

MSMEs Related Policy Actions in the COVID Context in Nepal

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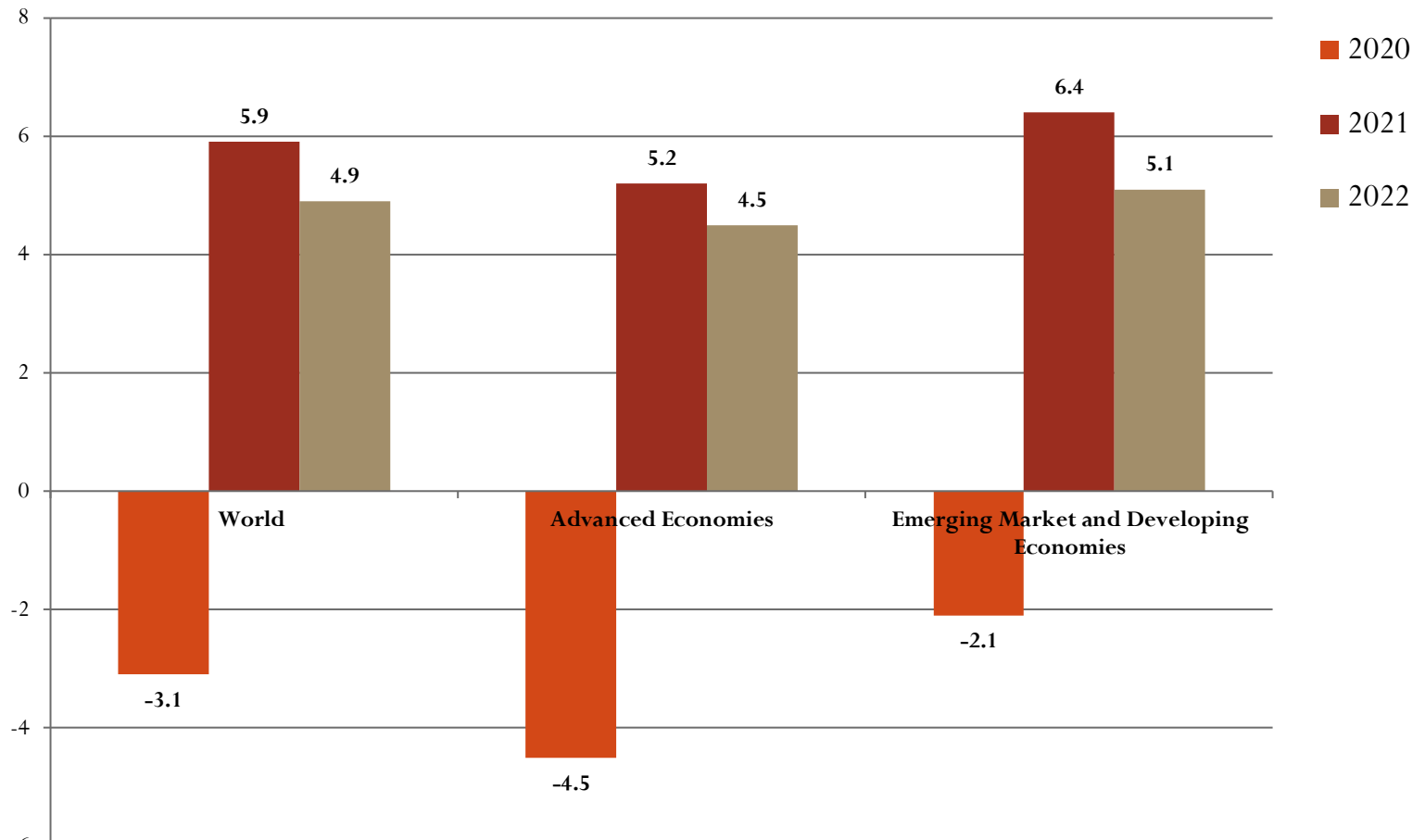
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Outline

- Background
- Policy Initiatives
- Constraints and Challenges
- Way Forward

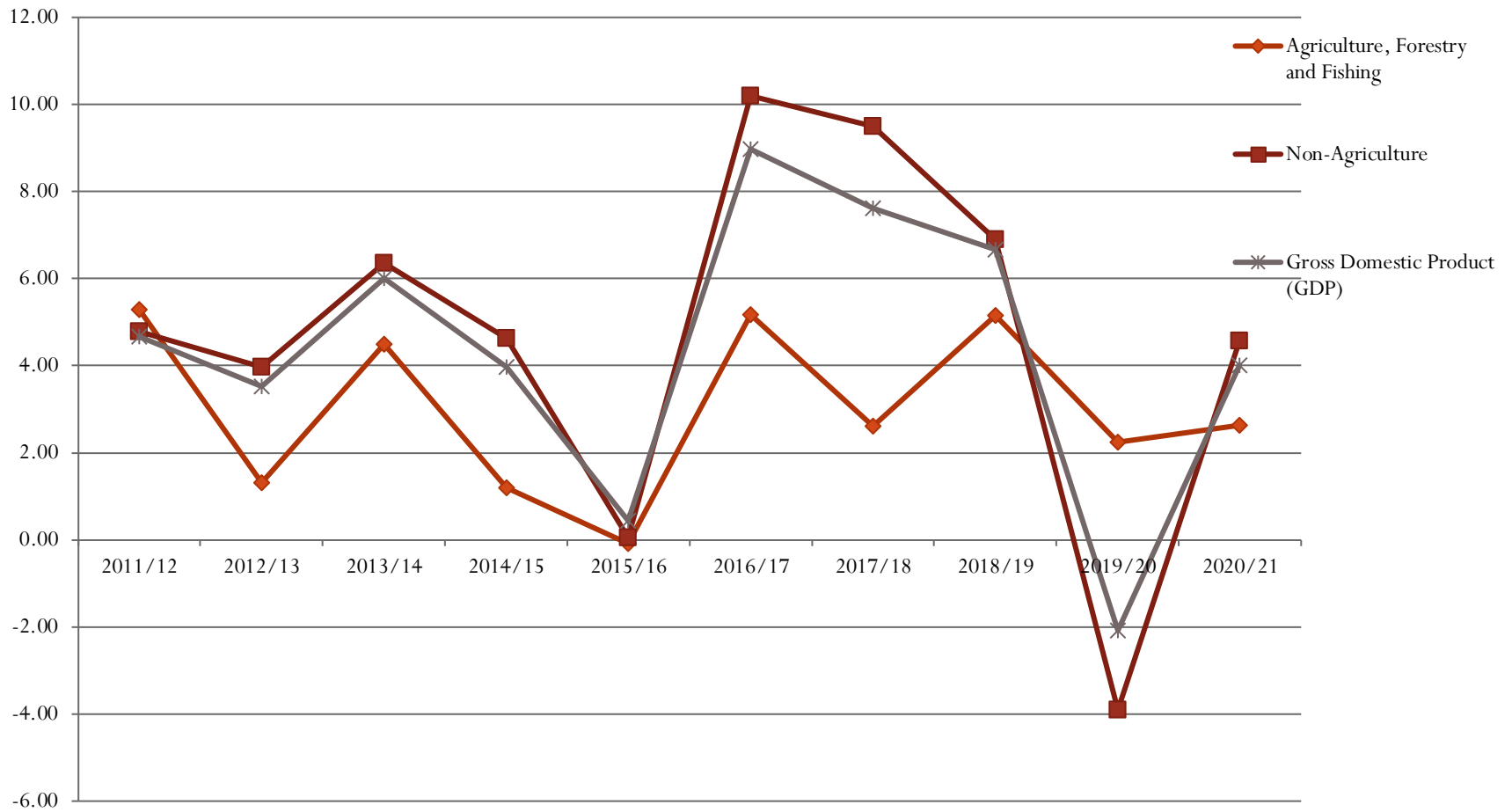
Background

Macroeconomic Situation



Source: <https://www.imf.org/en/Publications/WEO/Issues/2021/10/12/world-economic-outlook-october-2021>

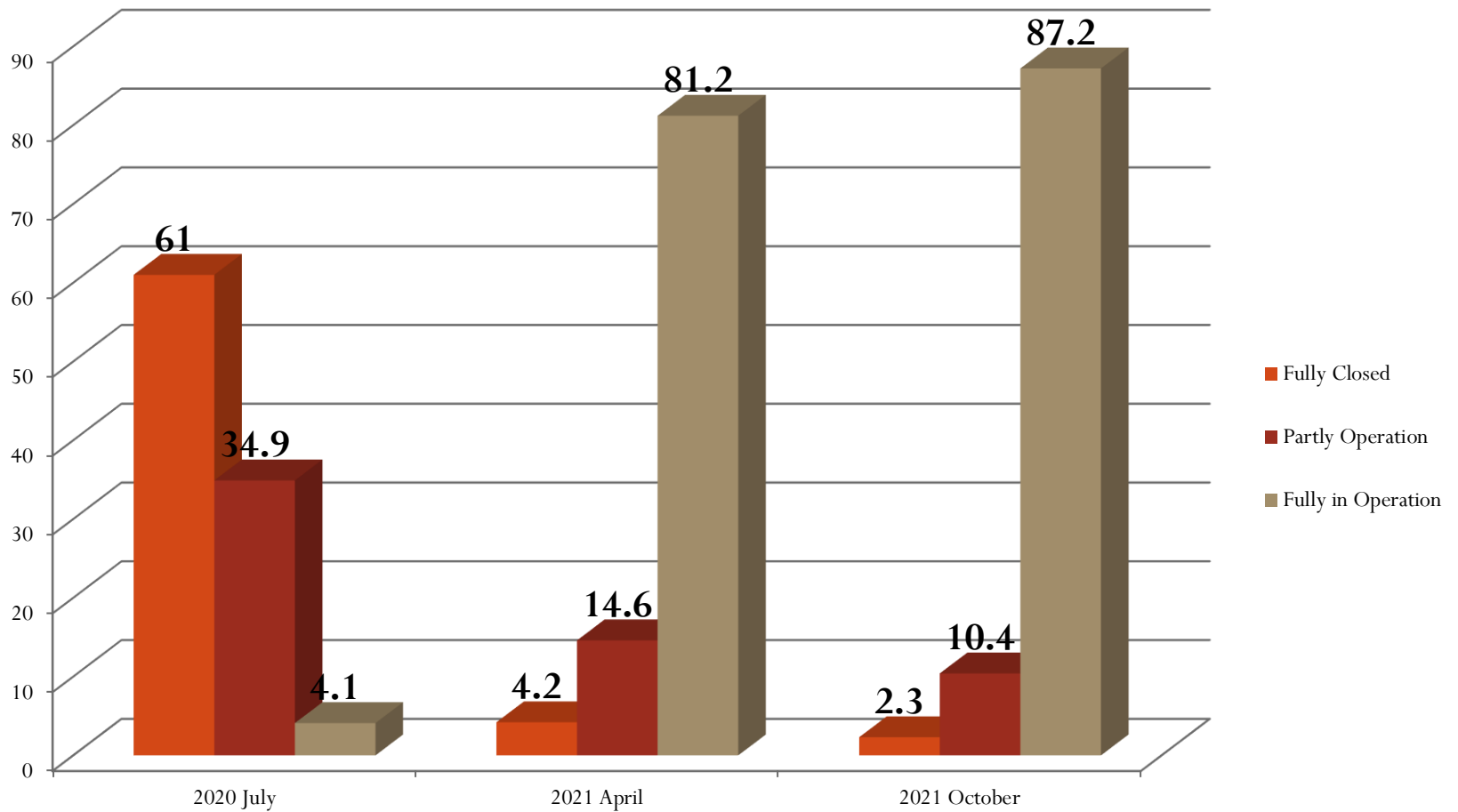
Uncertain Recovery in Nepal



MSMEs in Nepal

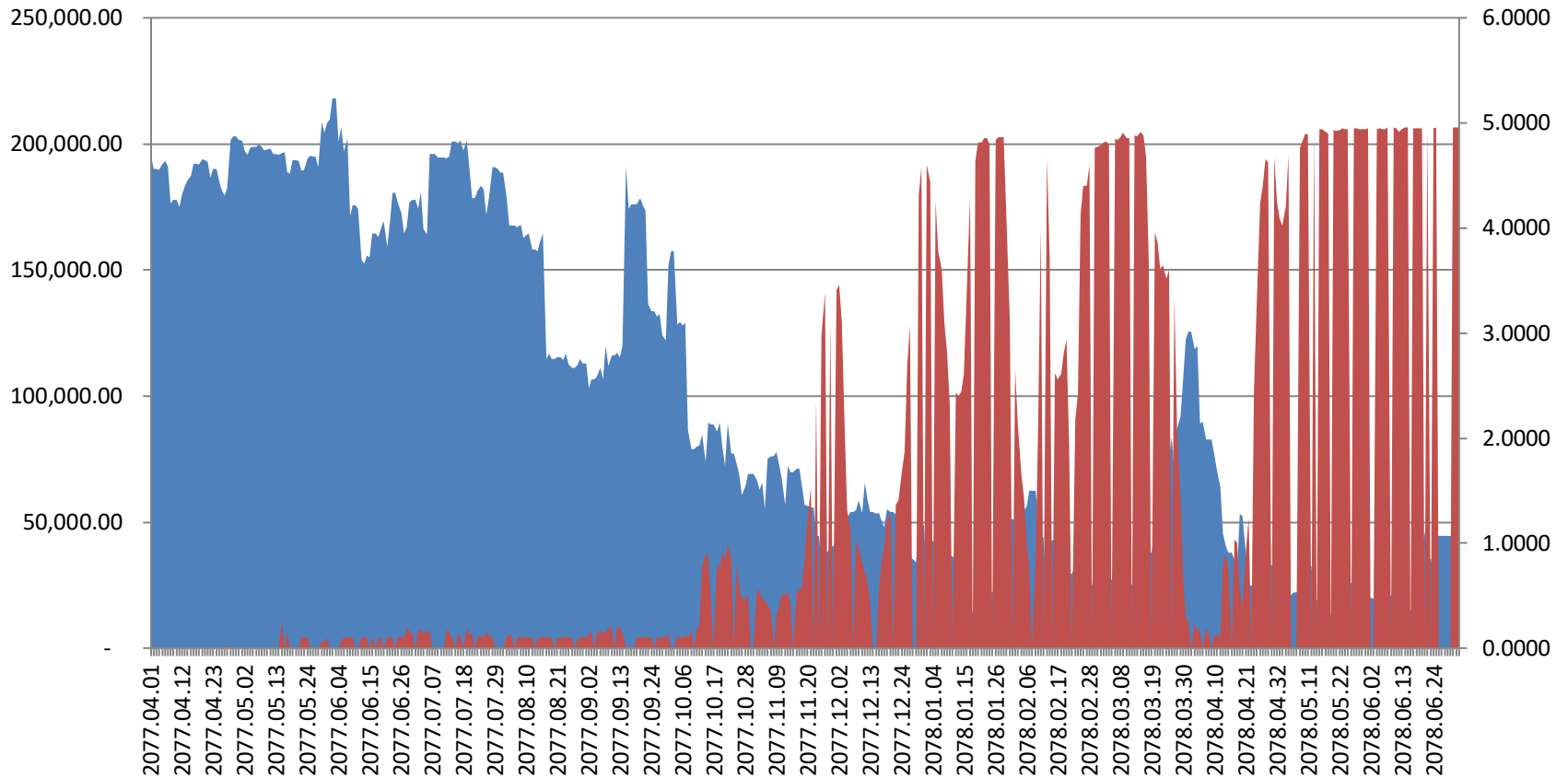
- SMEs contribute 22% to the gross domestic product (GDP) and employ around 1.7 million labor force.
- Around 1 / 3rd of the export comprises MSMEs products.
- MSMEs were hard hit by the COVID crisis. A survey carried out by the NRB shows that during the first lockdown, around 62 percent of the micro and small enterprises and 44 percent of the medium industries were completely shut down.

COVID Impact in MSMEs in Nepal



Liquidity Management Getting Challenging

■ Liquidity ■ IBR



Policy Initiatives

Policy Focus Since COVID

Main features

- Revival of the economy hit by the COVID-19
- Broadening resource base
- Macroeconomic stability
- Customer protection
- Payment system improvement
- Financial access

Policies to Support MSMEs

- The GoN established a separate fund of Rs.50 billion in order to provide loan interest rate of 5 percent to the cottage, small and medium enterprises and corona affected tourism industries for the payment of staff and worker salaries and businesses operation.
- The budget also created a Rs.500 million fund to provide resources at 2 percent interest in order to support and encourage the entrepreneurs willing to invest in innovative businesses.
- Tax exemptions for the small enterprises based on the turnover (25 percent to 75 percent exemption).
- Waiver of license and renewal fee for the FY 2021-22 for business affected by COVID-19 such as hotel, travel, trekking & similar tourism business, public transportation, airlines, cinema industry, handicraft, media house, advertising, tailoring, beauty parlor and health clubs.

Policies to Support MSMEs

Major Policies

- Central Bank Refinance
- Reduction in CRR, Bank Rate, Interest Rate to borrowers and mandatory provision of spread rate
- Mandatory Provision for Deprived Sector loan
- Mandatory Provision for Priority Sector Loan
- Business Continuity Loan

Policies to Support MSMEs

Major Policies

- Under the provision of refinance facility provided by NRB at a subsidized rate to specified occupations, businesses, and industries in order to support the recovery of the economy affected by COVID-19, Rs. 148.75 billion has been approved to 48,890 borrowers as of mid-July 2021.
- Under the provision of providing additional working capital loan up to 20 percent of existing outstanding working capital loan to the existing borrowers to facilitate the continuation of business and industries severely affected by the COVID-19, a total of Rs. 14.24 billion was provided to 16,182 borrowers in 2020/21.

Policies to Support MSMEs

Major Policies

- Under the provision of extending loan repayment schedule to the borrowers who have faced difficulty in paying installment and interest of loans due to COVID-19, the repayment schedule has been extended to the loans of Rs. 93.63 billion to 19,786 borrowers.
- Under the provision of restructuring and rescheduling of loans, a total loan of Rs. 129.21 billion of 21,617 borrowers from the sectors affected by COVID-19 have been restructured and rescheduled as of mid-January 2021.
- Under the provision of business continuity loan, which is provided to the businesses related to tourism, and small and medium-scale enterprises affected by COVID-19 for their operation and the payment of wages, a total loan of Rs. 956.7 million have been approved, resulting in the outstanding amount of Rs. 736.8 million as of mid-July 2021.

Policies to Support MSMEs

- **Credit Provisions**

- The provision for commercial banks to disburse minimum 15 percent loan to the MSMEs is to be continued.
- Provision will be made for the commercial banks' branches operating the government transaction in Village/municipality to establish agriculture, small and cottage loan related focal desk.
- Deprived sector credit will be redirected to MSMEs gradually.

- **Broadening of the Deprived sector loan**

- ✓ Loan up to Rs. 1.5 million provided to the self-employed businesses who lost their employment in tourism sector due to COVID.
- ✓ Loan up to Rs. 2.5 million to purchase a vehicle for self-employment purpose.
- ✓ Project loan up to Rs. 2 million provided to female entrepreneur.
- ✓ Project loan up to Rs. 2 million provided to agricultural businesses.

Policies to Support MSMEs

- **Business Continuity Loan**

- The business continuity loan program will be made further effective to revive the hard-hit sectors from COVID 19 such as party palaces, tourism businesses, fitness centers, cinema halls and others.
- The interest amount for the tourism businesses depending on international tourists to be recorded separately till July 2022. No interest penalties or late fees to be charged on such loans.
- The due payment up to January 2022 for highly affected businesses can be deferred by one year. Provisions will be made to restructure or reschedule such loan by January 2022.
- Provision will be made to provide Loan up to Rs. Two hundred thousand to the public transports for maintenance/operation purpose.

Constraints, Challenges and Way Forward

Major Constraints and Challenges in Designing Policies

- Lack of Local Ownership in Program
- Adequate financing
- Sharing Regional and International Experience
- Enhancing Participation of the Private Sector
- Establishment fund is largely met by the ancestral property
- Borrowing is largely from commercial banks
- Capital market and MSMEs are de-linked

Way Forward

- Fiscal Monetary Coordination
- Designing Specialized Institutions to Support MSMEs
- Digitization
- Utilizing the avenue of capital market
- Developing interlinkage between production, marketing and financing
- Attracting FDI

Thank You!