

Opportunities and Challenges of Small and Medium-sized Enterprises in Lumbini Province, Nepal

A THESIS

Submitted to

Faculty of Humanities and Social Sciences, Central Department of

Rural Development

Tribhuvan University

In Partial Fulfillment of the Requirements for the Degree of Masters of Arts

In

Rural Development

Kirtipur, Kathmandu

By

CHHAVI KIRAN POUDEL

T.U. Registration No.: 5-1-22-47-98

Exam Roll No: 2462

July 2024

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Declaration

I hereby declare that the thesis entitled “**Opportunities and Challenges of Small and Medium-Sized Enterprises in Lumbini Province, Nepal**” submitted to the Central Department of Rural Development, Faculty of Humanities and Social Sciences, Tribhuvan University is entirely my original work, prepared under the supervision of Mr. Bishnu Bahadur Khatri, taken the idea and information from the different sources while preparing thesis. The results of this thesis have not been presented or submitted anywhere else for the award of any degree or for any other purposes. I assure that no part of the content of this thesis has been published in any form before.

.....

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2081/03/17

(1st July 2024)

Recommendation Letter

The thesis entitled “**Opportunities and Challenges of Small and Medium-Sized Enterprises in Lumbini Province, Nepal**” has been prepared by Mr. Chhavi Kiran Poudel under my guidance and supervision. I hereby forward this to the evaluation committee for final evaluation and approval.

.....

Associate Professor Bishnu Bahadur Khatri

Head of the Department

2081/03/19

(3rd July 2024)

Approval Letter

The thesis entitled “**Opportunities and Challenges of Small and Medium-Sized Enterprises in Lumbini Province, Nepal**” submitted by Mr. Chhavi Kiran Poudel in partial fulfillment of the requirement for Master’s Degree (M.A) in Rural Development has been approved by the evaluation committee.

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Self -Declaration

Plagiarism Test Report

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Writing this note of thanks is the finishing touch on my research work. It has been a period of intense learning for me, not only in the scientific arena, but also on a personal level. Writing this report has had a big impact on me. I would like to reflect on the people who have supported and helped me so much throughout this period.

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.....

Chhavi Kiran Poudel

Abstract

To boost up the Nepalese economy, there is an urgent need to substantially promote small and medium sized enterprises (SMEs). However, there are very limited studies that highlighted the challenges faced by entrepreneurs while operating the SMEs and opportunities that investors should have insights for their effective operations. Therefore, this study was conceptualized in the Lumbini Province of Nepal which have high potentiality of development and sustainable operationalization of SMEs. The data required for this study were collected through face-to-face interview with SMEs entrepreneurs (n=130) with the help of semi-structured questionnaire. Further, key informants' interviews (n=15) and focus groups discussions (n=5) were also done for the triangulation of obtained information. At present, 68492 SMEs in total were found to be operating in Lumbini province, Nepal that comprises of 10.33% of national SMEs.

Both provincial and national trends of SMEs displayed an upward trajectory, indicating ongoing growth in the number of SMEs during the last five years. Similarly, majority of SMEs entrepreneurs think that innovation, scale of business, access to finance, innovation, work experience, and geography are the major factors that provide ample opportunities for running the SMEs successfully in future at their sites. Additionally, thirteen major types of challenges were being faced by the entrepreneurs among which technological backwardness, absence of regulatory environment, inadequate training and infrastructure availability were ranked as the top five challenges.

These findings can guide academia, policymakers, and stakeholders in enhancing future research, policymaking, situational analyses, and the structuring of SMEs support initiatives. This study also suggested targeted government initiatives to leverage identified success factors for SMEs enhancement in Lumbini province.

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Acronyms/Abbreviations

CBS	:	Central Bureau of Statistics
CSIO	:	Cottage and Small Industry Office
EDF	:	Enterprise Development Facilitator
FAO	:	Food and Agriculture Organization
GDP	:	Gross Domestic Product
ICT	:	Information and Communication Technology
IDML	:	Industrial Development Management Limited
IT	:	Information and Technology
MEDEP	:	Micro Enterprise Development Program
MOF	:	Ministry of Finance
NPC	:	National Planning Commission
NPR	:	Nepalese Rupees
OECD	:	Organization for Economic Cooperation and Development
SMEs	:	Small and Medium Enterprises
UNESCAP	:	United Nations Economic and Social Commission for Asia and the Pacific

Chapter I

Introduction

1.1 Background of the Study

Small and medium sized enterprises (SMEs) significantly contribute to the economic development of the nation. Globally 95% of businesses in the formal sector falls under the small or medium-sized enterprises category (ITC, 2017) and contribute in more than 50% of employment, and up to 40% of national gross domestic product (GDP) in developing countries (World Bank, 2022). In Nepal, SMEs contribute to around 22% of the national GDP with more than 1.7 million employment opportunities (MoF, 2016).

In Nepal, Small and Medium Enterprises (SMEs) are crucial for the country's economic development. The classification of SMEs in Nepal typically follows criteria related to investment in fixed assets (excluding land and buildings) and the number of employees. In general SMEs are classified in Nepal according to investment and number of employees.

SMEs are vital to the health and dynamism of economies worldwide. Their ability to innovate, create jobs, and drive economic growth makes them indispensable. However, they also face unique challenges that require tailored support from governments, financial institutions, and industry bodies to ensure their sustained growth and success.

To date, the government has launched various projects and programs aimed at fostering the growth of SMEs in Nepal and creating a conducive environment for their development. Targeting the needs of marginalized populations living below the national poverty line by promoting off-farm employment, the Government of Nepal, in collaboration with the United Nations Development Programme, initiated the Micro Enterprise Development Program (MEDEP), now known as MEDPA, in 1998 (UNESCAP, 2018). This program has specifically targeted individuals below the national poverty line, with a particular emphasis on women and socially excluded groups, such as Dalits, Indigenous Nationalities, Religious Minorities, Unemployed Youth, the Ultra Poor, and Excluded Madheshis. Initially launched as a pilot program in June 1998 across ten districts, MEDEP has since expanded to cover all 77 districts of Nepal. As of March 2018, MEDEP has facilitated the creation of 137,404 micro-entrepreneurs (UNDP, 2018).

According to the Economic Survey Report 2022/23 of Nepal, the industrial landscape is diverse with a total of 8,947 registered industries. These industries are categorized into large, medium, and small sectors, constituting 15.1%, 23.1%, and 61.8% of the total respectively. Furthermore, the report highlights that these industries are predominantly production-oriented (37.4%), followed by service-oriented (26.2%) and tourism-related (21.9%) sectors. Other sectors collectively make up the remaining 0.7%, indicating their smaller presence in the industrial framework. In terms of investment, the industrial sector in Nepal is poised for growth with a total proposed investment of Rs. 2,783 billion. Large industries lead in investment share at 84.4%, followed by medium industries at 10.0%, and small industries at 5.6%. This distribution underscores the varying scales of economic activity and investment within Nepal's industrial sector. Similarly, in 2021, a total of 475,677 micro, cottage, and small industries were registered in Nepal, generating 2,908,739 jobs across the country's seven provinces. On average, each industry provided employment for approximately six individuals. Bagmati province had the highest proportion of registered industries at 33.0 percent, followed by Lumbini province with 17.0 percent, Madhes province with 14.0 percent, and Koshi province with 13.0 percent. In contrast, Karnali province had the lowest share, with only 5.0 percent of the registered industries.

Lumbini is known for its fertile plains, making agriculture a primary economic activity. SMEs related to agriculture include farming, agro-processing, and agro-based industries like rice and flour mills, dairy products, and fruit processing. Likely Lumbini is known as the birthplace of Lord Buddha which attracts thousands of pilgrims and tourists annually. SMEs in this sector include hotels, restaurants, travel agencies, and souvenir shops. The province hosts various small-scale manufacturing units, including textiles, handicrafts, and metal works. There is a presence of SMEs in trade (wholesale and retail) and service sectors like education, healthcare, and IT.

Thus, the significant potential of SMEs to positively impact the Nepalese economy, it is essential to substantially promote their presence for prosperous and sustainable development in Nepal. However, there is a scarcity of studies that address the challenges faced by SMEs and the opportunities investors need to understand for effective operations. Consequently, this study has been conceptualized in Lumbini Province, which has a high potential for the development and sustainable operation of SMEs.

1.2 Rational of the Study

The SMEs have been facing the problems like lack of skilled human resources, low capacity for technological adaptation, low productivity and weak management of supply chain (Government of Nepal, 2011). However, they have been struggling with the duality of local traditions and the new economic paradigm emerged by globalization. Further, Nepal is in initiative phase of practicing federalism and this situation has created, to some extent, the policy and legal obstructions for the small-scale entrepreneurs to operate their business fluently. Therefore, to understand and explore the emerging challenges being faced by the SMEs' entrepreneurs has become crucial in context of Nepal. In addition, only identifying problems and challenges is not a solution, rather it is ought must search the opportunities hidden within the prevailing solution. Therefore, this study has been envisioned to identify the prevailing challenges and opportunities for running SMEs in the Lumbini Province of Nepal. The findings from this study are expected to support, for three tires governments, to work coordinately in developing policies and strategies that suit the current national scenario.

1.3 Statement of the Problem

The Government of Nepal has identified SMEs as one of the basic foundations of nation economy and emphasizing their further development by providing support to the process of creation, growth, and continuation of these enterprises to make them capable in today's competitive context (United Nations Conference on Trade and Development, 2005). In spite of having a higher potentiality, these enterprises are declining gradually from the fields. The outflow of youngsters has been continuing at the increasing rate due to the attractions of education and employment opportunities. The SMEs have some gaps in the area of productivity and quality maintenance. FAO (2010) noted the problem of SMEs, i.e. poor quality of the products, informal and unregulated production and being unable to establish proper marketing channels, etc. However, these are the general problems prevailing throughout the world in the aspects of SMEs. And the problems so far identified in Nepalese context are somewhat different than these.

Moreover, although the government has been executing some support programs for SMEs promotion since long and in recent years, provincial government launched some new initiatives to support the SMEs, the understanding of these kind of opportunities among the

entrepreneurs is not well explored academically. In this background, this study has analyzed the perceived opportunities by SMEs' entrepreneurs in Lumbini Province using social research tools. Further, this research work tried to make recommendations based on the experiences earned by both entrepreneurs and the facilitating government employees.

The research questions that this study attempts to addresses are:

- a) What are the hindrance factors posing challenges to the promotion of SMEs in Lumbini Province?
- b) What are the opportunities for the promotion of SMEs in Lumbini Province?
- c) Are provincial government entrepreneurship development programs effective enough for success of SMEs in Lumbini Province?

By providing answers to these questions, this study added value to the SMEs by exploring challenges. It also supports effectively reorganizing industrial management for solving the issues of industrial development in the province. The outcomes of the study might be useful for better formulation of provincial regulations and directives. The findings are expected to facilitate policy maker in the effectives SMEs policy making for the development of entrepreneurship culture, sustainable economic growth of the country. Since no rigorous study has been conducted in this field so far, it would be an invaluable asset to government agencies, particularly to the agency that I am associated with, stakeholders, academia, scholars, practitioners and other enthusiasts.

1.4 Research Objectives

The overall aim of this study was to identify the challenges and opportunities in operating small and medium scale enterprises in Lumbini Province, Nepal. Specifically, the study was focused on following objectives:

- a) To assess the current status of small and medium scale enterprises operating in Lumbini Province.
- b) To identify the perceived challenges and opportunities for operating SMEs in Lumbini Province.
- c) To recommend strategies that need to be adopted for the efficient operation of SMEs in Lumbini Province.

1.5 Significance of the Study

Although a lot of researchers have contributed to the academia about SMEs, and few studies are related with Nepal, in context of Nepal, no studies have been conducted in a broad and thoroughly manner. The significance of this study is that this study tries to experiment what most of the literatures consider theoretically with real entrepreneurs' data and tries to find their significance for the overall success of SMEs in Lumbini province of Nepal. In addition to this, this research is unique from the past studies in aspect of measuring success as the author defines success matrix using both employment growth and increase in business transaction. Moreover, this study further examined the effect of different firm types; beyond its formal and informal nature. First is innovativeness of SMEs, and second is scale of small firms: "cottage", "micro" or "small". Studying firm success with new variable within firm characteristics: "Firm type" to analyze the likelihood of success of firms with different scale of business is a new area of study than existing research. Findings from this study will be useful for academia, government agencies and other stakeholders for further study, policy improvement, situation analysis and formulation and update of SME support programs.

1.6 Limitations & Delimitation of the Study

The study is based on data collected through a questionnaire. As highlighted in the literature, research utilizing such instruments carries the potential for misinterpretation (Babbie, 1999). Questionnaires are recognized for their ability to gather structured data efficiently, yet they also pose challenges related to respondent interpretation and response bias, which researchers must carefully navigate to ensure the reliability and validity of their findings

The study utilizes a mixed-method approach for analysis, a method frequently acknowledged by researchers for its potential limitations in depth and flexibility when quantifying qualitative data. Bazeley (2004) noted that qualitative codes are multidimensional, aiming to uncover insights across interconnected conceptual themes or issues during analysis. Consequently, employing a mixed-method approach may result in the reduction of nuanced qualitative data, transforming multidimensional codes into dichotomous variables that are then simplified into singular dimensions with fixed

meanings. This process can potentially compromise the richness and complexity of qualitative findings, emphasizing the need for careful integration and interpretation of both qualitative and quantitative elements in mixed-method studies.

1.7 Organization of the Study

This report is presented in five chapters starting with an introduction and ending with conclusions and some recommendations. Each of the other chapters has a precise title reflecting the contents of the chapters. In the first chapter background, significance and objectives of the study are incorporated. Second chapter includes the comprehensive writing of literature reviewed for the situation analysis, methods of study and determining the research gap of the subject matter. Materials and methods used to collect the data and analysis procedure of the collected data are discussed in the third chapter. The results of the study are illustrated and compared with previous relevant studies in the results and discussion i.e. fourth chapter and finally overall findings of the study are summarized and concluded with some implication aspects of the study in the fifth chapter.

Chapter II

Literature Review

2.1 Historical Overview of Industrial Development in Nepal

Industrial development in Nepal commenced with the formation of the Industrial Council in 1936 A.D. Subsequently, in 1940 A.D., the Gharelu Illam Prachar Adda was established, marking further strides in industrialization efforts. A significant milestone in this journey was the establishment of Raghupatti Jute Mills in 1946 A.D., recognized as Nepal's inaugural modern industry, symbolizing a pivotal moment in the country's industrial history. Similarly, the journey towards planned industrialization began with the initiation of the First Five Year Plan in 1956 A.D. Over time, a range of medium and large-scale industries, including those producing cigarettes, sugar, cotton, cement, bricks, and paper, were gradually established within the public sector (Khatri, 2019). This period marked a deliberate effort to diversify Nepal's industrial base and lay the groundwork for economic growth through strategic industrial development initiatives. The advancement of the industrial sector is pivotal for achieving prosperity, creating employment opportunities, reducing poverty, boosting trade, and fostering national income growth. However, Nepal's industrial development in recent decades has been somewhat unsatisfactory. According to the National Labour Force Survey (NLFS, 2008), the manufacturing sector employed only 6.6 percent of the total workforce. Furthermore, in 2010, manufacturing contributed a mere 6 percent to the overall GDP. Industrial activities are predominantly concentrated in urban centers such as Kathmandu Valley, Biratnagar, Simara, Birgunj, Hetauda, Pokhara, Butwal, Nepalgunj, and other regions of the Terai (CBS, 2014). This urban-centric concentration highlights the need for broader industrial dispersal strategies to achieve more balanced and inclusive economic growth across Nepal.

Additionally, Industrial Development Management Limited (IDML) was established by the Government of Nepal (GoN) in July 1988 to enhance balanced regional development through the optimal utilization of local capital, natural resources (including agriculture and forests), and human resources for industrial promotion (IDML, 2018). Currently, there are 11 industrial estates overseen by IDML, with 10 of them operational, excluding Dhankuta.

Six estates are currently under development, and five are under consideration for future development (MoF, 2018).

2.1.1 Defining Small and Medium sized Enterprises in Nepalese Context

Micro-enterprises can be established with minimal investment, as is typical of cottage enterprises in Nepal, where products are created using traditional skills and machines within the home (Khatri, et al., 2023). Small and Medium-sized Enterprises (SMEs) are defined as businesses that maintain revenues, assets, or a number of employees below a specified threshold, with each country having its own criteria for what constitutes an SME (Liberto, 2022). According to the Organization for Economic Cooperation and Development (OECD), SMEs are non-subsidiary, independent firms that employ fewer than a given number of employees, which varies by country. The most common upper limit for an SME is 250 employees, as seen in the European Union, though some countries set this limit at 200 employees, while the United States includes firms with fewer than 500 employees under the SME category (OECD, 2005). The International Monetary Fund (IMF) further categorizes enterprises based on the number of employees: micro-enterprises with 1-9 employees, small enterprises with 10-49 employees, and medium enterprises with 50-249 employees (UNECE, 2018).

Table1
Criteria of SMEs in Nepal

Type of Enterprises	Investment	Employees
Micro Enterprises	Up to NPR 2 million	Up to 10
Small Enterprises	2 million to NPR 30 million	11 to 50
Medium Enterprises	30 million to NPR 100 million	51 to 100

Source: UNECE, 2018

The International Labour Organization (ILO) reports that in many countries, particularly those with lower incomes, over 90% of all enterprises are classified as SMEs, and a significant portion of these are micro-enterprises with fewer than ten employees (ILO, 2019). In Nepal, the Industrial Enterprises Act of 2020 defines micro-enterprises based on four criteria: capital investment, employment, annual turnover, and energy consumption. In contrast, SMEs are defined solely by the criterion of capital investment (Department of

Industry, Commerce, and Supplies, 2020). The specific criteria for categorizing micro, cottage, small, medium, and large enterprises according to the Industrial Enterprises Act of 2020 are as follows:

Table 2
Industrial Types as per Industrial Enterprises Act, 2020

Enterprises Category	Criteria
Micro Enterprises	<ul style="list-style-type: none"> • Have a fixed capital not exceeding NPR 2 million (USD 18,000) apart from land and buildings • Are run by the proprietor himself • Work at the local level and utilize local raw materials • Has an annual turnover of up to NPR 10 million (USD 89,000) • Employs not more than nine workers, and • Consume less than 20 kilowatts of electrical power when they run in full capacity
Cottage Industries	<ul style="list-style-type: none"> • Use local workers and raw materials • Are engaged in traditional labor-intensive industries that reflect the country's indigenous art and culture • Consume less than 50 kilowatts of electrical power when they run at full capacity
Small-scale Industries	<ul style="list-style-type: none"> • other than micro and cottage industries with fixed capital not exceeding NPR 150 million (USD 1.3 million)
Medium-scale Enterprises	<ul style="list-style-type: none"> • Enterprises with fixed capital between NPR 150 million and NPR 500 million (USD 4.4 million)
Large Enterprises	<ul style="list-style-type: none"> • Enterprises that have over NPR 500 million in fixed capital

Source: Industrial Enterprises Act of 2020

2.2 Theoretical Review

2.2.1 Jorgenson Dual Economy Model

The Jorgenson dual economy model, developed by Dale Jorgenson, is a framework used to analyze the economic structure of a country or region that exhibits dual characteristics: a traditional agricultural sector and a modern industrial sector. This model is particularly relevant in assessing challenges and opportunities for small and medium enterprises (SMEs) because it highlights disparities and interactions between these sectors, often emphasizing the need for policies that promote structural transformation and balanced growth.

In the context of SMEs in developing countries like Nepal, the Jorgenson dual economy model helps identify key issues such as:

- **Sectoral Disparities:** It examines disparities in productivity, income distribution, and technology adoption between traditional sectors (often dominated by SMEs in agriculture and informal sectors) and modern sectors (typically comprising larger firms in manufacturing and services).
- **Policy Implications:** The model underscores the importance of policies that facilitate the transition of resources (capital, labor, technology) from traditional to modern sectors, thereby enhancing productivity and fostering inclusive growth.
- **Growth Potential:** By analyzing how resources are allocated and utilized across sectors, the model offers insights into the growth potential of SMEs within the broader economic context, highlighting constraints such as access to finance, infrastructure, and market integration.

Previous studies in Nepal have employed the Jorgenson dual economy model to assess the challenges and opportunities for SMEs within the broader economic landscape. For instance, research by Dhungel and Maharjan (2018) applied the model to examine the impact of policy interventions on SME growth in Nepal's agricultural and manufacturing sectors. They found that targeted policies promoting technology adoption and market access were crucial for enhancing SME competitiveness. Moreover, Shrestha and Adhikari (2019) used the model to analyze the structural transformation of Nepal's economy and its

implications for SMEs, highlighting the need for balanced growth strategies to bridge sectoral disparities.

2.2.2 Buffer Zone Approach

The Buffer Zone Approach in Nepal refers to a strategy adopted to promote and support small and medium enterprises (SMEs) by creating special economic zones or industrial estates. These zones are designed to provide a conducive environment for SME growth through various incentives, infrastructure support, and streamlined regulatory frameworks. The concept aims to cluster SMEs together, fostering collaboration, resource sharing, and enhanced market access while addressing common challenges such as infrastructure deficiencies and regulatory hurdles (MOICS, 2020).

One notable example of the Buffer Zone Approach in Nepal is the Bhairahawa Special Economic Zone (SEZ), which was established to attract investments and promote industrial development in the region. The SEZ offers infrastructure facilities, tax incentives, and simplified administrative procedures to encourage SMEs to set up and operate businesses within its premises. By concentrating SME activities in designated zones, the Buffer Zone Approach aims to stimulate economic growth, create employment opportunities, and enhance competitiveness in targeted industries.

2.2.3 Growth Pole Model

The growth pole method can be instrumental in assessing challenges and opportunities for small and medium-sized enterprises (SMEs) in Nepal by fostering concentrated development in strategic sectors and regions. By identifying key geographic areas or industries with high growth potential, such as tourism, agriculture, or technology hubs, targeted investments can address specific infrastructural deficiencies, enhance market access, and improve productivity for SMEs. This approach facilitates the clustering of related businesses, promoting innovation and collaboration, and creating economies of scale. Moreover, it can help in overcoming challenges like limited access to finance, inadequate infrastructure, and regulatory barriers by providing a focused framework for policy interventions and resource allocation. Studies suggest that such targeted development strategies can lead to significant economic multipliers, benefiting both the

concentrated growth areas and the broader economy (Parr, 1999; Richardson, 1973). This method not only catalyzes economic activity in underdeveloped regions but also integrates SMEs into larger value chains, thereby enhancing their competitive advantage and fostering sustainable economic development (Dawkins, 2003).

Numerous studies have applied growth pole methods to evaluate the challenges and opportunities for SMEs in Nepal. Adhikari and Shrestha (2020) highlighted that strategic geographic clustering around key urban centers, known as growth poles, significantly enhances SMEs' access to markets, resources, and technologies, thereby boosting productivity and innovation. Khatiwada et al. 2019 demonstrated that SMEs near these growth poles experienced higher growth rates due to improved access to financing, skilled labor, and supply chain networks, emphasizing the need for targeted government support to address regional economic disparities. Furthermore, Dahal and Sharma (2021) found that SMEs within growth poles showed greater resilience and adaptability during economic crises due to diversified economic activities and stronger institutional support. These studies collectively suggest that a holistic approach combining infrastructural development, policy support, and robust institutional frameworks is essential for harnessing the potential of SMEs to drive economic growth and regional development in Nepal (Adhikari & Shrestha, 2020; Khatiwada et al., 2019; Dahal & Sharma, 2021).

2.3 Policy Review

2.3.1 National Level Policies

Several policies in Nepal focus on enhancing financial access, developing infrastructure, promoting market access, building skills, and creating a conducive regulatory environment for SMEs. The government has implemented a range of initiatives to improve financial access, such as providing subsidized loans, offering credit guarantees, and promoting microfinance institutions to ensure that SMEs have the necessary capital to start and expand their operations. Additionally, efforts are being made to simplify the loan application processes and reduce collateral requirements, making it easier for SMEs to obtain financing. The Nepal Rastra Bank's Monetary Policy and the Industrial Enterprise Act aim to improve access to affordable finance for SMEs through microfinance and collateral-free loans (Nepal Rastra Bank, 2020; Ministry of Industry, Commerce, and Supplies, 2016). The Industrial Policy and Trade Policy emphasizes infrastructure development and market

access, supporting the establishment of industrial zones and technology parks (Ministry of Industry, Commerce, and Supplies, 2010, 2015). The Small and Medium Enterprises Development Policy focuses on capacity building and skill development initiatives to enhance the capabilities of SME owners and workers (Ministry of Industry, Commerce, and Supplies, 2019). These policies, through their targeted actions and objectives, aim to create a supportive environment that fosters the growth and sustainability of SMEs, ultimately driving economic development in Nepal.

2.3.2 Local Level Policies

Local governments in Nepal have made notable efforts to promote and support SMEs, aligning with the decentralization goals under federalism. The Local Governance Operations Act of 2017 grants municipalities the authority to formulate and implement policies that cater to local-level small-scale entrepreneurs (Government of Nepal, 2017). This devolution of power aims to address region-specific challenges and opportunities, potentially fostering a conducive environment for SME growth. However, challenges persist, particularly in the implementation and effectiveness of these policies. A study by Pokhrel and Siwakoti (2020) points out that despite the legislative framework, there is variability in policy implementation across different municipalities, influenced by factors such as administrative capacity and resource constraints. This inconsistency underscores the need for greater coordination and capacity-building efforts among local governments to enhance the impact of SME development policies.

Furthermore, while local governments have taken steps to promote SMEs, issues such as access to finance and infrastructure deficiencies continue to hinder their growth. According to the Nepal Rastra Bank (NRB, 2020), SMEs, particularly those led by women and marginalized groups, face significant barriers in accessing financial services and resources. This disparity highlights the gap between policy intent and ground-level implementation realities. Moreover, there is a need for more robust monitoring and evaluation mechanisms to assess the effectiveness of these policies in stimulating SME activity and contributing to economic development at the local level. Future policy initiatives should focus on addressing these systemic challenges through targeted interventions and comprehensive support frameworks that cater to the diverse needs of SMEs across different regions of Nepal.

2.4 Empirical Review

working paper produced by the Asian Development Bank (ADB) in 2020 highlighted that Nepal lacks a comprehensive policy framework for SMEs and provides limited opportunities for their integration into the Global Value Chain (GVC). Although various acts and policies address SME-related issues, there is no dedicated policy specifically for SME development in Nepal. According to the Nepal Economic Survey 2020/21, SMEs constitute over 60% of the country's businesses. The government has plans for policy, legal, and structural reforms, as well as investments in industries with competitive potential and comparative advantages to enhance the industrial sector's development. Furthermore, Micro, Cottage, and Small Enterprises (MCSEs) contribute approximately 22% to Nepal's GDP, account for 82% of export earnings, and generate employment for 1.7 million people (Rai, 2020). This indicates the significant influence of cottage industries on the Nepalese economy. Despite the substantial contributions of SMEs, investment in this sector remains low. Additionally, the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) in Nepal has identified several challenges faced by SMEs, including limited market linkages and export procedures, insufficient capital and technology, domestic and international regulatory barriers, quality and standards issues, and vulnerability due to a narrow product range.

Since the establishment of federalism in Nepal in 2017, abundant opportunities have emerged for SMEs to expand both locally and nationally. Ensuring coherence among all three tiers of government is essential to create an enabling environment for SMEs, particularly women-led enterprises, to thrive. The Local Governance Operations Act of 2017 grants each local government the authority to promote and support local small-scale entrepreneurs. Although there is a gap in federal policies regarding SMEs, local governments have the potential to identify and develop policies tailored to their specific needs.

A 2018 analytical report by CBS indicates that women own a larger share of small and micro businesses in Nepal. However, according to the Federation of Small and Medium Enterprises Nepal, despite women owning 60 percent of the country's small and medium-sized enterprises, their limited access to finance and financial literacy significantly hinders the progress of these SMEs (NRB, 2018).

There is ample evidence indicating that small and medium-sized businesses play a crucial role in the national economy. However, these businesses face persistent obstacles that need to be addressed, such as issues related to human resource readiness, infrastructure, and access to capital, as documented in studies conducted by Eniola & Entebang (2015) and Tanasić, Janjić, & Kosec (2020).

Market access remains a significant hurdle. Studies by Love and Roper (2015) show that SMEs face difficulties in penetrating new markets due to limited marketing resources and brand recognition. Competition with larger firms, which often have economies of scale, further exacerbates the market access issue and are the major challenges faced by the SMEs.

The digital divide poses a substantial challenge. According to the OECD (2017), SMEs lag in adopting new technologies compared to larger enterprises. High costs of technology, lack of skilled personnel, and inadequate infrastructure contribute to this lag are the major barriers.

SMEs are often more agile and innovative compared to larger firms. According to Acs and Audretsch (1990), SMEs play a vital role in innovative activities due to their flexible structures and willingness to take risks. Their size allows for quicker decision-making processes and adaptability to market changes, fostering a conducive environment for innovation.

SMEs can effectively serve niche markets that are often overlooked by larger companies. A study by Gilmore, Carson, and Grant (2001) found that SMEs' personalized service and customer orientation enable them to capture niche market segments successfully. Specialization and customization are key strategies that SMEs employ to dominate niche markets.

Globalization offers significant opportunities for SMEs. Research by Knight and Cavusgil (2004) shows that SMEs engaging in international markets can achieve substantial growth. Leveraging digital platforms and e-commerce has lowered the barriers for SMEs to enter international markets.

Collaborative networks and partnerships enhance SMEs' capabilities. Zaheer and Bell (2005) demonstrated that SMEs engaged in networks can access new resources, knowledge,

and markets, leading to improved performance. Participation in clusters, alliances, and business networks can mitigate some of the resource constraints faced by SMEs.

2.5 Summary of Literature Review

Empirical studies underscore that while SMEs face significant challenges such as financial constraints, regulatory burdens, and market access issues, they also possess unique opportunities in innovation, niche markets, internationalization, and collaborative networks. Addressing the challenges and leveraging the opportunities can enhance the growth and sustainability of SMEs, ultimately contributing to broader economic development. SMEs in Nepal face a complex array of challenges, including financial constraints, regulatory hurdles, market access issues, technological limitations, and human resource challenges. However, there are substantial opportunities as well, driven by economic growth, government support, technological advancements, and international trade prospects. Addressing the challenges through targeted policies and leveraging the opportunities can significantly enhance the contribution of SMEs to Nepal's economic.

2.6 Research Gap

In the context of Nepal, SMEs play a pivotal role in the economy, contributing significantly to employment and GDP growth. However, despite their importance, there remains a conspicuous gap in research concerning the specific challenges and opportunities faced by these enterprises. Existing literature predominantly focuses on macroeconomic policies or general business conditions rather than delving into the nuanced dynamics of SMEs in Nepal (Shrestha & Adhikari, 2019). Key aspects such as access to finance, regulatory hurdles, and technological adoption are often mentioned in passing rather than thoroughly investigated, leaving a substantial gap in understanding how these factors uniquely impact SMEs in the Nepalese context (Dhungana, 2020).

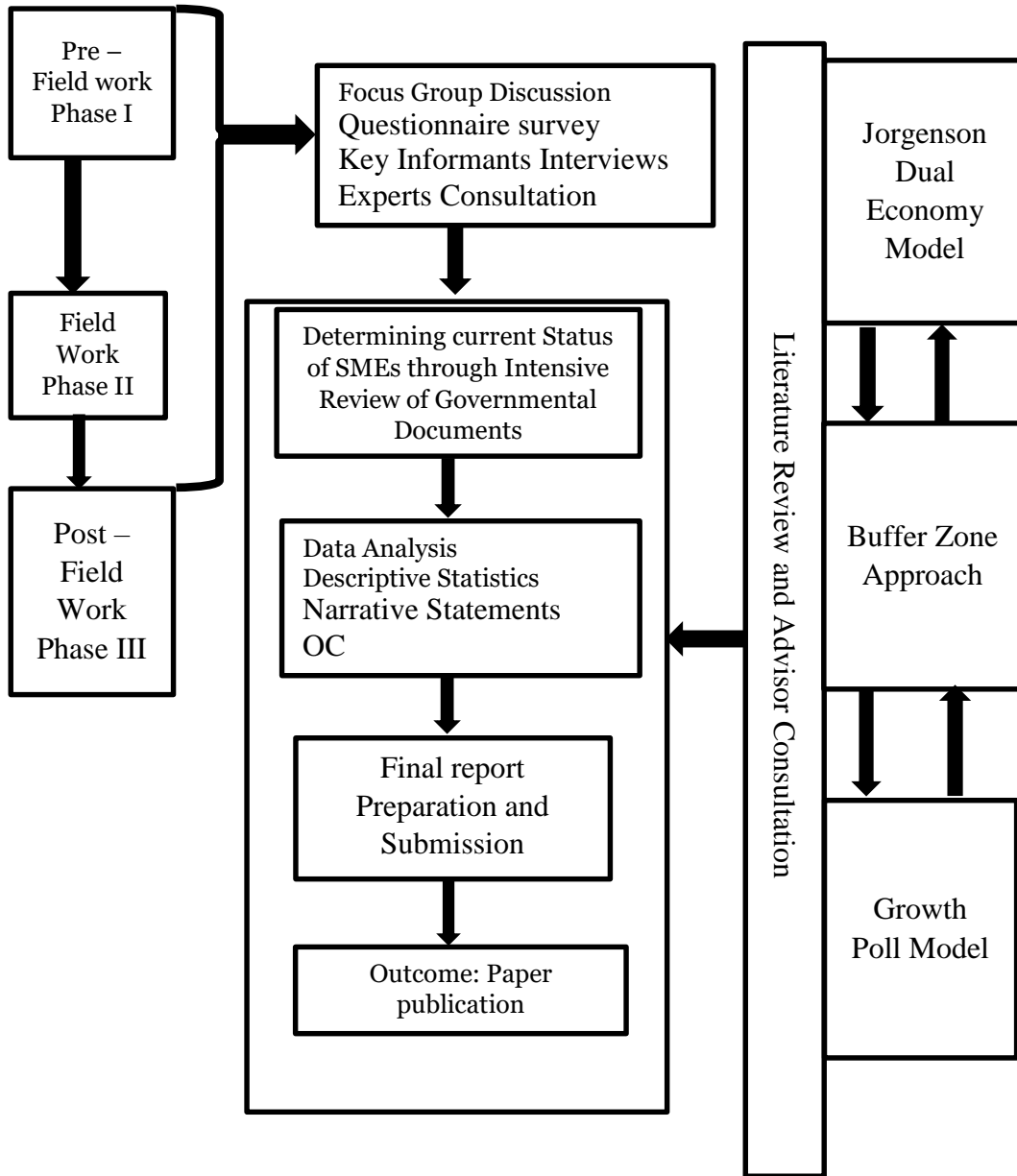
Moreover, while some studies have touched upon individual sectors or regions, a comprehensive examination that consolidates these insights into a cohesive understanding of the broader SME landscape in Nepal is lacking. For instance, the challenges faced by SMEs in Kathmandu Valley may differ significantly from those in rural areas due to varying infrastructural, market, and policy environments (Basnet & Poudel, 2021). In urban

centers like Kathmandu Valley, SMEs often benefit from better infrastructure, access to larger markets, and more robust policy support. Conversely, SMEs in rural areas may struggle with inadequate infrastructure, limited market access, and less effective policy implementation. Understanding these regional disparities is crucial for developing targeted interventions that address the specific needs of SMEs in different parts of Nepal. Therefore, a clear research gap exists in synthesizing localized experiences and sector-specific challenges into a comprehensive framework that can inform policy interventions and strategic business decisions tailored to the diverse SME ecosystem in Nepal (Dhakal & Bista, 2018). This gap highlights the need for in-depth, context-specific studies that take into account the unique characteristics and requirements of different regions and industries within Nepal. By addressing this gap, policymakers and business leaders can develop more effective strategies to support the growth and sustainability of SMEs across the country.

2.5 Conceptual Framework

The conceptual framework for this study was meticulously designed to investigate the current landscape of SMEs through a systematic and multi-phase research approach. The framework begins with a thorough literature review, engaging with Focus Group Discussions (FGDs), Key Informants (KIs), and preliminary field visits to establish a solid foundation. Moving into the fieldwork phase, various data collection methods such as FGDs, questionnaire surveys, key informant interviews, and expert consultations were employed to gather both qualitative and quantitative data. The focus was on determining the current status of SMEs by analyzing governmental documents and policies affecting them. Post-fieldwork, data analysis involves descriptive statistics, narrative statements, and other relevant analyses to derive meaningful insights. The report preparation stage includes drafting, peer review, and final submission, with continuous literature review and advisor consultation throughout the process to ensure the research is well-informed and guided by expert insights. This comprehensive framework aims to provide a holistic understanding of SMEs, contributing valuable insights to the field.

Figure 1
Conceptual Framework of Study



Chapter III

Research Methodology

This chapter analyzes the research methodology applied for data collection needed for successful accomplishment of this study and achieve all its objectives. Brief introduction about the study area, the overall design adopted for this study, data collection approaches, data coding and analyzing tools and techniques are briefly described over here.

3.1 Research Design

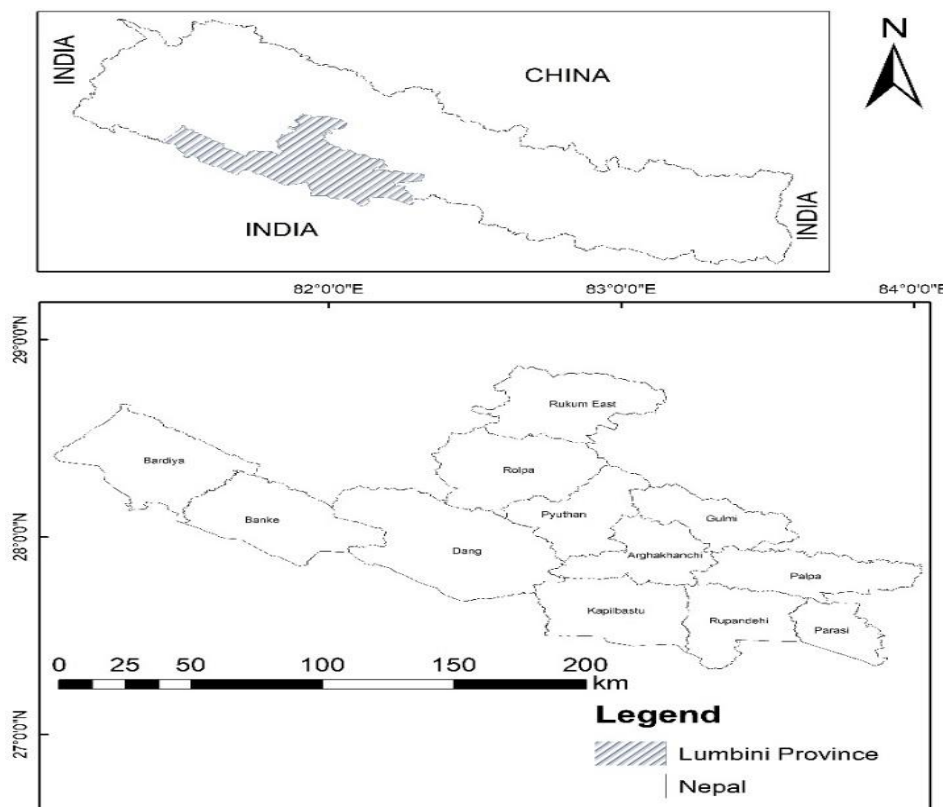
This research aimed to comprehensively assess the challenges and opportunities encountered by SMEs in Lumbini Province, Nepal, employing a multi-method approach. The study began with focus group discussions (FGDs) among the SME owners and managers across various sectors to explore nuanced operational challenges and sector-specific issues. Key informant interviews were conducted with government officials, industry experts, and local business leaders to gather expert insights on policy frameworks, market dynamics, and growth prospects for SMEs in the region. A questionnaire survey was complemented for these qualitative methods, employing Likert scale questions to quantify perceptions of SME stakeholders regarding critical factors such as access to finance, regulatory compliance, market competitiveness, and technological adoption. Additionally, in-depth expert consultations were done to validate and refine findings derived from FGDs, interviews, and surveys. Data collected through these methods were rigorously analyzed using descriptive statistical tools to identify predominant challenges, prioritize opportunities, and inform evidence-based strategies for enhancing SME sustainability and growth in Lumbini Province.

3.2 Rational of Study Area Selection

The SMEs have been facing the problems like lack of skilled human resources, low capacity for technological adaptation, low productivity and weak management of supply chain (Government of Nepal, 2011). However, they have been struggling with the duality of local traditions and the new economic paradigm emerged by globalization. Further, Nepal is in initiative phase of practicing federalism and this situation has created, to some extent, the

policy and legal obstructions for the small-scale entrepreneurs to operate their business fluently. Therefore, to understand and explore the emerging challenges being faced by the SMEs' entrepreneurs in the Lumbini province of Nepal and search the opportunities hidden within the prevailing solution. Therefore, this study area has been envisioned to identify the prevailing challenges and opportunities for running SMEs in the Lumbini Province of Nepal. The findings from this study are expected to support, for three tiers governments, to work coordinately in developing policies and strategies that suit the current national scenario.

Figure 2:
Lumbini province is extended from Terai to Mid-hills of Western Nepal



Lumbini Province is located in the mid-western region of Nepal, covering an area of 22,288 square kilometers, which accounts for 15.11% of the country's total land area. It is bordered by India to the south, with its northern border defined by Putha Himal in Rukum East, Rampur Municipality in Palpa district to the east, and Rajapur in Bardia district to the west. The province spans across five physiographical regions: High Himalayas (3.1%), High

Mountains (9.1%), Middle Mountains (32.2%), Siwalik (27.9%), and Terai (27.6%). Under the new constitutional provisions, Lumbini Province is divided into 12 districts and comprises 109 local governments, including 4 sub-metropolitan cities, 32 municipalities, and 73 rural municipalities, encompassing a total of 983 wards. According to the Economic Survey of 2022/23, Lumbini Province contributes 14.2% to the national GDP. As of the fiscal year 2022/23, Nepal had a total of 673,244 registered SMEs, with Lumbini Province accounting for 108,858 (16.16%) of them.

3.3 Nature and Sources of Data

Both the primary and secondary data have been used in this study. Primary data has been collected from the field survey through focus group discussions, key information interview, in-depth interview with entrepreneurs, and the secondary data has been collected through detailed review of government documents and other relevant NGOs/INGOs report.

3.4 Universe, Sample and Sampling Procedure

During my field visit it was informed that there are approximately 75,000 SMEs registered in the province which is the universe of the study. A purposive Sampling method has been carried out for the study. One hundred and thirty samples have been selected for the field survey.

3.5 Data Collection Methods, Techniques and Tools

This study required both qualitative and quantitative data for its completion. The approaches that were deployed for data collection are described briefly as below:

Focus Group Discussion: Five groups from each small and medium sized enterprises were formulated and in-depth discussion was done at purposively selected major industrial localities of Lumbini province i.e. Butwal, Bhairahawa, Nepalgunj, Gulariya and Tulshipur. The list of questionnaires discussed during FGDs is presented in Annex B.

Key Informant Interviews: 15 key informants were selected purposively, and a face-to-face interview was done with them with semi-structured questionnaire (Annex A). The key informants were comprised of representatives from government officials (n=5), federation

of commerce (n=5), entrepreneurs from different sectors of industries (agriculture and forests =1, Tourism =1, Infrastructure=1, Energy=1, Minerals=1)

In-depth Interview with Entrepreneurs: Individual face to face interviews was done with the entrepreneurs who are operating small and medium scale enterprises (n=130). This interview was carried out with an open-ended questionnaire (see Annex C).

Detailed Review of Government Documents: The government documents which are used for registering the SMEs were reviewed in detail to quantify the number and trend of the SMEs registered in the last ten years' period in Lumbini province. For this relevant government offices like Company Register Office, Cottage and Small Industries offices, provincial ministry responsible for working closely with industrial sector and so on.

3.6 Measurement of Perception

The perception of the respondents towards identified challenges and opportunities in running SMEs was noted in (1–3) Likert scale format proposed by Babbie (1999) and cited by Gentle (2000). The scale used deviated from the conventional seven-point Likert scale (Sivacek & Cronon, 1982) due to its alignment with community norms and practices. This modification was essential to facilitate the translation and interpretation of the statements for the study's objectives. If respondents agreed, then one point was given to that statement and if they disagreed 3 point was given.

3.7 Data Analysis and Interpretation

The collected data regarding the status of SMEs was analyzed using descriptive statistics and illustrated in graphical form along with trend line and pie-charts. The challenges and opportunities were analyzed by categorizing them with respect to industries type i.e. agriculture and forestry, Tourism, minerals, infrastructure and energy. And based on the findings from these two aspects recommendations will be made in all industrial sectors.

3.8 Ethical Considerations

The information was collected from the local people in the area, who may have been involved in SMEs. All information was collected by taking oral consent from the respondents. All the answers provided has been kept confidential and not to be shared with anyone outside the research team.

Chapter IV

Data Analysis and Presentation

4.1.1 Socioeconomic Characteristics of the Respondents

A. Gender and Age Structure of the Respondents

Of 130 respondents interviewed; 77 (59.2%) were male and 53 (40.8%) were female. For the effective interaction only adults above 18 years by age were interviewed. The age categorization was done as per the Central Bureau of Statistics guideline (2011) of Nepal. The Table below shows the frequency and percentage of the respondents at different age groups:

Table 3
Age Category of the Respondents

Age Groups (in Years)	No. of Respondents	Percentage
Young (18 to 35)	43	51
Adults (36 to 55)	60	31
Aged (>55)	27	11
Total	130	100

Source: Field Survey, 2024

B. Education Level

Educational level of the respondents was categorized into four groups viz. Illiterate – no formal education, Primary – one to five years of formal education, Secondary – six to ten years of formal education or up to SEE and higher secondary – having associate, undergraduate and graduate degrees.

Table 4
Respondents' Educational Level

Education Level	Frequency	Percent
Illiterate	16	12.3
Primary	29	22.3
Secondary	51	39.2
Higher Secondary	34	26.2
Total	130	100.0

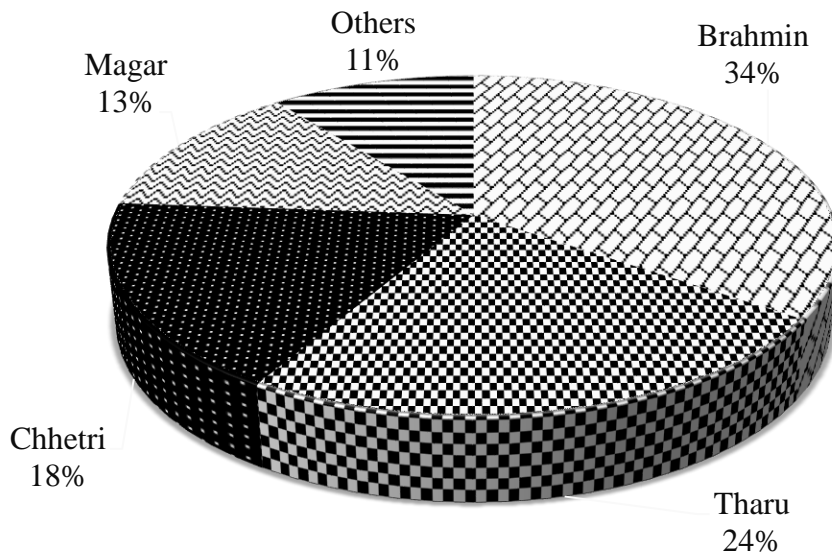
Source: Field Survey, 2024

Out of 130 respondents 12.3% were illiterate, 22.3% have primary level knowledge, 39.2% had acquired secondary level education and 26.2% had learnt higher secondary level education.

C. Ethnicity and Religion

Of the 130 respondents; 34% were Brahmin, 24% were Tharu, 18% were Chhetri, 13% were Magar and 11% were from other ethnic groups. Most of the respondents 66.2% were Hindus followed by 21.5% of Christians and 16% were of other religions.

Figure 3
Ethnic Composition of Respondents



Source: Field Survey, 2024

D. Primary Source of Income in the Respondents

Table 5
Primary Source of Income of Respondents

Primary Source of Income	Frequency	Percent
Occupation	35	27
Agriculture	52	40
Foreign Employment	23	18
Others	20	15
Total	130	100

Source: Field Survey, 2024

Farming, government and private jobs, labour, wages, foreign employment etc. were the major vocation of the respondents. Out of 130 households, 40% were generating income via agricultural activities such as farming, animal husbandry, fishery etc. 26% were generating income via occupations like teaching, private jobs and government jobs. Similarly, 18% were generating via foreign employments from their family members. Remaining 15% were generating through other sources such as labour, wages, business etc.

E. Migration Status of Respondents

Table 6
Migration Status of Respondents

Residency	Frequency	Percent
Residential	97	75
Migrated	33	25
Total	130	100

Source: Field Survey, 2024

Out of 130 respondents 97 (aprox.75%) were the local residents and remaining 33 (approx.25%) were migrants.

F. Involvement of Entrepreneurs in Different Sectors of SMEs

Table 7
Number of Entrepreneurs from Five Different Districts Involved SMEs of Seven Different Categories

SMEs Sectors	Districts					Total
	Rupendehi	Kapilvastu	Banke	Bardiya	Dang	
Agro and Forestry Industries	7	5	9	4	6	31
Service Industries	2	3	8	4	1	18
Manufacturing Industries	3	2	4	1	3	13
Tourism Industries	6	7	2	15	0	30
Construction Industries	8	2	11	1	1	23
Energy related Industries	3	2	1	1	2	9
Mineral Industries	1	0	0	2	3	6
Total	30	21	35	28	16	130

Source: Field Survey, 2024

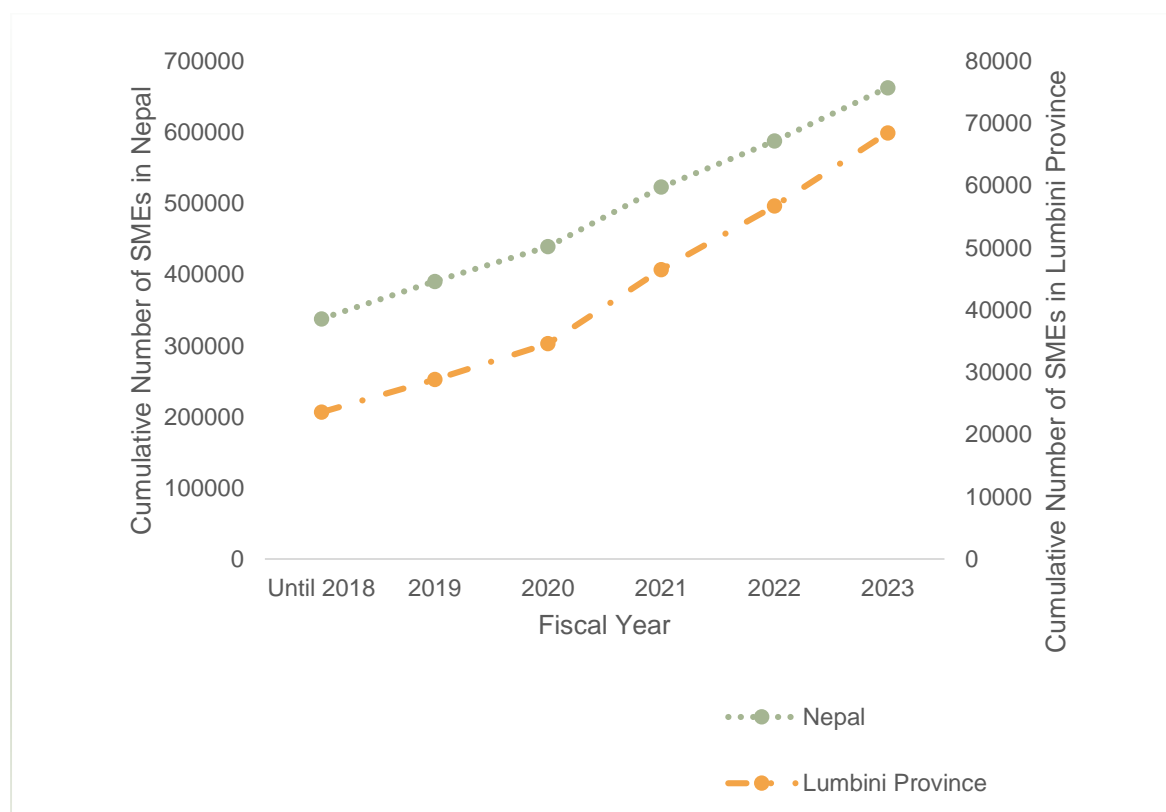
Table 7 provides a comprehensive overview of the interviewed entrepreneurs of SMEs across seven sectors and five districts of Lumbini province in Nepal. It highlights that the highest number of SMEs entrepreneurs interviewed were from Banke district, followed by, Rupendehi, Bardiya, Kapilvastu and Dang. Among the sectors, Agro and Forestry Industries dominate with 31 SMEs, particularly prominent in Banke (9) and Rupendehi (7). Tourism Industries are also significant, with 30 SMEs, heavily concentrated in Bardiya (15) and Kapilvastu (7). Construction Industries follow, with a total of 23 SMEs, primarily located in Banke (11) and Rupendehi (8). Service Industries account for 18 SMEs, mainly in Banke (8), whereas Manufacturing Industries have a total of 13 SMEs, with Banke again leading (4). Energy-related Industries and Mineral Industries are less prevalent, with totals of 9 and 6 SMEs, respectively, distributed across the districts. This distribution underscores the varied economic activities and the regional specialization of SMEs in Nepal, with Banke emerging as a significant hub for multiple sectors.

4.1.2 Status and Trend of SMEs Being Operated in Lumbini Province

Figure 4 presents the cumulative number of SMEs in the Lumbini province compared to the nationwide figures from fiscal year 2017/18 to 2022/23 (See table 8 for data points). Over this period, there is a clear upward trend in the number of SMEs in both Nepal and

Lumbini Province. For Nepal, the cumulative number of SMEs increased steadily from around 400,000 before 2018 to approximately 700,000 by 2023. In Lumbini Province, the growth trajectory mirrors that of the national trend but on a smaller scale, starting at about 15,000 SMEs and rising to around 75,000 SMEs by 2023. This consistent growth indicates a robust expansion of SME activities across the country, with Lumbini Province contributing significantly to this upward trend, albeit at a lower rate compared to the national level. The data underscores the increasing importance and proliferation of SMEs as vital components of economic development in both the broader national context and within Lumbini Province specifically.

Figure 4
SMEs Growth in Nepal and Lumbini Province



Source: Field Survey, 2024

Table 8
Number of SMEs Nepal Vs. Lumbini Province

Fiscal Year	Number of SMEs in	
	Nepal	Lumbini Province
Until 2018	337864	23610
2019	52629	5253
2020	48854	5761
2021	83386	11906
2022	65069	10215
2023	74830	11747
Total	662632	68492

Source: Field Survey, 2024

4.1.3 Challenges in Operating SMEs in Lumbini Province

The data presented from SMEs in Lumbini province highlights a nuanced landscape of perceived challenges affecting their operations (table 9). Among the most universally recognized issues are technological backwardness, inadequate training, workforce constraints, and the absence of a conducive regulatory environment. These factors are underscored by high levels of agreement among respondents, reflected in low weighted means indicative of strong consensus. Conversely, opinions vary more widely on challenges such as market access, economic downturn, and unhealthy competition, with significant portions of respondents either neutral or disagreeing on their severity. Particularly striking are concerns regarding financial supports, quality raw materials, and the high cost of production, where a majority of respondents indicate these as substantial obstacles despite some variance in perception. This comprehensive analysis underscores the heterogeneous nature of challenges faced by SMEs in Lumbini, suggesting a need for targeted policy interventions and strategic initiatives to bolster technological infrastructure, skills development, and regulatory frameworks to foster sustainable growth in the region.

Table 9
Perceived Challenges by SMEs Entrepreneurs

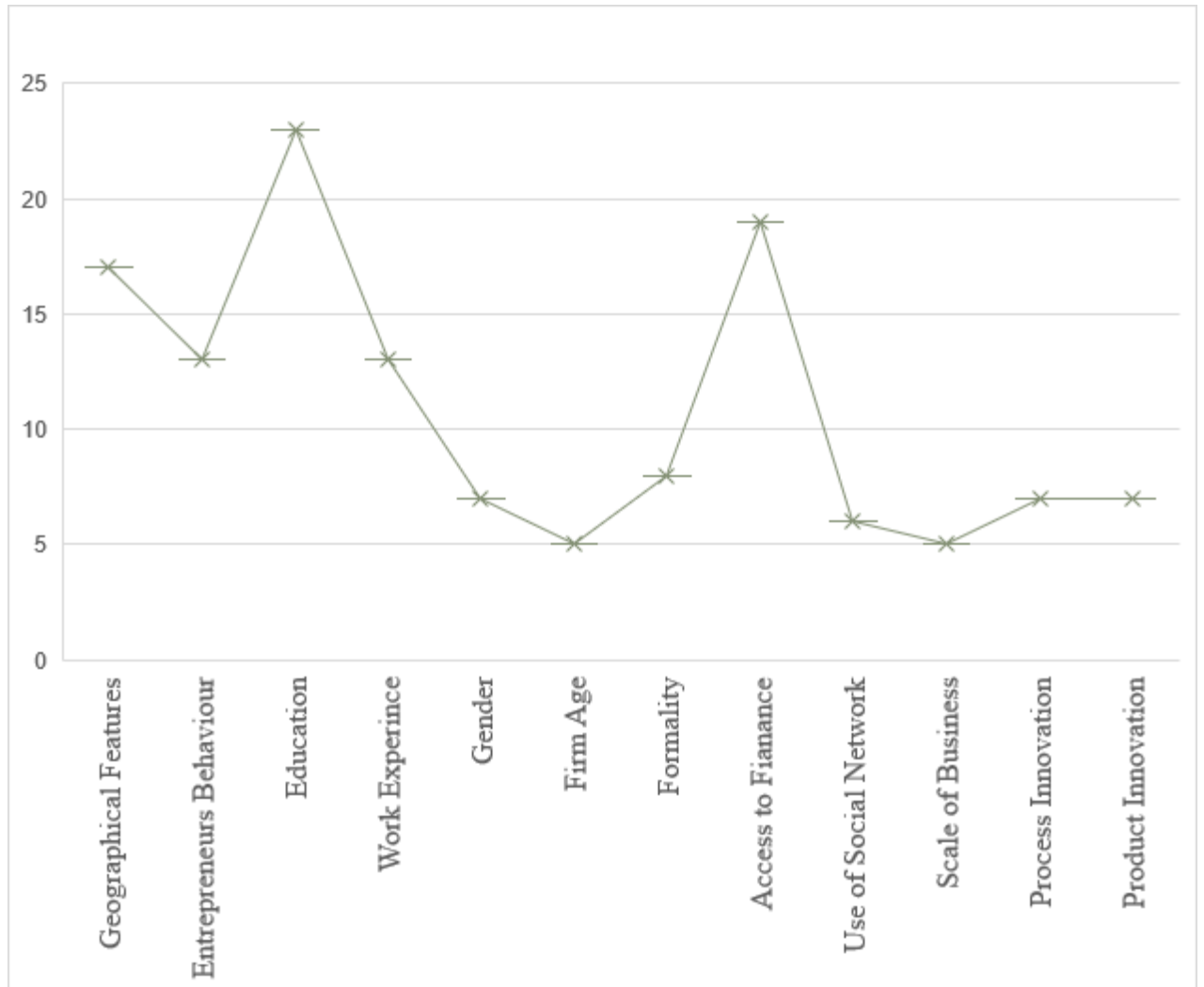
Challenges Perceived	Response			WM
	Agree	Neutral	Disagree	
Technological Backwardness	64	17	19	1.55
Market Access	16	38	46	2.30
Inadequate Training	58	30	12	1.53
Financial Supports	15	27	58	2.42
Workforce	21	15	64	2.44
Quality Raw Materials	6	12	82	2.76
Skills	37	45	18	1.81
Economic Downturn	26	32	42	2.16
Unhealthy Competition	14	62	24	2.10
Absence of Regulatory Environment	59	22	19	1.60
Product Quality	34	29	37	2.03
Infrastructure availability	50	25	25	1.75
High Cost of Production	19	29	52	2.33

Source: Field Survey, 2024

4.1.3 Opportunities for SMEs in Lumbini Province

Majority of SMEs entrepreneurs think that innovation, scale of business, access to finance, innovation, work experience, and geography are the major factors that provide ample opportunities for running the SMEs successfully in the future (see figure 5).

Figure 5
Perceived Factors that Provide Opportunities for SMEs in Lumbini Province



Source: Field Survey, 2024

Lumbini Province presents a conducive environment for SMEs, as evidenced by its diverse geographical features, favorable entrepreneurial behavior, and robust educational infrastructure. The province's varied terrain, scoring notably in geographical features, provides strategic advantages for SMEs engaged in sectors such as tourism and agriculture, leveraging natural resources and climate diversity. High scores in education and work experience underline a skilled labor force capable of driving innovation and operational efficiency within SMEs. Access to finance is prominently rated, indicating ample financial

resources available to support business growth and development initiatives. Challenges such as gender disparities, and the prevalence of younger firms underscore areas necessitating targeted interventions to foster inclusive economic growth. Moderate scores in formality, social network utilization, and innovation potential indicate opportunities for regulatory improvements, enhanced networking capabilities, and technological advancements within SME operations. Overall, Lumbini Province emerges as a promising hub for SMEs, advocating for strategic investments in education, gender equity, and innovation to sustain and amplify economic opportunities across the region.

4.1.4 Entrepreneurs Cases: Issues Regarding SMEs

a) Modern Agriculture and Herb Business Farm (Banana Farming)

Top Lal BK owner of the banana farm is a returnee. He went to Qatar and Denmark for work. After returning to Nepal, he started banana farming. He also germinated the banana seed and grew it on his farm. He had a cold chamber for bananas. He received training regarding the operation of a banana farm and after that a group of friends came together to start the banana farming by themselves. He is growing bananas in 25 hectares.

According to him, the market is no problem, and he is satisfied with the income that he is earning. Since he produces a very large quantity, he does not have to produce byproduct of banana he can directly sell the banana to market.

b) Budan Sana Kisan Agriculture Cooperative Ltd

Established in 2057 BS with the membership of 2500, 8 staff are actively involved in the cooperative. Actually, this cooperative is a merged 2 cooperative Budan agriculture cooperation and sana kisan cooperative. Its main activity is to prepare seeds of rice, wheat, paddy, mustard, lentils and gram. They collect hybrid seeds and distribute the certified seed to its members to increase the production rate, distribute subsidy fertilizers, farmers can save money and take loans. The interest rate for agricultural loans is less (9%) than other loans (14%) like building houses, going abroad for work, education etc. They have their own rice mill running nearby the cooperative. The cooperative collects all the production from their members and does further process like marketing, segregating those products for eating and certified seed, they also construct the seed storage house where they keep

certified seeds and when farmers need, they can collect from there. They also have an insurance program in agriculture and livestock which encourages farmers to continue their work. They also produce off-season vegetables like cauliflower, cucumber, varieties of gourd and cabbage. They also have different subcommittees to look after different work in the cooperative like accounting, financing, monitoring, advisory, insurance committee. They also organize educational tours to different districts and India to share the knowledge in agriculture and livestock.

In 4 years, they will have an assembly for selection of the management committee and board of members. The Sana Kisan Bikas Bank helps them to run different kinds of activities under 1 roof. 1 technical staff is working actively so that they can provide immediate service to the farmers in the field.

The cooperative has the 3 layers process i.e. farmers group in ground level (in this group they discuss about the opportunities and challenges) and they submit to second level where the members are the leaders of those farmers group from different wards and after discussion in this group they discussed in cooperative level and take appropriate decision.

Cooperative is lacking in few things like technical support in off seasonal vegetable farming, proper and sustainable irrigation, good machinery and value chain support for both cereal and vegetable production.

c) Nepalgunj Agriculture Market (Rani Talau Mandi)

Moti Sara Thapa Chettri an elected leader along with 2 other regular staff looking for this vegetable market. Agriculture knowledge center representatives also come to check the use of fertilizer in vegetables every day. This market is the combination of wholesaler, producer, Farmers and retailer. The market has separate space for the wholesaler and the farmers for which the amount is also different Rs 1700 per month for wholesalers and Rs 40 per day for farmers. The committee use this money for staff, retrofitting, water and electricity supply and other regular services. Here the retailers and wholesalers come and can collect vegetables from farmers also there is no definite rule, it depends upon the farmers and wholesaler. The price of the vegetables is fixed by stakeholders themselves and there is no interference by committee.

Vegetables comes from different district like Banke (gourd, beans cabbage, carrot, cauliflower, tomatoes, citrus, Bardiya (cauliflower, cabbage, potatoes, hot chillies, eggplant), Jhapa (Ginger), Kathmandu (Chinese Garlic) Ghorahi, Narayanghat (Butwal area) Salyan and from India also to meet the demand of the consumers.

The vegetable market has given priority to national vegetable production. If the vegetable seems not enough, then they import it from India. Committee monitors the Indian vegetables by the receipt they paid in border custom.

Municipality helps to construct the dumping site for the wastage and every day comes and collects. The market needs to pay Rs 6000 to the municipality per month.

The major drawback that Nepal cannot export vegetables to India because of quality testing machine, Nepal government has installed quality test machine nearby boarder so the Indian vegetable can test immediately and send to Nepal but for Nepal to test the quality of vegetable need to send Delhi which takes more than 4 days for result and lack of big cold storage the vegetables in Nepal get spoil easily.

Chapter V

Summary of Findings, Conclusion and Recommendation

5.1 Summary of Major Findings

A comparative analysis of the cumulative number of SMEs in Lumbini Province and nationwide from fiscal year 2017/18 to 2022/23 reveals a consistent upward trend in SME growth. Nationally, the number of SMEs increased from approximately 400,000 before 2018 to around 700,000 by 2023. Similarly, Lumbini Province saw its SME count rise from about 15,000 to approximately 75,000 SMEs over the same period, reflecting a robust expansion of SME activities. Previous research corroborates this trend, highlighting the vital role of SMEs in Nepal's economic development, with substantial contributions to GDP and employment (CBS, 2014; NRB, 2020). Despite the growth, challenges such as limited access to finance and infrastructure remain prevalent (NRB, 2020). The data from Lumbini Province, while mirroring national trends, suggests that regional development initiatives are crucial for balanced economic growth across the country. These findings emphasize the increasing significance of SMEs as key drivers of economic development in both the national context and within Lumbini Province specifically.

The data from SMEs in Lumbini Province reveal a complex landscape of operational challenges. Key issues such as technological backwardness, inadequate training, workforce constraints, and the lack of a supportive regulatory environment are widely recognized, as indicated by strong consensus among respondents and low weighted means. In contrast, there is more varied perception regarding challenges like market access, economic downturn, and unhealthy competition, with notable portions of respondents expressing neutrality or disagreement on their severity. Financial support, access to quality raw materials, and high production costs emerge as significant obstacles, with a majority acknowledging these issues despite some differences in perception. These findings align with previous research in Nepal, which has similarly identified technological deficits, regulatory hurdles, and financial barriers as critical impediments for SMEs (Shrestha, 2019; Ghimire & Awasthi, 2020). The analysis highlights the heterogeneous nature of challenges faced by SMEs in Lumbini, underscoring the need for targeted policy interventions and

strategic initiatives to enhance technological infrastructure, skill development, and regulatory frameworks, fostering sustainable growth in the region.

5.2 Conclusion

Major technology-related issues faced by SME entrepreneurs in Lumbini province include a low level of technological adoption, difficulties in accessing technology, and a lack of knowledge for selecting appropriate technology, compounded by a reliance on foreign manpower for technological operations. These challenges hinder productivity, suppress innovation, and promote less productive businesses. Technology is crucial for efficient production, yet the selection of technology largely depends on entrepreneurs' self-judgment. Many entrepreneurs use a "Hit and Trial" method for technology implementation. This approach results in inefficiencies and low-quality production, even with the use of technology.

Marketing poses a significant hurdle for SMEs in Lumbini province. The absence of modern marketing practices has resulted in these enterprises capturing only a small portion of the market share. This challenge is compounded by inadequate transportation networks, which not only lead to increased idle times but also hinder access to raw materials for production, further distancing SMEs from their potential markets.

Establishing a business network could assist SMEs in accessing vital information about market forecasts and demand, innovations in related fields, and new technologies. Such connections can pave the way for a collective marketing system, fostering stronger business links that enhance overall success. One of the challenges preventing the success of small firms in Lumbini province is the lack of a collective marketing system. This issue impedes the connection between large-scale manufacturers and SMEs. Although agriculture-based firms are producing agricultural products, their sales are scattered rather than aggregated.

Despite of these challenges, Lumbini Province offers a promising environment for SMEs, supported by its geographical diversity, educated workforce, financial accessibility, and entrepreneurial culture. The province fosters a supportive environment for entrepreneurship, evident from its positive entrepreneurial behavior and potential for innovation. However, challenges such as gender disparities, and the predominance of

younger firms highlight areas requiring targeted interventions to foster inclusive growth and support SME development across all stages. Moving forward, strategic investments in education, regulatory improvements, and enhanced networking opportunities will be pivotal in unlocking the full economic potential of SMEs in Lumbini Province, ensuring sustainable and resilient economic growth for the region as a whole.

A significant number of SME entrepreneurs believe that innovation, business scale, access to finance, work experience, and geographic factors are crucial for the successful future operation of SMEs. Lumbini Province, with its diverse geographical features, favorable entrepreneurial behavior, and robust educational infrastructure, provides a conducive environment for SMEs. The province's varied terrain offers strategic advantages for sectors like tourism and agriculture, capitalizing on natural resources and climate diversity. High ratings in education and work experience reflect a skilled labor force, essential for driving innovation and efficiency within SMEs. Access to finance is also rated highly, indicating the availability of financial resources to support business growth. However, challenges such as gender disparities, and the prevalence of younger firms highlight the need for targeted interventions to promote inclusive economic growth. Moderate scores in formality, social network utilization, and innovation potential point to opportunities for regulatory improvements, better networking capabilities, and technological advancements. These findings are consistent with previous research in Nepal, which also identified innovation, access to finance, and skilled labor as key factors for SME success (Pandey and Sharma 2018; Acharya and Dhakal, 2020, Subedi and Koirala, 2021). Overall, Lumbini Province is positioned as a promising hub for SMEs, advocating for strategic investments in education, gender equity, and innovation to sustain and enhance economic opportunities in the region.

5.3 Recommendations

5.3.1 Institutional Level

To ensure the effectiveness of training programs, it is crucial that the objectives of the programs align with the understanding and input of the professionals involved. Observations reveal that office in-charges and EDFs may not be fully aware of the factors leading SMEs toward success as identified by econometric analysis. Notably, the majority

of EDFs do not consider 'education' and 'firm age' as factors related to firm success; however, these have been found important. This highlights the necessity for frequent information exchange and the enhancement of knowledge among professionals working in CSIOs. Furthermore, since EDFs are typically entry-level professionals, there should be a greater emphasis on capacity-building opportunities for them. Considering the growing number of industries requiring facilitation year over year, and despite the constant number of human resources, the budget experienced a significant decrease followed by stagnation. It is imperative for the provincial government to increase human resources and ensure an adequate budget in CSIOs to enhance the implementation of support programs effectively. As the study indicates, with many support programs being moderately effective, scaling up the financial limits of programs and accelerating the outreach of such programs to cover a wider range of entrepreneurs may be a viable option.

5.3.2 Facilitation Level

Provincial government should prioritize the industries with success characteristics while facilitating industries. For example, entrepreneurs with a high level of education can be encouraged for entrepreneurship. Provincial industrial policy should be framed with the provision of supporting innovative SMEs in the province. Easily accessible enterprise loans with subsidized interest rate for SMEs are desired. As social network and access to finance are found to be strongly positively correlated, subsidized loans should be provided while ensuring SMEs affiliation with strong business networks. In addition to this, firms with promising business should be encouraged to scale up as the likelihood of firm success is seen to be more for small firms than microenterprises and cottage industry.

5.3.3 Training Improvements

Though training has not been found significant for the firm's success, it is one of the core programs of CSIOs. Previous studies have identified that training may be helpful for increasing the productivity of small firms specially for the short term. From this study it is observed that many entrepreneurs could receive training after they start their own business. Logically, training should be provided during the initial phase of business or before they start business. After they start, entrepreneurs should be monitored and facilitated for a few

more years; rather than many years after establishment. Additionally, the existing limit of contract amount should be revised based on systematic study for ensuring the better quality of trainings with the help of experienced and skillful trainers. Moreover, it is seen that the effectiveness and popularity of long-term training programs is the highest, long-term training should be emphasized and trainees who are highly interested, motivated, dedicated, and educated should be given priority.

5.3.4 Integrated Business Development Services

Provincial government should modify the traditional support programs to integrated business development services. For this, the existing district CSIOs can be utilized with ensuring of technical human resources and budget for the program. Prior to starting this initiative, coordination and commitment from other stakeholder institutions should be secured. A significant challenge this service is likely to encounter is facilitating easy access to credit. Therefore, it's essential to engage in comprehensive discussions regarding collateral-free loan mechanisms with banks and financial institutions. Integrated business development service may help SMEs better than existing support as it focuses in all aspects of business development. Government support programs ought to be strategically designed to activate success factors while mitigating hindrances.

5.3.5 Collective Marketing System

Currently, most collection centers operate informally. Formalizing these centers and instituting a collective marketing system managed by the private sector could enable large-scale manufacturers to source raw materials domestically rather than relying on imports. This shift would benefit both small and large-scale enterprises, potentially establishing a subcontracting system within the industry and solving market problems for SMEs. Additionally, existing cooperatives could be leveraged for collective marketing efforts.

5.4 Limitation and Future Research Directions

For this research, the regression model does not include contextual factors since no concrete quantifiable contextual factor can be identified and collected for the purpose of this study. Moreover, data about overall economic status for the newly formed province is not

available. Due to the primitive nature of SMEs in Lumbini province, for product innovation and process innovation, no sophisticated data can be collected. The analysis about innovativeness is solely based on entrepreneurs' perception about the innovativeness of their business. However, since the data were collected by EDFs, the author believes that the entrepreneurs reported the real data due to EDFs knowledge about their SMEs. Due to the nature of data, the likelihood of success was analyzed rather than magnitude detection. The newly added variable; different from the base literature i.e. firm type as small, cottage and microenterprise (different from the literature: formal and informal) showed interesting results as small firms were found to be more likely to succeed than cottage and microenterprises, future studies can be recommended focusing the impact of scale of business in the success of SMEs. A separate and focused study on enterprises of different scales may uncover more sophisticated and targeted policies and programs for those within the SME cluster.

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Annexes

Annex A: Questions For Questionnaire Survey Self-Introduction

My name is Chhavi Kiran Poudel. I am a student at Tribhuvan University. I am undertaking a study on **Opportunities and Challenges of Small and Medium-Sized Enterprises (SMEs) in Lumbini province of nepal**; I would like to collect information from the local people in this area, who may have been involved in SMEs. I would therefore like to ask you a number of questions in order to get your opinions about challenges you are facing and opportunities you have sighted in running your enterprise in this area. All of the answers you provide will be confidential and will not be shared with anyone outside the research team. The questionnaire will be oral and will take about thirty minutes. You don't have to participate in the survey, but I hope that you agree to answer the questions since the information you provide will help me understand burning issues regarding SMEs in this province. If you don't want to answer any of the questions, please let me know and I will go on to the next question. I can also stop the interview at any time but I am here to learn from you, so I encourage you to answer all the questions in as much details as possible. In addition, if there is any other information that you think would be useful to this study, please let me know.

Respondent's Socio-economic Characteristics

1. Name of the Respondent
2. Ethnicity
3. Gender.....

4. Age 5. Religion..... 6. Primary source of
Income.....

7. Level of Education

- a) None (No formal Education)
- b) Primary (Grade One to Grade Five)
- c) Secondary (Up to Grade Ten)
- d) Higher Secondary (+ 2 and above)

8. What is your well-being ranking as per your CFUGs OP and Constitute?

- a) Rich b) Medium c) Poor d) Pro poor

9. How long have you been living in this area? If migrated, then give me the detail information.

10. For each statement, please mark one response that indicates your **Agreement** or **Disagreement**. The scale Ranges from 1= **Agree**, 2= **Neutral**, 3= **Disagree**

Challenges Perceived	Response		
	Agree	Neutral	Disagree
Technological Backwardness			
Market Access			
Inadequate Training			
Financial Supports			
Workforce			
Quality Raw Materials			
Skills			
Economic Downturn			
Unhealthy Competition			
Absence of Regulatory Environment			
Product Quality			
Infrastructure availability			
High Cost of Production			

11. Which of the following factors do you think are responsible for the success of SMEs in Lumbini province? (Tick all the factor that you think is significant)

Factors	Responses
Geographical Features	
Entrepreneurs Behavior	
Education	
Work Experience	
Gender	
Firm Age	
Formality	
Access to Finance	
Use of Social Network	
Scale of Business	
Process Innovation	
Product Innovation	

Annex B: Focus Group Discussion Guidelines

A. General Business Environment:

1. What are the current economic conditions affecting SMEs in Lumbini Province?
2. How do regulatory policies and bureaucratic processes impact your business operations?
3. What are the major challenges you face in accessing finance and credit facilities?

B. Operational Challenges:

1. What are the primary operational challenges your SME faces on a day-to-day basis?
2. How does infrastructure (e.g., transportation, utilities) affect your business operations?
3. What are the barriers to technology adoption and innovation within your industry?

C. Market and Competition:

1. How competitive is your industry within Lumbini Province? What are the main competitors?
2. What strategies do you employ to differentiate yourself from competitors?
3. How do you perceive market demand and customer preferences evolving in the near future?

D. Human Resources and Skills Development:

1. What are the challenges in recruiting and retaining skilled employees in your industry?
2. How do you address training and skill development needs within your workforce?
3. What role do educational institutions and vocational training centers play in supporting SMEs?

E. Access to Support and Resources:

1. What support services (financial, advisory, technical) are available to SMEs in Lumbini Province?
2. How effective are these support services in meeting the needs of SMEs?
3. What improvements or additional support do you think would benefit SMEs the most?

F. Future Outlook and Opportunities:

1. What opportunities do you see for growth and expansion in Lumbini Province?
2. Are there emerging trends or markets that SMEs could capitalize on?
3. How can government policies and initiatives better support SME development in the region?

G. Sustainability and Challenges in Scaling Up:

1. What are the challenges SMEs face when scaling up their operations or entering new markets?
2. How do you address environmental sustainability concerns in your business practices?
3. What are the barriers to achieving long-term sustainability and growth for SMEs?

Annex C: Questions for Key Informant Interviews

1. How do current government policies and regulations impact SMEs in Lumbini Province?
2. What are the major regulatory hurdles faced by SMEs in terms of compliance and bureaucratic processes?
3. How effective are existing policies in fostering a conducive business environment for SMEs?
4. What are the prevailing economic conditions influencing SMEs in Lumbini Province?
5. How is the market demand evolving for products/services offered by SMEs in the region?
6. Are there emerging market opportunities that SMEs could potentially tap into?
7. What are the main challenges SMEs encounter in accessing finance and credit facilities?
8. What are the barriers to adopting new technologies within SMEs in Lumbini Province?
9. What support services (e.g., business advisory, technical assistance) are available to SMEs in the region?
10. How effective are these support services in meeting the needs of SMEs, particularly in rural areas?
11. What infrastructure improvements are crucial for enhancing the operational efficiency of SMEs?
12. What are the main challenges in terms of recruiting and retaining skilled workforce for SMEs?
13. Are there specific skill gaps that need to be addressed to support SME growth and sustainability?
14. In your opinion, what are the key priorities for policymakers to support SME development in Lumbini Province?
15. What policy initiatives or reforms would you recommend to address the identified challenges and capitalize on opportunities?

Annex D: Glimpses of the Field Study



Focus Group Discussion: Rupendehi District



Enterprise Storage Visit: Banke District



Agricultural Products in Cold Storage Bake



Meeting with municipal team of Tulshipur Metropolitancy, Dang



Interaction with women group at Bardiya District involved in knitting enterprise