Access to Finance in Nepal: New Survey Evidence

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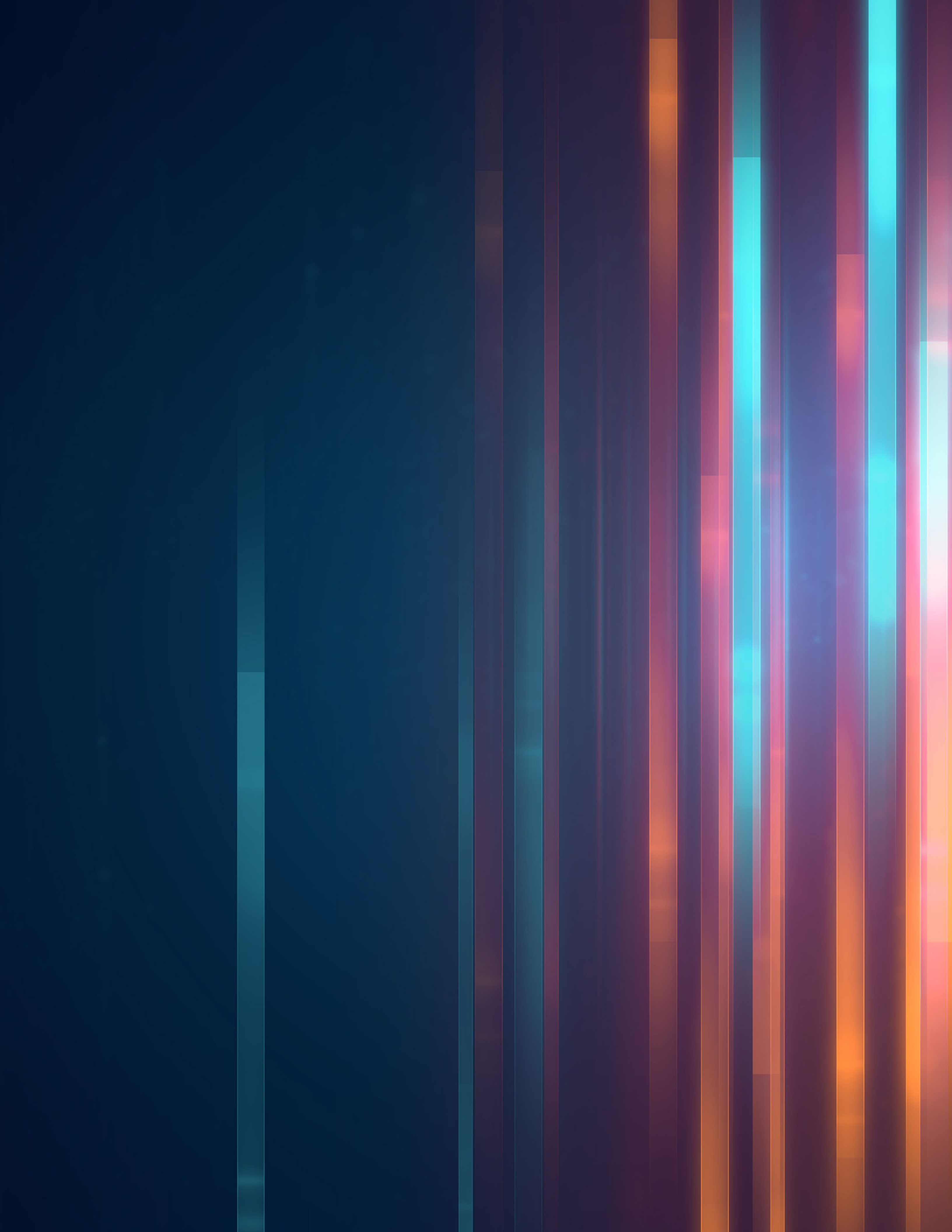

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The Nepal Stock Exchange (NEPSE) contributes to the creation of wealth in Nepal through providing a platform for the trading of listed securities, as well as clearing and settlement facilities, and supervising and regulating its members. The basic objectives of the NEPSE are to provide liquidity for government bonds and corporate securities by facilitating transactions through intermediaries, such as brokers and market makers, and to protect investors' rights.

Introduction and Summary of Findings

In late May 2019, the Nepal Stock Exchange (NEPSE) hosted the annual meeting of the executive committee of the South Asian Federation of Exchanges (SAFE), an association of stock exchanges that promotes the development of the region's securities markets. As part of the meeting, the NEPSE and SAFE partnered with the Milken Institute to hold a roundtable covering various aspects of modernizing Nepal's equity markets, including the foundations for capital market development, attracting new listings and new investors, improving the trading environment, and the ownership and governance structures of the NEPSE.[1]

To inform the roundtable discussion, NEPSE and the Milken Institute conducted a survey earlier that month of Nepali businesses. Its purpose was to provide timely data on the current business environment and to better understand firms' concerns about access to finance and risk exposure and their thoughts on developing the stock market. In this report, we present the results of the survey pertaining to the business environment, access to finance, and demand for new financial tools and funding sources. A subsequent paper will discuss findings specific to equity market development.

Access to finance and related issues are integral to the government's economic development agenda. As the World Bank notes in a 2018 report on Nepal, "Improved access to finance, improved intermediation, and the development of long-term finance will be crucially important to channel finance (foreign or local) to productive activities."[2] Accordingly, it is important to learn from Nepali firms themselves how they rank financial access among other obstacles to growth, their current funding sources and those they wish they could access, the consequences they report due to a lack of funding, their exposure to risks, and the kinds of financial products they would like to see developed.

1 . For a summary of the roundtable discussion, see "Framing the Issues: Modernizing the Public Equity Market in Nepal" (Milken Institute, November 2019), http://milkeninstitute.org/reports/framing-issues-modernizing-public-equity-market-nepal.

2 "Nepal Development Update: Maximizing Finance for Development" (World Bank, November 2018), http://documents.worldbank.org/curated/en/149861540823062828/Nepal-Development-Update-Maximizing-Finance-for-Development.

The NEPSE-Milken Institute survey examined these questions directly. Seven key findings emerged from the results. They are summarized here and explored in greater detail in the following pages.

1. **COMPANIES RANK ACCESS TO FINANCE AS THEIR TOP OBSTACLE:** Among responding firms, 25 percent said access to finance was the number one obstacle in a list of 17 options.

2. **CONCERNS ABOUT POLITICAL INSTABILITY AND ACCESS TO ELECTRICITY HAVE NEARLY VANISHED:** In a dramatic shift from a 2013 World Bank Enterprise Survey in which political instability and access to electricity ranked as the top two business obstacles,[3] just 6 percent of responding firms in 2019 cited political instability as their greatest obstacle, and none cited electricity as a top concern.

3. **ACCESS TO FINANCE AS A BUSINESS OBSTACLE DOES NOT APPEAR TO MEAN AN INABILITY TO ACCESS BANK LENDING:** Only 10 percent of responding firms said they could not access bank loans. Even among small and medium-sized enterprises (SMEs), only 14 percent of respondents said they wanted to use bank lending but lacked access.

4. **BANK LOANS AND OTHER CURRENT FUNDING SOURCES ARE GENERALLY INSUFFICIENT FOR GROWTH:** Difficulty raising funds limited firms' ability to expand operations, according to 59 percent of respondents, while 42 percent said that a lack of finance limited their ability to invest in R&D. Few firms reported extreme consequences, such as having to close branches or lay off employees.

5. **A LARGE MAJORITY OF FIRMS ARE EXPOSED TO INTEREST RATE FLUCTUATIONS:** About 75 percent of all responding firms—including 90 percent of firms that currently use bank loans as a funding source—said that interest rate changes expose them to financial risk.

6. **MOST FIRMS WOULD USE DERIVATIVES IF THESE PRODUCTS WERE AVAILABLE:** Over 80 percent of reporting firms said they would use financial derivatives to help manage their exposure to interest rate, foreign exchange, and commodity price risks.

7. **DEMAND IS ALSO STRONG FOR NEW CORPORATE FINANCING SOURCES, PARTICULARLY FDI:** Nearly 60 percent of surveyed firms said they wanted access to foreign direct investment (FDI). The survey results also found an appetite among a sizable percentage of firms for financing through private equity, invoice factoring, and debt issuance.

3. World Bank "Enterprise Surveys" data for Nepal (World Bank, 2013), https://www.enterprisesurveys.org/en/data/exploreeconomies/2013/nepal.

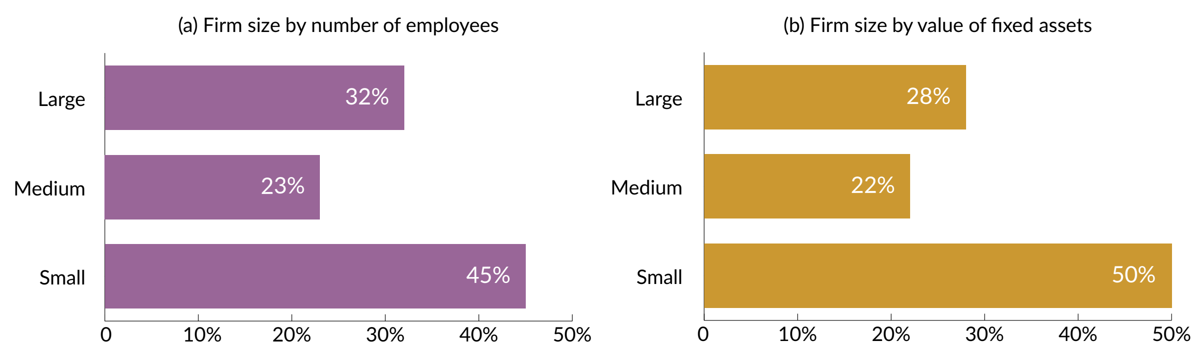
The report proceeds with a general description of the survey methodology and the sample of respondents, followed by a discussion of the survey's potential limitations. A subsequent section provides a broader discussion of the key findings. A concluding summary addresses the implications for Nepal's broader economic development agenda.

The report concludes with a summary of the main themes discussed by roundtable participants and a detailed table of the concrete recommendations that emerged from the discussion.

Methodology, Sample Description, and Limitations

The NEPSE-Milken Institute survey was conducted from May 2–24, 2019, by means of a Survey Monkey click-through survey, the link to which was emailed to members of various Nepali business associations, and by in-person interviews conducted by NEPSE staff. All questions were posed in English. Some questions used and built on language from the World Bank Enterprise Surveys.[4] The survey team focused on collecting responses from both SMEs and large firms in five priority sectors identified by the International Finance Corporation (IFC)—tourism, agribusiness, health, IT services, and education[5]—but welcomed responses from other sectors. Respondents were proprietors, senior-level executives, or staff with direct knowledge of the firm's funding sources and ownership structure.

Figure 1: Percentage of Firms, by Size



Source: NEPSE-Milken Institute Survey of Nepali Businesses, 2019

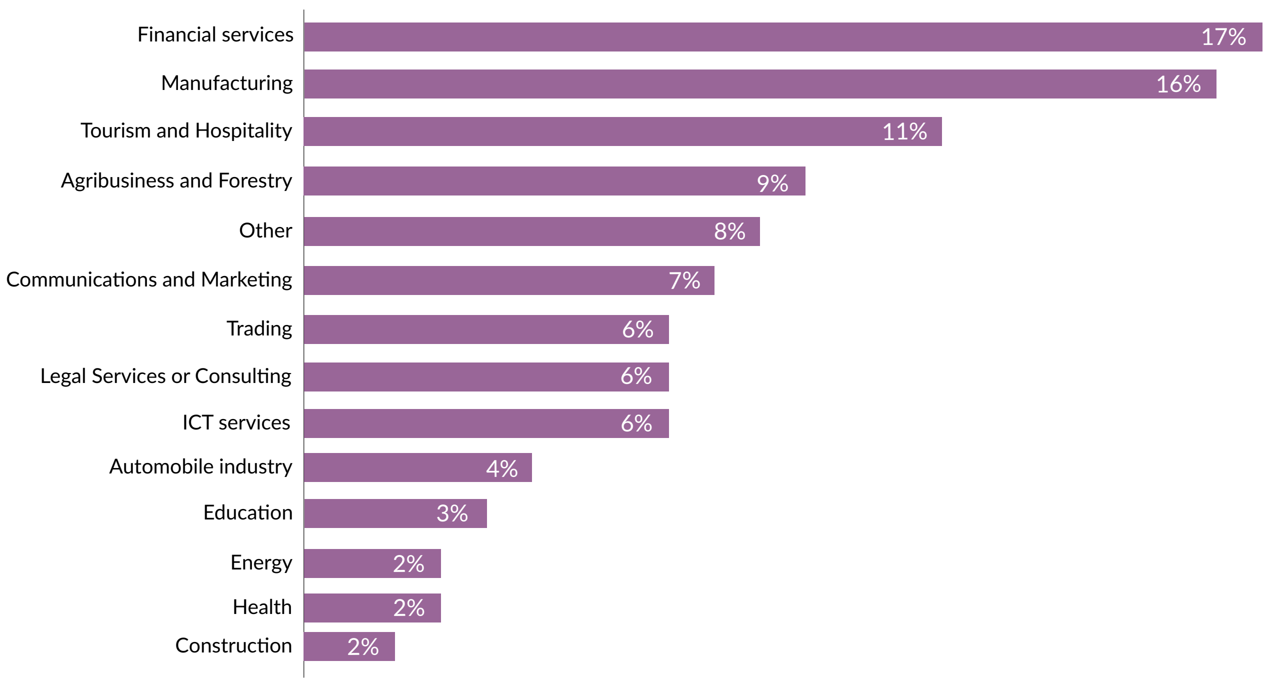
4. The survey's question about top business obstacles included the 15 obstacles cited by the World Bank in its 2009 and 2013 Nepal Enterprise Surveys and added two more—lack of policy clarity and ambiguity of the new federal structure—to reflect potential new concerns following the adoption of the 2015 constitution.

5. "Creating Markets in Nepal: Country Private Sector Diagnostic" (World Bank, October 2018), www.ifc.org/wps/wcm/connect/cf66e8dc-f7c0-42b9-80ef-fc13920f89dd/CPSD_Nepal_Oct18_2_Web.pdf?MOD=AJPERES&CVID=msllQer.

During the collection period, the survey team received 126 valid survey responses, most of which were collected online. Figure 1 breaks down the sample by firm size, based on two assessments: an international, employment-based definition as well as Nepal's asset-based definition.[6] By either definition, SMEs constituted about 70 percent of the sample, and large firms make up the remaining 30 percent. Figure 2 shows the range of sectors represented in the sample. About half the surveyed firms were in the financial services, manufacturing, tourism and hospitality, or agribusiness and forestry sectors.

The survey has several limitations. First, it was conducted to inform a roundtable discussion and provide a general overview for participants, not a comprehensive description of the business environment. We recognize the sample of 126 firms is not statistically significant as a representation of the national business community. Second, it was conducted in English and primarily online. As a result, firms whose proprietors or managers did not speak English were excluded from the sample, while firms without Internet access had little opportunity to participate. Third, the financial services industry is over-represented in the sample due to the focus on

Figure 2: Percentage of Firms, by Sector



Source: NEPSE-Milken Institute Survey of Nepali Businesses, 2019.
Note: Here and elsewhere, percentages may not add up to 100 due to rounding.

6 . The World Bank classifies firms with fewer than 20 employees as small, those with 20–99 employees as medium, and firms with 100 or more employees as large. In Nepal, the Industrial Policy of 2010 issued by the Ministry of Industry, Commerce and Supplies defines small-scale industries as having fixed assets valued at up to 50 million Nepali rupees (NPR); medium-scale industries as having between NPR 50 million and NPR 150 million in fixed assets; and large-scale industries as having fixed assets valued at more than NPR 150 million.

collecting responses from companies listed on the Nepal Stock Exchange. Fourth, 106 respondents (84 percent of the sample) were located in the Kathmandu Valley (Province 3), while only 20 firms (16 percent) were from other provinces.[7]
Thus, the survey results are more representative of conditions in the capital city and surroundings, and less indicative of challenges that rural businesses face. Finally, there may be response biases associated with face-to-face interviews conducted by NEPSE staff members.

Despite these limitations, the survey is the first formal effort since 2013 to collect evidence from private-sector firms on the business environment and their ability to access finance.[8] While the findings should be interpreted cautiously, they constitute a potentially valuable source of information for policymakers and development partners. They may also serve as a useful compass for more expansive research efforts on these topics. To that end, a data appendix at the end of the paper presents raw findings in a series of tables.

Survey Findings and Analysis

The chief findings presented here fall under three main categories: the business environment, access to finance, and the demand for new financial products and funding sources. A discussion of each follows.

THE BUSINESS ENVIRONMENT

FINDING: COMPANIES RANK ACCESS TO FINANCE AS THEIR TOP OBSTACLE.

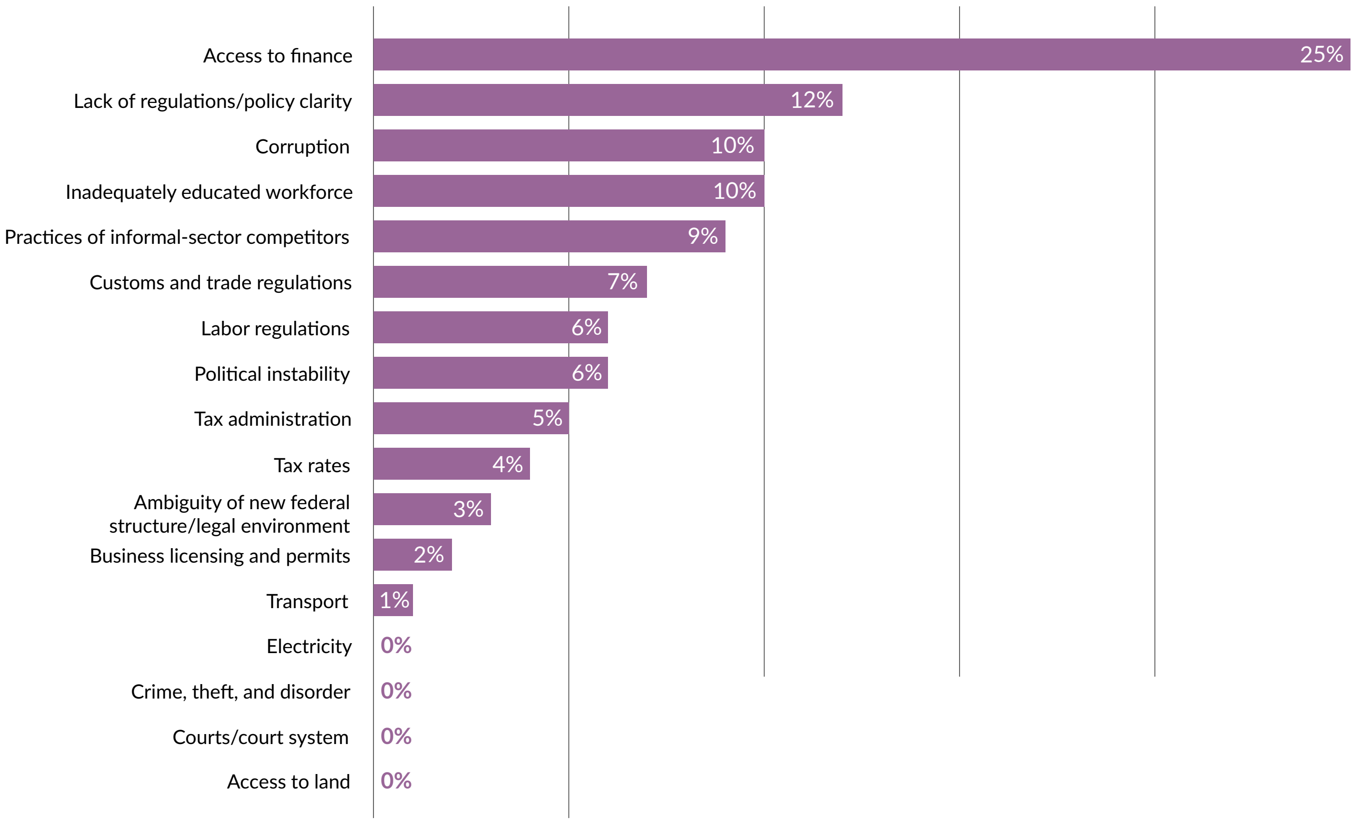
Survey participants were given a list of 17 possible business obstacles—adapted from the World Bank Enterprise Surveys—and were asked to select which was the "top obstacle" currently facing their business. Selected by 25 percent of firms, access to finance ranked as the greatest obstacle facing survey respondents. And two-thirds (65 percent) reported access to finance to be either a moderate, major, or very severe obstacle.

Dividing the sample by firm size and sector reveals some interesting nuances to this finding—nuances that suggest policy initiatives to catalyze economic growth should be tailored for challenges specific to firm size and sector.

7. There were no responses from the two westernmost provinces, one of which, Sudurpashchim Pradesh, is home to nearly 10 percent of the population.

8. As far as we know, the last formal attempt to gather survey-based data from Nepali firms on their business environment was the 2013 World Bank Enterprise Survey.

Figure 3: Top Business Obstacles in Nepal (by percent of respondents)
Q: Afer considering the aspects of the business environment listed below, please identify the top obstacle currently faced by your company.



Source: NEPSE-Milken Institute Survey of Nepali Businesses, 2019

With respect to firm size, both SMEs and large firms ranked access to finance as their top obstacle. But SMEs then ranked lack of policy clarity and corruption as their next greatest challenges, while large firms flagged practices of informal sector competitors and an inadequately educated workforce as important barriers. They were also more concerned about political stability.

A firm's sector also appears to have a bearing on the ranking of obstacles, though the small sample size warrants caution in interpreting these results. For the agribusiness and forestry sector, in particular, access to finance appears to be a severe constraint. Nearly half—46 percent—of these firms identified it as their top obstacle. Meanwhile, just 14 percent of firms in the tourism and hospitality sector counted access to finance as their primary obstacle, while 29 percent cited lack of regulations/policy clarity. Likewise, only 5 percent of firms in manufacturing selected access to finance as their primary obstacle, while 26 percent identified an inadequately educated workforce.

Table 1: Top Five Obstacles, by Firm Size (by percent of respondents)

	All Firms		SMEs		Large Firms	
	Obstacles	Percent	Obstacles	Percent	Obstacles	Percent
1.	Access to Finance	24.8	Access to Finance	24.4	Access to Finance	25.6
2.	Lack of Policy Clarity	12.0	Lack of Policy Clarity	16.3	Practices of Informal Sector Competition	18.0
3.	Corruption	10.4	Corruption	14.0	Inadequately Educated Workforce	12.8
4.	Inadequately Educated Workforce	9.6	Customs and Trade Regulations	8.1	Political Instability	10.3
5.	Practices of Informal Sector Competition	8.8	Inadequately Educated Workforce	8.1	Labor Regulations	7.7

Table 2: Top Five Obstacles, by Sector (by percent of respondents)

	Argibusiness & Forestry		Financial Services		Manufacturing		Tourism & Hospitality	
	Obstacles	Percent	Obstacles	Percent	Obstacles	Percent	Obstacles	Percent
1.	Access to Finance	45.1	Access to Finance	24.4	Inadequately Educated Workforce	26.3	Lack of Policy Clarity	28.6
2.	Customs & Trade Regulations	27.3	Political Instability	16.3	Customs & Trade Regulation	15.8	Access to Finance	14.3
3.	Lack of Policy Clarity	9.1	Lack of Policy Clarity	14.0	Lack of Policy Clarity	15.8	Labor Regulation	14.3
4.	Practices of Informal Sector Competition	9.1	Labor Regulation	8.1	Tax Administration	15.8	Practices of Informal Sector Competition	14.3
5.	Tax Administration	9.1	Practices of Informal Sector Competition	8.1	Labor Regulations	10.5	Tax Rates	14.3

Source: NEPSE-Milken Institute Survey of Nepali Businesses, 2019

FINDING: CONCERNS ABOUT POLITICAL INSTABILITY AND ACCESS TO ELECTRICITY HAVE NEARLY VANISHED.

Perceptions of the business community have changed dramatically over the last several years. In both the 2009 and 2013 Enterprise Surveys, the business community identified political instability and access to electricity as its main obstacles. But in 2019, only 6 percent of firms cited political instability as their top obstacle. None selected access to electricity.

These results highlight the progress Nepal has made over the last several years, which has included the adoption of a new constitution, well-executed local and national elections, and the resolution of the country's energy crisis.

Table 3: 2019 Survey Versus Past Studies (by percent of respondents)
Q: After considering the aspects of the business environment listed below, please identify the top obstacle currently faced by your company.

	NEPSE-MI 2019	WB ES 2013	WB ES 2009
Political Instability	5.6	48.9	62.1
Electricity	0.0	25.6	26.5
Access to Finance	24.8	8.6	2.5
Corruption	10.4	0.8	0.0
Inadequately Educated Workforce	9.6	0.9	1.6
Practices of Informal Sector	8.8	3.0	0.0

Source: NEPSE-Milken Institute Survey of Nepali Businesses, 2019; World Bank Enterprise Surveys

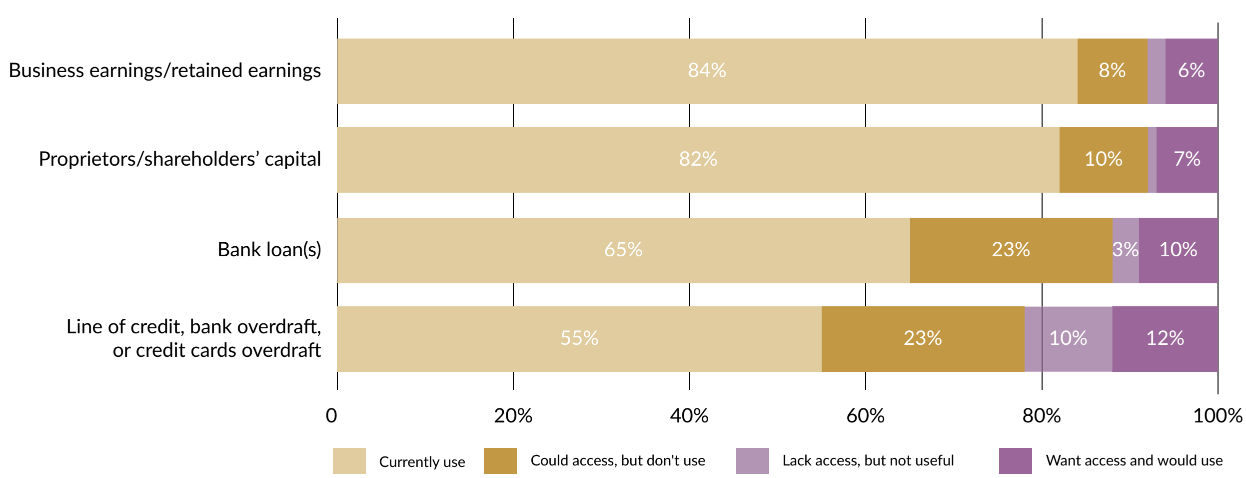
ACCESS TO FINANCE

Because firms now rate access to finance as their greatest obstacle to growth, it is worthwhile to explore what they mean by this. The survey covered a number of possibilities, beginning with issues related to accessing bank credit.

FINDING: ACCESS TO FINANCE AS A BUSINESS OBSTACLE DOES NOT APPEAR TO MEAN AN INABILITY TO ACCESS BANK LENDING.

Only 10 percent of responding firms said that they were currently excluded from accessing bank loans. Two-thirds reported that they currently used bank lending as a funding source, while another 23 percent said they could access bank loans but chose not to. Even among SMEs, only 14 percent said they wanted to use bank lending but were unable to access it.

Figure 4: Most Commonly Used Funding Sources



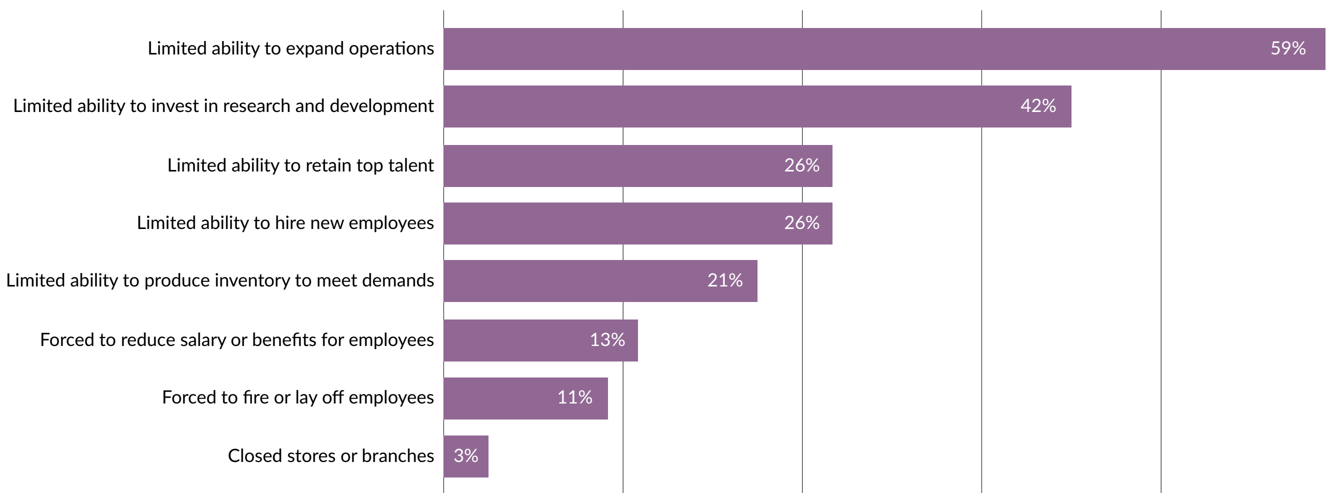
Source: NEPSE-Milken Institute Survey of Nepali Businesses, 2019

But access to bank lending does not mean that firms say they have adequate access to finance. In fact, just as for the total sample, 25 percent of all surveyed firms that say they use bank loans as a funding source also rank access to finance as their top obstacle. Additional survey findings help explain this.

FINDING: BANK LOANS AND OTHER CURRENT FUNDING SOURCES ARE GENERALLY INSUFFICIENT FOR GROWTH.

The survey asked firms, “To what degree is access to finance an obstacle to the current operations of your company?” The two-thirds (65 percent) of surveyed firms reporting it as a moderate, major, or very severe obstacle received a follow-up question about the consequences poor financial access had for their business. In general, these firms appear to be able to survive with current funding sources but are not able to invest and grow. In particular, only a few firms responded that a lack of financial access resulted in salary cuts, employee lay-offs, or store or branch closures. But 59 percent said that difficulties raising funds limited their ability to expand operations, and 42 percent reported a limited ability to invest in research and development.

Figure 5: Consequences of a Lack of Financial Access, Percentage of Firms that Identified Access to Finance as a Moderate, Major, or Very Severe Obstacle
Q: How have difficulties raising funding affected your business?



Source: NEPSE-Milken Institute Survey of Nepali Businesses, 2019

These results suggest that current funding sources—the proprietor’s own capital, retained earnings, and bank credit—are likely insufficient to achieve the rapid economic growth necessary to achieve Nepal’s ambitious development objectives. The results also underscore the need to develop a broader range of funding opportunities and financial tools, an outcome that firms themselves say they want.

FINDING: A LARGE MAJORITY OF FIRMS REPORT EXPOSURE TO INTEREST RATE FLUCTUATION.

In an effort to bring transparency to how lending is priced, the Nepal Rastra Bank (NRB, the central bank) requires banks to publish their lending base rates on a quarterly basis. These rates are determined by the central bank's policy rate, the banks' cost of funds, a margin for return on assets, and other considerations. The interest rates on corporate loans are pegged to each bank's particular lending base rate, meaning borrowing rates can fluctuate each quarter.

But when the cost of debt cannot be anticipated beyond the next quarter, the resulting uncertainty makes it difficult for borrowers to make long-term projections or investments. It can also mean increased debt burdens. In the 12 months preceding the May 2019 survey, the base rate rose by about 0.25 percent each quarter.

The survey results captured business exposure to fluctuating rates. When asked about the kinds of risks they manage, 74 percent of firms reported exposure to changing interest rates. Among firms that cited access to finance as their top obstacle, the percentage was even higher—88 percent said they had exposure to changing interest rates. Among firms that "currently use" a bank loan, 90 percent cite this exposure.

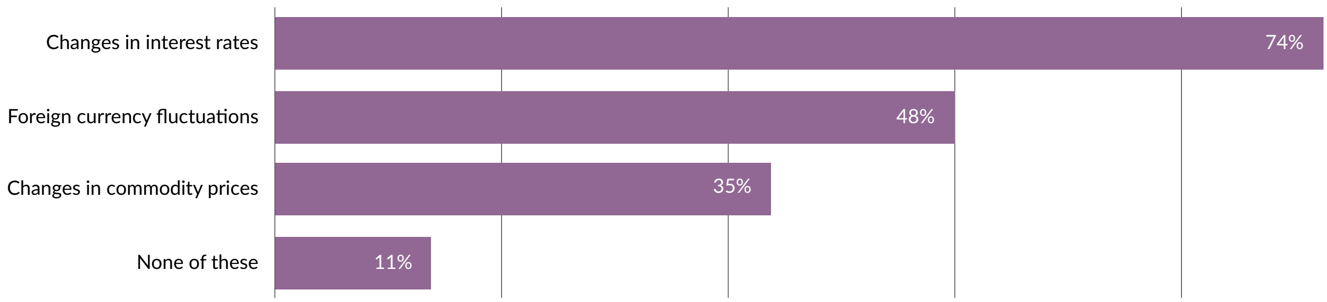
THE DEMAND FOR NEW FINANCIAL TOOLS AND FUNDING SOURCES

Solutions to inadequate funding for investment and exposure to interest rate changes will require expanding the kinds of funding sources and risk management products available in Nepal. The survey asked about firms' appetite for these products, and the results are discussed in this section.

FINDING: MOST FIRMS WOULD USE DERIVATIVES IF THESE PRODUCTS WERE AVAILABLE.

Exposure to financial risk occurs in various ways. In addition to the 74 percent of surveyed firms who reported exposure to changing interest rates, about 48 percent of firms said they had exposure to foreign exchange (FX) risks, which can arise from cross-border trade or supply chains or various financial activities. Meanwhile, about 35 percent of firms—most of them in the manufacturing, agribusiness, and tourism sectors—reported exposure to changes in commodity prices.

Figure 6: Risk Exposure (by percentage of respondents)
Q: Is your comapny exposed to any of the following kinds of risks?



Source: NEPSE-Milken Institute Survey of Nepali Businesses, 2019

Figure 7: Appetite for Financial Derivatives (by percentage of repondents)
Q: If there were financial derivatives available to help you to manage your risks, would you use them?

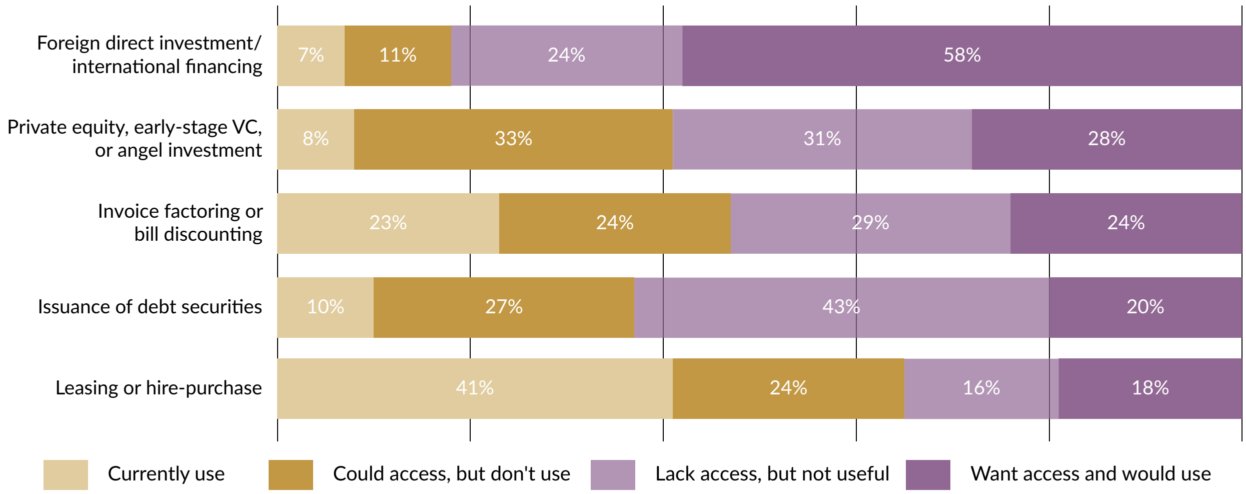
Source: NEPSE-Milken Institute Survey of Nepali Businesses, 2019

Firms reporting any of these risks were asked, "If there were financial derivatives available to help you manage risk, would you use them?" Over 80 percent said yes, as shown in Figure 7. Firms were also given the opportunity to identify the kinds of products they would like to see developed. Firms contending with fluctuating interest rates repeatedly cited a desire for fixed-rate loans, reflecting the lending conditions described in the "Access to Finance" section. Some firms also wanted access to interest rate swaps and the ability to issue corporate debt securities, such as debentures and long-term bonds. Firms with exposure to FX risks specifically cited FX forwards, futures, and options as hedging products they would like to be able to use.

FINDING: DEMAND IS STRONG FOR NEW CORPORATE FINANCING SOURCES, PARTICULARLY FDI.

With respect to new funding sources, the survey results show a strong appetite for foreign direct investment (FDI), with 58 percent of firms saying they want access to it. There is also an appetite among some firms for private equity or venture capital funding (28 percent), invoice factoring (24 percent), and the issuance of debt securities (20 percent).

Figure 8: Appetite for New Funding Sources



Source: NEPSE-Milken Institute Survey of Nepali Businesses, 2019

The demand for FDI reflects the fact that Nepal currently attracts very low levels of FDI. In 2018, the country received about US$1.6 million in FDI inflows, while Sri Lanka—which has roughly the same population but a larger economy—attracted 10 times as much (US$1.6 billion). Increased foreign investment could help raise firm productivity and catalyze economic growth. As the NRB has noted, FDI "helps technology to spill over, supports human capital formation, enhances international trade integration, creates [a] competitive environment and strengthens enterprise development," in addition to being a source of capital formation.[9]

Early-stage equity financing and alternative financing approaches could also help spur economic productivity among young, innovative SMEs. Because equity financing (unlike debt) does not require firms to make regular repayments to investors, it is well-suited for younger firms whose cash flows are irregular or even negative but who show potential for high growth. In a different way, invoice factoring could help alleviate cash flow pressures on smaller firms by allowing them to capitalize immediately on future receivables.

Debt issuance, on the other hand, could help established firms overcome some of the challenges in the current banking environment by reducing the cost of capital and providing these businesses with longer-term funds with a fixed interest rate. The development of debt markets for larger firms would also have a benefit for SMEs. As large corporations increasingly tap the capital markets for their investment needs, banks would need to rely on SMEs for business, forcing banks to improve their client service and their product offerings for smaller firms.

9. See "A Survey Report on Foreign Direct Investment in Nepal," (Nepal Rastra Bank, June 2018), which cites "Foreign Direct Investment for Development Maximising Benefits, Minimising Costs," (Organization for Economic Cooperation and Development, 2002), www.nrb.org.np/red/publications/study_reports/Study_Reports--A_Survey_Report_on_Foreign_Direct_Investment_in_Nepal).pdf.

Conclusion

The findings from the 2019 NEPSE-Milken Institute business survey have important implications for economic development in Nepal. First, they underscore the improvements in the business environment over the past several years, particularly with regard to political stability and access to electricity. At the same time, the findings signal that improving access to finance will be critical if Nepal is to achieve the rapid economic development that national leaders are targeting.

The survey results suggest that poor financial access does not mean that firms are cut off from bank lending. Instead, current funding sources—including bank loans, which are widely used—appear to be insufficient for investment and growth. A large majority of firms are also exposed to interest rate fluctuations that undermine their ability to make long-term projections and investments. In this environment, firms say they want access to financial derivatives to help manage their risks. They also want access to a broader range of funding sources, including foreign investment, private equity, invoice factoring, and the issuance of debt securities.

Taken as a whole, these findings strengthen the case that building a more diverse and sophisticated financial sector would help bolster and sustain economic growth in Nepal.

Data Appendix

1. Description of the Sample

(a) Sector
n = 126

	Percent of sample	Responses
Agribusiness and Forestry	8.7	11
Automobile Industry	4.0	5
Communications and Marketing	7.1	9
Construction	1.6	2
Education	3.2	4
Energy	2.4	3
Financial Services	16.7	21
Health	2.4	3
ICT Services	6.4	8
Legal Services or Consulting	6.4	8
Manufacturing	15.9	20
Tourism and Hospitality	11.1	14
Trading	6.4	8
Other	7.9	10

Source: NEPSE-Milken Institute Survey of Nepali Businesses, 2019

(b) Geographic location
n = 126

	Percent of sample	Responses
Province 1	4.0	5
Province 2	2.4	3
Province 3	84.1	106
Gandaki Pradesh	4.0	5
Province 5	5.6	7
Karnali Pradesh	0.0	0
Sudurpashchim Pradesh	0.0	0

Source: NEPSE-Milken Institute Survey of Nepali Businesses, 2019

(c) Number of employees
n = 126

	Percent of sample	Responses
1–19	45.2	57
20–99	23.0	29
100–249	11.1	14
250–999	12.7	16
> 1,000	7.9	10

Source: NEPSE-Milken Institute Survey of Nepali Businesses, 2019

(d) Book value of fixed assets, in Nepalese rupees
n = 123

	Percent of sample	Responses
< 50 million Rs	50.4	62
50 million–150 million Rs	22.0	27
151 million–500 million Rs	7.3	9
501 million–1 billion Rs	6.5	8
> 1 billion Rs	13.8	17

Source: NEPSE-Milken Institute Survey of Nepali Businesses, 2019

2. Top Business Obstacles

Q. After considering the aspects of the business environment listed below, please identify the top obstacle currently faced by your company.

(a) Total Sample
n = 125

	Percent of sample	Responses
Access to finance	24.8	31
Access to land	0.0	0
Ambiguity of new federal structure and legal environment	3.2	4
Business licensing and permits	2.4	3
Corruption	10.4	13
Courts/court system	0.0	0
Crime, theft, and disorder	0.0	0
Customs and trade regulations	7.2	9
Electricity	0.0	0
Inadequately educated workforce	9.6	12
Labor regulations	6.4	8
Lack of regulations/policy clarity	12.0	15
Political instability	5.6	7
Practices of competitors in the informal sector	8.8	11
Tax administration	4.8	6
Tax rates	4.0	5
Transport	0.8	1

(b) Top obstacles, by firm size
n = 86 (SMEs, 1-99 employees)
n = 39 (large firms, 100 or more employees)

	SMEs (percent)	Large Firms (percent)
Access to finance	24.4	25.6
Access to land	0.0	0.0
Ambiguity of new federal structure and legal environment	3.5	2.6
Business licensing and permits	2.3	2.6
Corruption	14.0	2.6
Courts/court system	0.0	0.0
Crime, theft, and disorder	0.0	0.0
Customs and trade regulations	8.1	5.1
Electricity	0.0	0.0
Inadequately educated workforce	8.1	12.8
Labor regulations	5.8	7.7
Lack of regulations/policy clarity	16.3	2.6
Political instability	3.5	10.3
Practices of competitors in the informal sector	4.7	18.0
Tax administration	4.7	5.1
Tax rates	3.5	5.1
Transport	1.2	0.0

Source: NEPSE-Milken Institute Survey of Nepali Businesses, 2019

(c) Top obstacles, by selected sector
n = 11 (Agribusiness and Forestry)
n = 21 (Financial Services)
n = 20 (Manufacturing)
n = 14 (Tourism and Hospitality)

	Agribusiness & Forestry (percent)	Financial Services (percent)	Manufacturing (percent)	Tourism & Hospitality (percent)
Access to finance	45.5	28.6	5.3	14.3
Access to land	0.0	0.0	0.0	0.0
Ambiguity of the new federal structure and legal environment	0.0	0.0	5.3	7.1
Business licensing and permits	0.0	0.0	5.3	7.1
Corruption	0.0	4.8	0.0	0.0
Courts/court system	0.0	0.0	0.0	0.0
Crime, theft, and disorder	0.0	0.0	0.0	0.0
Customs and trade regulations	27.3	0.0	15.8	0.0
Electricity	0.0	0.0	0.0	0.0
Inadequately educated workforce	0.0	4.8	26.3	0.0
Labor regulations	0.0	9.5	10.5	14.3
Lack of regulations/policy clarity	9.1	14.3	15.8	28.6
Political instability	0.0	19.1	0.0	0.0
Practices of competitors in the informal sector	9.1	9.5	0.0	14.3
Tax administration	9.1	0.0	15.8	0.0
Tax rates	0.0	9.5	0.0	14.3

3. Consequences of Poor Financial Access

Q. How have difficulties raising funding affected your business? Select all that apply. (Asked of firms identifying access to finance as a moderate, major, or very severe obstacle.)

n = 76 (Total Sample)
n = 55 (SMEs)
n = 21 (Large Firms)

	Total Sample (percent)	SMEs (percent)	Large Firms (percent)
Limited our ability to expand operations	59.2	60.0	57.1
Limited our ability to invest in research and development	42.1	49.1	23.8
Limited our ability to hire new employees	26.3	34.6	4.8
Limited our ability to retain top talent	26.3	30.9	14.3
Limited our ability to produce inventory to meet demands	21.1	21.8	19.1
Forced to reduce salary or benefits for employees	13.2	18.2	0.0
Forced to fire or lay off employees	10.5	14.6	0.0
Closed stores or branches	2.6	3.6	0.0

4. Access to Funding Sources

Q. For each of the financing options listed below, choose one of the following: We currently use this form of financing or have used it in the last year; We don't use this form of financing but have access; We lack access but would not use this form of financing; or We would like to use this form of financing but lack access. Select one response for each row.

n = 101 (Total Sample)
n = 69 (SMEs)
n = 32 (Large Firms)

	Currently use (percent)	Could access but don't use (percent)	Lack access but not useful (percent)	Want access and would use (percent)
Bank loan(s)				
Total Sample	64.5	22.6	3.2	9.7
SMEs	54.0	27.0	4.8	14.3
Large Firms	86.7	13.3	0.0	0.0
Borrowing from family, friends, or other informal sources				
Total Sample	32.0	41.2	16.5	10.3
SMEs	36.4	36.4	13.6	13.6
Large Firms	22.6	51.6	22.6	3.2
Business earnings/retained earnings				
Total Sample	83.5	8.3	2.1	6.2
SMEs	80.0	9.2	3.1	7.7
Large Firms	90.6	6.3	0.0	3.1
Foreign direct investment/international financing				
Total Sample	7.2	11.3	23.7	57.7
SMEs	3.1	9.2	30.8	56.9
Large Firms	15.6	15.6	9.4	59.4
Invoice factoring or bill discounting				
Total Sample	22.8	23.9	29.4	23.9
SMEs	21.0	17.7	33.9	27.4
Large Firms	26.7	36.7	20.0	16.7
Issuance of debt securities (i.e., commercial paper or corporate bonds)				
Total Sample	9.9	27.5	42.9	19.8
SMEs	8.3	25.0	16.4	21.3
Large Firms	51.6	19.4	16.1	12.9

Continued on next page

	Currently use (percent)	Could access but don't use (percent)	Lack access but not useful (percent)	Want access and would use (percent)
Leasing or hire-purchase				
Total Sample	41.3	23.9	16.3	18.5
SMEs	36.1	26.2	16.4	21.3
Large Firms	51.6	19.4	16.1	12.9
Line of credit, bank overdraft, or credit card overdraft				
Total Sample	55.3	23.4	9.6	11.7
SMEs	47.6	23.8	11.1	17.5
Large Firms	71.0	22.6	16.1	12.9
Private equity or early-stage equity financing from angel investors or venture capital fund				
Total Sample	7.8	33.3	31.1	27.8
SMEs	8.3	26.7	31.7	33.3
Large Firms	6.7	46.7	30.0	16.7
Proprietors/shareholders' capital				
Total Sample	82.4	9.9	1.1	6.6
SMEs	80.0	8.3	1.7	10.0
Large Firms	87.1	12.9	0.0	0.0

5. Risk Management

Q. Is your company exposed to any of the following kinds of risks? Select all that apply or choose "None of these."

(a) Risk exposure
n = 105 (Total Sample)
n = 71 (SMEs)
n = 34 (Large Firms)

	Total Sample (percent)	SMEs (percent)	Large Firms (percent)
Changes in interest rates	74.3	70.4	82.4
Foreign currency fluctuations	47.6	39.4	64.7
Changes in commodity prices	35.2	33.8	38.2
None of these	11.4	12.7	8.8

Q. If there were financial derivatives available to help you to manage your risks, would you use them? (Asked of firms that answered they were exposed to any of the above risks.)

(b) Appetite for financial derivatives
n = 91 (Total Sample)
n = 60 (SMEs)
n = 31 (Large Firms)

	Total Sample (percent)	SMEs (percent)	Large Firms (percent)
Yes	81.3	81.7	80.7
No	18.7	18.3	19.4

ABOUT THE AUTHOR

John Schellhase is an associate director with the Milken Institute's Global Market Development (GMD) practice. The GMD practice supports policymakers in developing countries and emerging markets in their effort to strengthen and deepen domestic capital markets and catalyze funding for national development priorities. As part of the GMD team, Schellhase has managed financial-sector development projects in Rwanda, Myanmar, Nepal, the Philippines, and Thailand. He is based in Madrid, Spain.

On behalf of the Milken Institute, the author wishes to thank the leadership of the NEPSE for their ongoing partnership on capital market development research in Nepal and for their substantial support throughout the fielding of this survey.