Similarly, Nepal also needs to improve its banking and legal system where enterprises can easily conduct cross border financial and economic transaction.

Nepal also needs to establish or secure economic freedom where enterprises and exporters can operate in free environment rather than in a relatively stringent environment where cost of doing business or exporting becomes high. Both our neighbors India and China were able to secure high economic growth rate by adopting to economically liberal trade policies.

5.3.4 Investment in Infrastructure, Research and Development

In order to realize resilient recovery, Nepal needs to aim its effort towards strengthening physical, digital and financial infrastructure. Investment in infrastructures like roads, highways, railroads, airports, seaports, electricity, among others is imperative for facilitating greater economic activities in Nepal.

Similarly, one of the major contributors to economic growth is investment in research and development. The COVID-19 pandemic has either brought to light the numerous persistent problems in the society or brought forth new problems. To tackle the same, the private enterprises will invariably come up with numerous innovative ideas which can not only increase the economic welfare of the nation in the long run but also will help drive economic growth. In order to facilitate the same through conducive policy environment, the government needs to invest heavily on research and development. It will not only prepare the policy makers to address such innovative enterprises, but also will help the government identify potential investment areas for infrastructural and technical development that can help MSMEs become more efficient and profitable. Additionally, such research can create a positive spillover effects in the entire society.

Research and development for the purpose of increasing tourist destinations, and marketing goods and services in the international market is imperative to help MSMEs find greater access to market.

5.3.5 Improving Digital Infrastructure

In order to provide greater access to economic opportunities, Nepal should facilitate the increasing number of online businesses by rapidly improving its digital infrastructure. Globally, digital services have covered a broader number of segments and establishment of business ventures with similar ideas can benefit Nepal immensely. However, these companies depend entirely on digital infrastructure for operation and expansion.

Nepal in the past few years has advanced tremendously on technological front. The demand for ICT related services has surged significantly with increase in mobile and internet penetration. However, ICT related infrastructure in Nepal is still in an infant stage. According to Network Readiness Index 2019, Nepal ranks 106 out of 121 countries, with a low score of 32.96.

Nepal needs to invest in research and development to build as well as maintain the infrastructure that supports a digital ecosystem. These includes physical infrastructure that allows private companies to expand mobile as well as internet penetration in the country. At the same time improving access to electricity is just as important. Also, Nepal needs to build cooperation with multiple countries for technological innovations for forming linkages between satellite, optic cables and 5G networks.

The policy makers can help business communities capitalize on ICT services by introducing sound policies that would facilitate a broader sector of the economy – ecommerce, telecommunications companies, cable companies, bandwidth providers and hardware and software manufacturers. Additionally, the government should also introduce flexible policies that would address the potential of enterprise development on completely new and innovative ideas. While building the said policies (for example, while finalizing the directives for ecommerce), the policymakers should conduct discussions with industry participants and collectively draft legislations that would not only remove impediments to digitalization but also would help modernize policies to expand the ecosystem. Also, integrating the policies with the financial sector, like building e-billing systems, is important. While at that, the policies should also integrate globally, where e-commerce ventures established in Nepal can conduct transactions globally or businesses can simply outsource the work to global partners. For the same, streamlining payment and taxation procedures is essential.

With investment in infrastructure, the government must also invest in creating a secure environment for conducting online transactions. Cyber security in Nepal is relatively poor with frequent cases of data breaching.

5.4 Addressing the Sustainable Development Goals

While Nepal plans for a resilient recovery, it must also align its actions and policies with those of Sustainable Development Goals (SDGs). The fulfillment of SDG will ensure that the developments in Nepal will integrate with social, economic and environmental sustainability of the country. Thus, the development of different plans, programs and policies should complement and not derail the implementation of interventions related to SDG. Some of the SDGs that align with the goal of the paper – building resilient MSMEs – and possible policy options to achieve the same are presented in the following paragraphs.

5.4.1 SDG 1: End Poverty in All its Form Everywhere

In order to achieve the said goal, Nepal has proposed a target to reduce extreme poverty to less than 5 percent; reduce poverty gap to 2.8 percent; raise per capita income to US$2500; increase social protection expenditure to 15 percent of budget; improve economic vulnerability index to less than 18.9.

The COVID-19 pandemic has obstructed the progress of Nepal towards achieving the said goals. In order to reinstate towards the path to achieving the goals, Nepal needs to ensure that the general people are provided with greater economic opportunities. It is of utmost importance for Nepal to devise plans and policies targeted at MSMEs given their prominence in the economy and its employment scenario. Some of the policy measure to confirm the improvement and resilience of the sector are:

i. Incorporation of single document and single point registration of enterprises in provincial industrial enterprises legislation to attract new and innovative MSMEs and to formalize enterprises operating in the informal economy. Addressing the challenges of informality is of utmost importance for Nepal as formalization of business venture will ensure the incorporation of the businesses under the government domain, making it easier for the public administrators to extend support and relief measures to the sector in times of economic crisis bought forth by disasters as well as other types of economic shocks like COVID-19. Additionally, it will also address unemployment and underemployment challenges of Nepal

ii. .Currently majority of organizations in Nepal refrain from registering into the contributions based social security scheme due to the stringent procedures mentioned in the act – requirement to contribute 31 percent of income to the scheme (11 percent by employee and 20 percent by employer), and regulations whereby an individual cannot withdraw income until s/he reaches 60 years of age. In order to increase the domain of social protection in the country, such stringent regulations need to be replaced by more flexible policies to attract increased number of businesses towards the scheme. For the same, the rate of contribution of employers can be categorized as per the size of the firm to attract micro and small enterprises into the scheme. Likewise, the act should allow individuals to withdraw their income after a specified time period. The accumulated income can be re-invested in productive activities or other employment generating businesses by the individual or can at least help meet the contingencies of individuals during crisis.

5.4.2 SDG 4: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

One the major targets of the SDG is to provide equal access to affordable and quality technical, vocational and tertiary education, including university for all women and men; to provide opportunity for employment, decent jobs and entrepreneurship to a larger percent of youth and adults who have relevant skills, including technical and vocational skills; and elimination of gender disparities in education and ensure equal access to all levels of education and vocational training for the vulnerable, among others.

For the same, the government should ensure the following:

i. Allow the registration of private certification as well as international certification agencies in the country who can compete and provide better-quality vocational as well as technical trainings to the individuals.

ii. Coordinate with private business to reform CTEVT courses for Nepal. To meet the trainings with the job market and to make the curriculum more women friendly. The current CTEVT courses are outdated and thus needs revision in terms of the market labor demand of the future.

iii. Remove foreign investment restrictions on sectors like computer training or language training for transfer of digital as well as language knowledge barriers faced by Nepalese MSMEs, especially women. Majority of women entrepreneurs in Nepal lack sufficient knowledge regarding digital transformation, thus international institutes can help Nepalese women overcome the barrier and prepare them for digital as well as technological shift which is imperative for innovation, resilience and sustainability.

5.4.3 SDG 8 - Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

Under SDG 8, Nepal plans to achieve per capita GDP growth of 7 percent; maintain the growth of agriculture at 5 percent and construction at 15 percent; increase annual number of jobs in tourism by tenfold and direct contribution of tourism to GDP by 4 percent; and reduce material intensity in manufacturing to 60 percent; lower underemployment to less than 10 percent; to eliminate the worst form of child labor; set at least 36 commercial bank branches per 100 thousand population by 2030; and 80 percent of the households to have access to cooperatives within 30 minutes of talk.

i. Promote agriculture mechanization. Given the increasing number of male populations migrating to foreign nations in search for better economic opportunities, the agricultural field of Nepal are mostly overseen by women. The mechanization of agriculture can greatly help incorporate women-friendly machineries and tools that can enable them to conduct labor intensive work like heavy lifting. Facilitating farm mechanization can thus enhance farm productivity to a great extent.

ii. Relax restrictive regulations that do not allow tourism sector enterprises like hotels and restaurants to run in full capacity.

5.4.4 SDG 9 - Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation

Nepal aims to increase the share of industry to 25 percent so as to promote labor intensive activities and raising employment in manufacturing to 13 percent of the total employment. In addition to the aforementioned goals, the government should also focus on:

i. Development of sustainable infrastructure – both internal and trans-border - that would enhance economic opportunities in the nation. Likewise, investment in digital infrastructure to facilitate innovation and agricultural roads should also be given priority.

ii. In order to promote sustainable and innovative industrialization, the government should increase its investment on research and development. Likewise, archaic policies should also be amended based on evidence-based research.

iii. In order to increase industrial contribution to GDP and to increase employment in manufacturing industries, Nepal needs to ensure easy access to raw materials. This can be provided with the help of infrastructure development within the country and reducing trade barriers on raw materials. Likewise, the procedure for providing export license should also be simplified. Investment in product quality testing labs and certification companies should be given priority. Product certification will be imperative to promote Nepali products in the international market. Nepal should also explore opportunities to build trade relations with multiple countries other than India

5.4.5 SDG 13 - Take urgent action to combat climate change and its impacts

SDG 13 aims to strengthen resilient and adaptive capacity to climate-related hazards and natural disasters in all countries; integrate climate change measures into national policies, strategies and planning; and improve education and awareness on climate change mitigation. To achieve the goals Nepal has put a target to half the existing CO_2 emission level; reduce to one third of the existing level of ozone depleting sectors.

In order to promote measures to tackle climate change challenges, the government can undertake the following measures:

i. Provide tax incentives to companies who invest in CSR activities in areas that promote green economy in addition to exempting tax for the amount equal to CSR fund..

ii. Conduct start-up challenge fund competition targeting at start-ups or innovative companies that aim to address climate issues and provide green and sustainable solutions.

iii. Allocate funds to venture capitals and business incubators to incubate companies that aim to provide green solutions to the people.

iv. Provide benefits and incentives to industries that produce CO2 emissions lesser than a specified limit in the form of tax rebates or awards for recognition.

v. Tax concessions to companies who wish to shift towards more environmentally sustainable technologies in import of greener technology.

6. Conclusion

With Covid-19 pandemic inflicting an economic mayhem, Nepal is at a critical juncture to decide on strategies and policies that can spur economic growth. Given the high penetration of MSMEs, directing such policy reforms towards helping MSMEs survive, sustain and recover can provide much respite to the economy. However, despite its prominence in the Nepalese economy, MSMEs are highly vulnerable to economic shocks and requires carefully drafted strategies for revival and resilient recovery.

For a swift recovery, Nepal can configure a three-phase recovery plan. For the first phase, the government has already put a plethora of monetary and fiscal measures in place that would help ease critical expenses of businesses, thus allowing the MSMEs to sustain. However, given widespread informality and weak fiscal capacity of the government, it is challenging for Nepal to help such monetary stimulus packages sustain in the longer run. Additionally, with increasing debt, the continuation of such policies through external and internal borrowing can pose additional challenges to the economy in the near future. Thus, the government should now take a departure from fiscal and monetary interventions and focus on policy reforms that would create an enabling environment where MSMEs can leverage the available economic opportunities and commence revival.

Thus, for the medium term the government must ensure the sustenance of enterprises by interventions that would facilitate in stimulating the demand of individuals and at the same time enhancing the capacity and capabilities of different businesses. It is important for the government to prepare sector-specific revival plans and policies that would help resolve the fundamental problems faced by MSMEs resembling each sector.

Likewise, in the long run the government should aim for a resilient and sustained economic recovery of MSMEs by resolving the underlying problems that have been stalling the growth of MSMEs. Additionally, it is imperative for the government to devise implementation plans and streamline the roles and responsibilities of each institution. During the implementation phase the role of provincial and local government is quintessential. Each provincial and local government should set their vision as well as prepare a blueprint on pro-growth strategies that enable private enterprises to flourish.

As said by many intellectuals, the crisis has indeed acquainted Nepal with a unique opportunity to adopt comprehensive structural reform that would not have been possible or would not have been prioritized under normal circumstances. Nepal should optimally exploit the opportunities, aiming for a high growth trajectory.

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Annexes

Annex I: Review of the Fifteenth Periodic Plan

The Fifteenth periodic plan sets out some ambitious goals for the future of Nepal. Undeniably a form of framework which details out the plans for achievement of a prosperous Nepal is required. To the extent that long term visions/plans show a positive correlation with future development of many a nations and Nepal's ambitious fifteenth periodic plan certainly is a step in the right direction. However, periodic plans have long been practiced in Nepal and each subsequent plan leading up to the fifteenth plan has seen some mixed results. There are certainly some lessons to be learned from the limitations of the previous plans and the status of the current plan. But before any analysis of the current plan begins a short overview of the current plan is required.

The sector-wise economic growth rate plan serves as a perfect basis for an overview of the plan which is as detailed as it could have been.

Sectors	Base year	Fifteenth Plan					
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	Plan average
Agriculutre	4.8	4.7	5.1	5.7	5.8	5.8	5.4
Industry	12.2	15.1	15.6	14.8	13.2	14.6	14.6
Manifacturing industry	5.8	11.5	13.0	13.0	12.0	14.0	12.7
Electricity, gas and water	12.4	44.0	35.0	29.0	26.0	21.0	30.0
Construction	8.9	11.9	12.8	12.0	9.5	12.5	11.7
Service	7.9	8.7	10.0	10.3	10.0	10.7	9.9
Hotels and restaurants	8.3	16.5	20.0	17.0	16.0	16.0	17.0
Transportation, storage and communication	5.9	9.0	10.5	12.0	11.0	12.0	10.8
Education	5.2	8.5	9.5	10.5	10.0	11.0	9.9
Health and social work	6.7	8.7	10.3	10.5	11.3	12.0	10.5
Gross value added (Including financial intermediation service indirectly measured)	6.8	8.7	9.7	10.0	9.6	10.3	9.7
GDP (At basic prices)	6.8	8.5	9.6	9.9	9.6	10.3	9.6
GDP (At producer's prices)	7.1	9.2	10.1	10.4	10.2	10.8	10.1

An average growth rate of 10 percent for the next five years (from the date on which the plan was endorsed) is not entirely ambitious, given the current classification of Nepal. The target can only be achieved through a proper phase-wise implementation of an action plan in the given sectors. For instance, problems persistent in the agriculture sector needs to be identified in order to address the problems and move forward with any vision of yearly average growth rate of five percent. Indeed, the periodic plan details out the specific actions taken must be identification of plans and solving them in order to achieve the desired growth rate. The same holds true for all other sectors. One consideration that has been left out the periodic plan is the time taken to identify problems and design solutions. Identifying problems and designing solutions across all sectors might require significant dedication of time, to the extent that any plan of action that details out the sectoral economic growth for the next five years must be of a secondary characteristics whose sole purpose is to guide identification of problems and design of solutions. Although, some form of identification of problems is done in the current plan, it is of general nature i.e. specific details on the list of problems based on any form of detailed research and evidence is lacking. It is only after the problems have been identified specific policies can be designed that addresses the key sectoral bottlenecks. It thus would seem plausible to conclude that such ascertaining of problem would require a dedicated period of time, one which would plausibly form a massive chunk of the first half of the five year plan.

Another key area of concern is the lag period required for any solution to show any visible results. Even if problems are identified and necessary solutions to them implemented, the results may only be visible after a few years, it is also possible that results are only visible after the time period for plan has expired. Under such circumstances, as stated above the plan must come only after a concrete identification of problems and solutions have been identified.

Equal importance must also be given to the trend of Capital expenditure in Nepal. As the plan itself lays out, a large amount of capital investment is required in a majority of the sectors in order to achieve the desired rate of growth. However, on average Nepal's capital expenditure only stands at 72 percent, similarly the capital expenditure for the previous year was 39.62 percent, an all time low for the past two decades. Provincial capital expenditure on average stands around 40 percent. All these numbers point to the relative inability to spend the desired amount of money across various sectors. In the presence of low capital expenditure, one must wonder as to whether the required amount of expenditure across all sectors can be met during the operation of the plan. This again, points to the fundamental flaw of the plan, targets set must be done only after problems have been identified and necessary steps towards achieving a viable solution have been taken.

Although the National Planning Commission as the apex planning institution formulates the plans and policies to be implemented, its implementation is dependent upon the various line ministries taking adequate actions within their respective areas. Structural problems within line ministries and their operation therefore might have an impact on the achievement of the plans set-out in the fifteenth period plan. A good practice in this area can be the designation of National Planning commission as the apex authority in relation to implementation of periodic plans through express authority over line ministries.

Annex II: Policy measures adopted by selected developing and under-developed countries

Countries	Policy Measures
Bangladesh	Refinance scheme for export industries (who havent laid off any workers) by Bangldesh Bank. Stimulus package and refinance facility to help MSMEs sector recover from COVID-19 fallout
	Subsidy on working capital loans that will be distributed through banks to businesses. Set maximum interest rate at 9 percent, out of which 5 percent is borne by government as subsidy.
	Payment of interest payment of 13.8 million loan recipients negatively impacted by national shutdown.
	Suspension on duties and taxes on import of materials used to combat COVID-19.
	Higher budget allocations on health, agriculture and social safety programs.
	Earmarking 25 percent of the budget for development projects.

Countries	Policy Measures
Bhutan	Implementation of Economic Contingency Plan (ECP) to help tourism, construction and agriculture sector revive. Specific policies incorporated in the document includes: - Investment in infrastructure including beautification of monuments and tourist destinations, development of new trails and camping areas, repair and maintenance of public offices, farm roads, and research and development, - Trainings and skill upgrading of hospitality, handicraft, monument, wellness and spa, guides, and food production industries. - Introduction of new entry points at tourism destinations across Bhutan for balanced tourism development. - Collaborating with farmers - individuals, livestock farms, youth groups and cooperatives - on contract farming modality by providing land and farm machineries.
	Funds worth Nu. 200 million disbursed to local governments to ensure support for production, marketing and collaboration to farmer group, youth group, cooperatives and individuals that produce prioritized commodities.
	Business income tax and corporate income tax for income year 2019 deferred until June 30, 2020. Tourism sector tax deferred until December 31, 2020, and other sectors until September 30, 2020. Sales tax and customs duty on essential items were also deferred.
	Rent and other charges for tourism businesses who leased government owned properties were waived.
	Electricity charges deferred for industries till December 2020.
	Refund of 5 percent sales tax collected on telecom services after January 2020.

Countries	Policy Measures
	Launched National Credit Guarantee Scheme (NCGS) to provide collateral free loans with credit guarantee to small and medium enterprises.
	Full and partial waiver on interest on loans and deferral on monthly loan installment.
	Conversion of working capital soft loans to tourism, manufacturing and wholesale business to term loans for 4 years at 5 percent interest.
	Loan provision for cottage and small industries. Microloans at 2 percent interest for agriculture and rural sector and working capital loans at 4 percent.
Brazil	Public banks to expand credit lines (working capital) to businesses, and the government will provide support upto 1 percent of GDP to MSMEs to cover payroll costs, working capital and investment.
	Deferal of corporate taxes and federal taxes.
	Payment of partial salary incurred by micro and small industries.
	Suspension of employment contracts.
	Simplification of credit contracting requirements by waiver of documentation for credit renegotiation
	Eligible sectors - oil, gas, airport, ports, energy, transportation, health, industry, commerce and services - get six-month interruption of outstanding loan payment with no late interest payment fine and suspension of amortizations.

Countries	Policy Measures
India	Special credit facility for MSMEs that includes collateral free loans of four years with no payment due until one year and 100 percent government guarantee
	Introduced easier loan repayment terms and tax breaks including extension of loan period relaxation of bad debt norms for MSMEs
	Tax breaks
	Ailing 200,000 MSMEs by subordinating debts
	Collateral-free automatic loans for businesses, including MSMEs, will be provided to meet operational liabilities built up, buy raw material and restart business.
	A Rs 50,000 crore "Fund of Funds" for MEMEs, which face severe shortage of equity, was also announced.
	Government procurement for tenders up to Rs 200 crore will not be eligible for global bidding to promote the participation of MSMEs
	Equity funding to firms with high growth potential
	Credit facilities to small and informal business including street vendors at 2 percent interest subsidy on micro loans for 12 months.
	Special lending programme for street vendors of upto INR 10,000 to finance their working capital need.
	Initiatives like competition and challenge funds to include start-ups and SMEs in developing innovative solutions to COVID-19
	Reform in definition of MSME by increasing the investment limit that preciously defined MSMEs in India.

	Policy Measures
Indonesia	Rebates and relief on personal and corporate income tax, and VAT.
	Relaxed rules for restructuring of bank loans for small and medium-sized companies.
	Credit restructuring and intrest rate subsidies for microenterprises.
	Decreased reserve requirement ratio for banks providing finance to MSMEs
	and trade. Purchasing power stimulus for MSMEs by providing 25 percent discount for purchasing goods online and launch of a pilot project that provides discount
	voucher of IDR 1 million to individuals who register an e-commerce platform Unconditional cash transfer for ultra micro and micro enterprises who are affected
	by COVID-19
	Training and stimulant fund to MSMEs with validated pre-employment card. Procedural simplification in import of raw materials and import tax deferal for six
	months along with VAT refund in selected manufacturing sectors. Reduction in import restriction on goods related to fishery, forestry, raw materials like steel, alloy steel, sugar, among others, and agriculture and animal products, medicine, and food.
	Relaxation on certification process for export industries by simplifying regulation
	Loans to regional government to support and boost sectors like tourism, food, fishery, industrial estate, and ICT
Pakistan	Tax refunds to export industries and construction sector companies
	Financial support - power bill deferment, bank loan, and subsidies and tax rebates - to SMEs and agriculture sector enterprises
	Financial support to utility stores
	Reduction in electricity, gas and fuel prices
	Tax relief by provincial governments
	Expansion of refinancing facilities up until December 2020 by State Bank of Pakistan (SBP) in order to suppot hospitals, to stimulate investment in new manufacturing plants and machinery and modernization of existing projects, and to incentivize business to avoid staff lay off.

Countries	Policy Measures
	Increased regulatory limit on credit extension to SMEs by 44 percent
	Allowed banks to defer payment of principal on loan for up to one year
	Relaxed regulations to restructure loans for crisis driven borrowers who need additional support
	Mandatory extension of loan to construction sector - at least 5 percent of private sector portfolio.

Source: Policy Response to COVID-19, IMF, 2020; Coronavirus (COVID-19): SME Policy Response, OECD, 2020

Annex III: Policy Recommendations from Different Organisations

Organization	Policy Recommendations	
IIDS/UNDP	Guard against vulnerabilities by strengthening social protection and livelihoods	Ramp up guaranteed employment schemes and skill academies
		Harness skill and equity of migrant returnees
		Support workers in organized sectors (start-up and SME social security)
		Universalize the safety net while formalizing the economy (universal basic income at household level)

		Expedite Labor Intensive Infrastructure projects
		Overhaul Health Infrastructure
	Reorient Public Finance to Augment Human Capabilities	Redirect existing budget allocations
		Enforce austerity and curb conspicuous consumption
		Optimize the pool of concessional resources
		Ensure transparency of Public procurement
	Introduce Economic Measures to Save Bankruptcies and Create New Sources of Job Creating Growth	Lower Economy Wide Rates of lending
		Inject liquidity into the banking system
		Expand the breadth of moratoria and Working capital to SMEs
		Boost smart agriculture and agribusinesses
		Let digitalization leapfrog
SAWTEE	Immediate response	NRB can allow banks and financial institutions, on their discretion, to increase the additional working capital loan assistance. There should be a provision to allow banks to extend the term of working capital loans to multiple years based on the impact on the sector. Similarly, the term of refinanced loans should at least be two years.

		NRB needs to monitor the banks and financial institutions' engagement with MCSEs to see if the businesses in need are able to access the facilities announced by the government.
		Government needs to include the savings and credit cooperatives that also finance small businesses into its refinance program. Since cooperatives are under the jurisdiction of local and provincial governments, the fund could be set up by the provinces depending on the need. This will help in setting up a proper regulatory mechanism as well.
		To help the affected agri-businesses that are not able to pledge collateral to receive finances from formal financial institutions, government (federal and/or provincial) can provide them capital by financing the agricultural cooperatives that such businesses and farmers are affiliated with, for a short-term.
		Provisions for the existing self-employment loans scheme targeted at youth and women need to be simplified so that affected businesses can avail this loan. Small amount loans less than NPR 500,000 could be provided collateral free to the COVID-19 affected firms through financial institutions.
		Through local authorities, the government can launch a campaign to bring unregistered businesses into the formal net by simplifying the registration process and documentation requirements. The relief measures can be an incentive for the firms to get registered.

	Long-term	A special purpose small businesses funding vehicle has to be launched to meet short- to medium-term financing needs of the businesses fighting the impact of COVID-19 lockdown. This fund should target to help the businesses that typically do not have access to formal financial channels. Such MCSEs development investment fund could also be useful in the future for enterprise development in Nepal. The COVID-19 response could be an opportunity to overhaul existing support systems for small businesses.
		Setting-up of angel investing and private equity firms to invest in MCSEs with viable business models regardless of their current financial health should be facilitated. Policies to provide fiscal incentives such as tax exemption when the distressed businesses start making profit could be of help.
		To increase registration of informally operating micro and cottage enterprises, the government can exempt them from excessive regulatory compliance. For example, accountancy compliance burden could be relieved by making mandatory annual reporting requirements simple and to be submitted to local bodies.

		MCSEs' access to information should be enhanced so that entrepreneurs can receive required information on business opportunities, ways to strengthen their creditworthiness and avoid resorting to personal loans at high interest rates.
World Bank	Stage I: Relief	Sustainable Business Growth and Job Creation: Economic Emergency - Liquidity support to firms - Debt payment deferment - Economic support targeted to most affected firms in a time-bound manner, with the objective of maintaining employment - Target agriculture and tourism sectors
		Strengthening policies, institutions and investment for rebuilding better: Maintain line of sight to long term goals - fiscal strengthening and service delivery
	Stage II: Restructuring	Sustainable business growth and job creation: Firm Restructuring & Debt Resolution. - Public works programs for green growth and infrastructure - Job matching and redeployment, and safe migration measure

		- Engage returnee youth in agriculture production and forest-based activities, agribusiness-based and forest-based SMEs
		Strengthening policies, institutions and investment for rebuilding better: Policy and institutional reforms - Improve the business environment and programs to promote digital literacy
	Stage III: Resilient Recovery	Sustainable business growth and job creation: Green business growth and job creation - Strengthen financial infrastructure to develop e-commerce platforms and engage the private sector
		Strengthening policies, institutions and investment for rebuilding better: Investments to Rebuild Better - Developing digital infrastructure to contain the spread of COVID-19 and ensure business continuity of the government and the private sector. - Generate, publish, and analyze to guide recovery efforts

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