

# Transitioning From Informality to Formality: Perspectives on Formalization of Informal Enterprises

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**Researcher:**

**Satish Bajracharya, Daayitwa - CIB Nepal Public Policy Fellowship 2021**

**Government Supervisor:**

**Dr. Ram Prasad Ghimire and Mr. Mahesh Acharya, Joint Secretary, MoF**

**Mentor:**

**Dr. Tejesh Pradhan**

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## ABSTRACT

The informal economy is a common feature of developing countries and Nepal is no exception to it. Addressing the issue of heterogeneity is imperative to understanding informal enterprises, as one policy solution that works for some informal enterprises might not work for other informal enterprises. In a similar vein, the impact of the Covid-19 on informal enterprises is also an important issue that needs to be addressed. Additionally, the workers in the informal economy face rights, social protection, and representational deficits. Literature suggests three important policy implications to deal with informality: reduction of tax rates and entry costs, strict law enforcement, and improved business environment. In essence, it is crucial to understand if these policy implications are applicable in the context of Nepal. In this study, primary and secondary sources of data have been used. Inferential statistical analysis is done from the World Bank Enterprise Survey data and the World Bank Informal Survey data to make generalizations about the population of informal enterprises in Nepal. Likewise, qualitative content analysis is done from the personal interview survey data to understand enterprises from a closer perspective. The research provides some important insights on informality in the context of Nepal: a) registration depends upon important factors such as the age of the owner, sales, market speculation, business maturity, level of law enforcement, business environment, strategic behavior of competitors, and market conditions, b) the associated costs of registration is higher than its benefits, c) informal enterprises are flexible and they tend to depend on informal sources of finance, d) informal enterprises are vulnerable to external shocks like the Covid-19 pandemic. The research concludes on the need to adopt a synergistic policy approach, whereby emphasis should be laid on building a centralized database for informal workers, better access to finance, distinguished policy options for informal enterprises, information campaigns on registration procedures and benefits to registration, long-term policy on economic growth and accessible education, flexible and market-oriented training programs, identification of intermediaries, working through intermediaries to provide selective benefits and a mechanism to provide a safety net for informal workers and own-account informal workers.

## 1.BACKGROUND AND CONTEXT

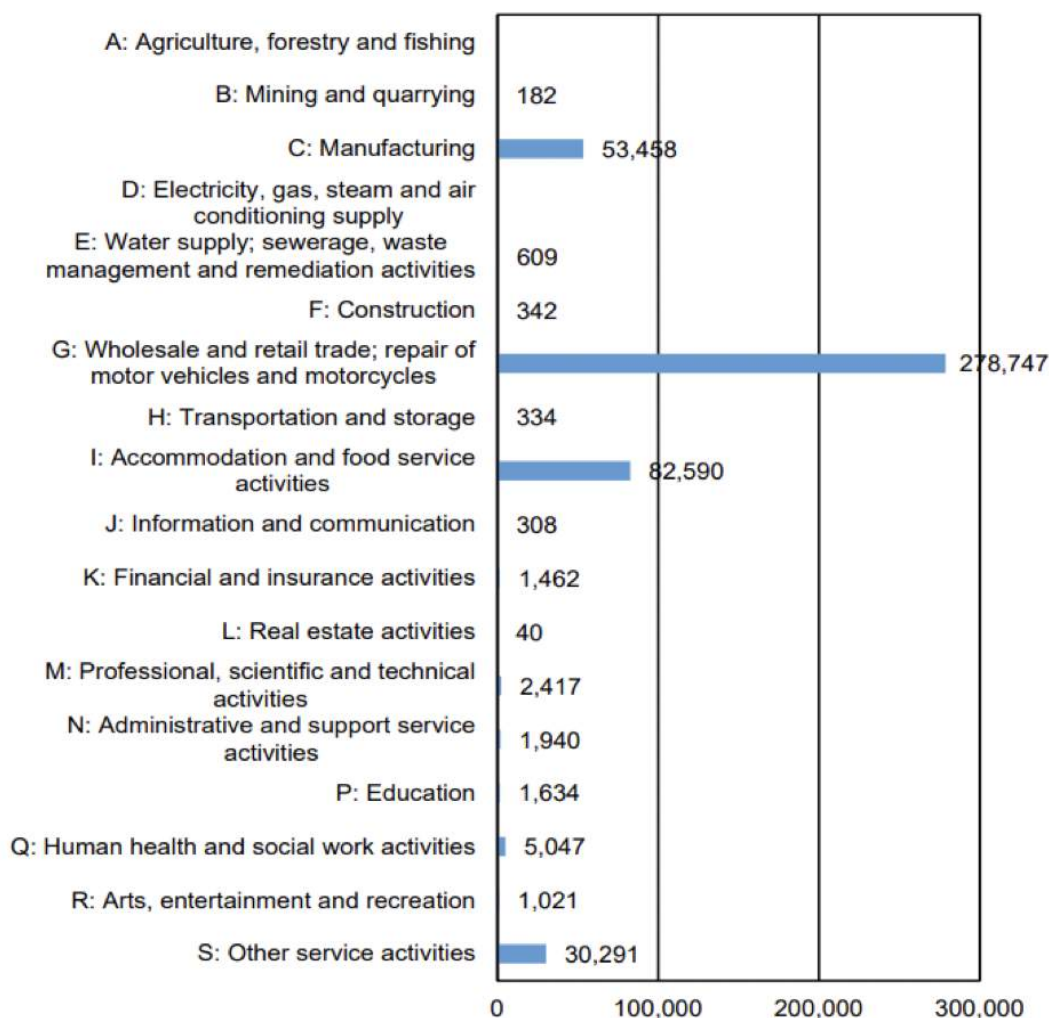
### 1.1. The Approach to Informality

Informality is a complex phenomenon to describe, as it tends to interact with different facets of the economy simultaneously. Informality is more commonly referred to as the *black*, *shadow*, or *underground* economy. Cowell (1990) posits the various types of informality: informal economy within formal firms, informal economy in informal firms, and non-productive informal economy. In this sense, informality can be present in informal operations within formal firms, and informal operations within informal firms. The non-productive economy, on the other hand, represents the unproductive sector such as crime and smuggling. This study on the transition towards formality focuses on informal firms with informal operations, using the framework discussed in Cowell (1990). Further, some of the critical variables identified as determinants of informality are the tax system (including tax rates, penalties, and fines), regulatory framework, institutional and social framework (which captures corruption, tax morale), and income level (Vargas, 2015). Van Elk et al. (2014) discuss three different views on the informality of

enterprises, namely exclusion view, exit view, and dual economy view. The exclusion view explains informality as a consequence of high entry costs, high levels of taxes, fees or contributions that are associated with formalization. According to this view, informal enterprises can probably contribute to economic growth. Reduction in taxes and fees, entry costs, and social contributions are the policies administered by this view. The exit view, on the other hand, presents informality from a cost-benefit perspective, where informality is prevalent when the associated costs of formalization are higher than its associated benefits. Proponents of this view suggest policies to increase law enforcement to eliminate informal enterprises since they believe informal enterprises have a negative effect on economic growth. They advocate for a policy that would create more room for formal productive enterprises. The dual economic view explains informality as a consequence of lack of wage jobs, absence of social security systems, and lower educational qualifications. A policy of improving the business environment is viewed as a remedy, according to this perspective. The improved business environment is assumed to increase the supply of wage jobs in the formal economy, thereby slowly absorbing the informal workers and own-account informal workers in the long term (Van Elk et al., 2014). Thus, it is important to understand to what extent these views can be applicable in the Nepalese scenario.

## **1.2. Informality in the context of Nepal**

The influence and importance of the informal economy dampens as the economy grows, as there tends to be a strong negative correlation between per capita income and the share of economic activity in the informal economy (La Porta & Shleifer, 2014). For developing countries, informality is a persistent phenomenon and Nepal is no exception to it. More than 70 percent of the total active population in Nepal is engaged in the informal economy (ILO, 2021). According to Nepal Economic Census 2018, there are 923,027 establishments in Nepal (excluding non-registered establishments in agriculture, forestry, fishery, except Section-O, Section-T, and Section-U of Nepal Standard Industrial Classification), out of which 460,422 establishments are unregistered, accounting for 49.9% of the total establishments. Among these 460,422 “unregistered” establishments, 458,258 (99.5%) are microenterprises (1-9 persons engaged). There are 832,187 persons engaged in unregistered enterprises, where 779,913 (93.7%) are engaged in unregistered micro-enterprises. If we are to classify these unregistered establishments based on industry, most of the establishments are in wholesale and retail trade; repair of motor vehicles and motorcycles industry (278,747) followed by accommodation and food service activities (82,590), and manufacturing industry (53,458) (Central Bureau of Statistics, 2021). Figure 1 below shows a more detailed classification of unregistered establishments-across different industries.



**Figure 1: Number of unregistered industries by industry**

*Source: (Central Bureau of Statistics, 2021)*

At the Provincial level, Bagmati Province has the highest concentration of unregistered establishments (938,377). Kathmandu has the highest concentration of unregistered entities at the district level, followed by Jhapa, Rupandehi, Morang, Sunsari, and Lalitpur. See table 1 for a more detailed representation of unregistered entities across some Nepalese districts.

**Table 1: Number of unregistered entities by district (top 6)**

| Districts | Number of unregistered entities |
|-----------|---------------------------------|
| Kathmandu | 63,302                          |
| Jhapa     | 18,844                          |
| Rupandehi | 17,969                          |
| Morang    | 16,886                          |
| Sunsari   | 14,599                          |
| Lalitpur  | 14,332                          |

*Source: (Central Bureau of Statistics, 2020)*

### 1.3. Policy landscape of microenterprises in Nepal

Although the Industrial Policy 2067 focuses on policies, provisions, and strategies towards integrating and developing microenterprises, a clear-cut microenterprise development policy is lacking. The policy matrix in figure 2 highlights some of the key policies that are highly or somewhat relevant to microenterprises through indirect channels. The most relevant policies are Industrial Policy, National Employment Policy, Agriculture Business Promotion Policy, TEVT Skill Development Policy, National Gender Equality Policy, and National Microfinance Policy. The Industrial Policy seeks to promote microenterprises as ancillary industries to produce auxiliary goods. In contrast, the National Employment Policy targets informal workers, youths, migrant workers, female workers, and low-wage workers. The Agriculture Business Promotion Policy targets marketing, whereas the TEVT Skill Development Policy is driven more towards market-oriented employment. Likewise, the National Gender Equality Policy emphasizes gender equality through economic and social transformations. Finally, the National Microfinance Policy is oriented towards accessible micro-credit supply systems, and small-scale employment and income generation programs. The remaining policies have medium and low linkages with microenterprises in the context of Nepal. A detailed policy matrix is provided below in figure 2.

| Category                   | Policies   |                                    |                                  |                                   |                                 |                               |                           |
|----------------------------|--|------------------------------------|----------------------------------|-----------------------------------|---------------------------------|-------------------------------|---------------------------|
| Industry                   | Industrial Policy 2067   |                                    |                                  |                                   |                                 |                               |                           |
| Labor                      | National Employment Policy 2071  |                                    |                                  |                                   |                                 |                               |                           |
| Agriculture                | Agriculture Business Promotion Policy 2063   | Dairy Development Policy 2064      | National Agriculture Policy 2061 | National Agroforestry Policy 2076 | National Fertilizer Policy 2058 | National Forestry Policy 2075 | National Seed Policy 2056 |
| Human Resource Development | Education Policy 2076  | TEVT Skill Development Policy 2064 |                                  |                                   |                                 |                               |                           |
| Information Tectnology     | ICT Policy 2072  |                                    |                                  |                                   |                                 |                               |                           |
| Land                       | Land Use Policy 2072   |                                    |                                  |                                   |                                 |                               |                           |
| Gender                     | National Gender Equality Policy 2077   |                                    |                                  |                                   |                                 |                               |                           |
| Micro Finance              | National Microfinance Policy 2062  |                                    |                                  |                                   |                                 |                               |                           |
| Trade and Commerce         | Commercial Policy 2072   | Nepal Trade Policy 2066            | Supply Policy 2069               |                                   |                                 |                               |                           |
| Linkage                    | <div><div></div> High</div> <div><div></div> Medium</div> <div><div></div> Low</div> |                                    |                                  |                                   |                                 |                               |                           |

*Figure 2: Policy matrix of microenterprise related policies in Nepal*

From an informality to formality perspective, these policies play an essential role in the formal/informal economy dynamics from a regulatory angle. Check Annex A for a detailed summary of the policies discussed.

## 2. PROBLEM STATEMENT

The debate on informality and informal enterprises is intriguing. The core problem here is the heterogeneity of informal enterprises in the informal economy. One tried and tested solution for some enterprises may not be successful for other enterprises. Some view informality as a form of state failure, while others view it as a compliance issue or something beyond the customary emphasis on regulatory simplification (Kenyon, 2007). In the context of Nepal, the informal economy provides a bleak picture, which highlights problems such as lower productivity, no social protection for workers/ owners, unfair competition, limited employment opportunities, and low quality of human capital. Nepal's workers and owners of informal enterprises face rights, social protection, and representational deficits (Sigmund, 2011).



Further, the Covid-19 pandemic has hit the informal economy hard and informal enterprises have been hit the hardest in the country, raising questions regarding their survivability and sustainability. Although numerous studies have been conducted concerning informal enterprises in Nepal, they focus only on one aspect of the informality problem, failing to give a complete picture. Thus, there is a need to study informality from both macro and micro (firm-level) perspectives. This study focuses on informal enterprises to examine informality in the context of Nepal.

### **3. RESEARCH QUESTIONS**

1. Which type of informal enterprise is more likely to formalize?
2. Why do informal enterprises prefer informality rather than formality?
3. What are the characteristics and expectations of formal and informal enterprises?
4. How has Covid-19 affected the enterprises in the informal economy?

### **4. RESEARCH METHODOLOGY**

#### **4.1. Research Design**

The research design adopts a mixed approach, using qualitative and quantitative analysis. R program is used as a statistical analysis tool for analyzing data, and Microsoft Excel is also used for tabulations and bar charts. Interviews are conducted to understand informality's different aspects and intricacies from a closer perspective. The convenience-based sampling technique selects the respondents for a personal interview survey. For the qualitative analysis, 10 respondents were interviewed, where two respondents were interviewed per location.

Further, a macro-level quantitative analysis is carried out using secondary data to find essential inter-relationships and interlinkages with the key variables. Stratified random sampling is used as the sampling technique in the World Bank Enterprise Survey 2013, World Bank Informal Survey 2009, and World Bank Micro-Enterprise Survey 2009. After conducting an explorative analysis of the secondary data from the World Bank surveys, appropriate hypothesis tests are used to make inferences about the population of informal enterprises in Nepal. The overall idea is to construct a policy recommendation based on these findings, which considers both the macro and firm-level micro aspects.

#### **4.2. Enumeration**

This study's enumeration is considered an “informal enterprise.” By informal enterprise, we mean enterprises that are productive and are not registered with the Inland Revenue Department.

#### **4.3. Sources of Data**

The study includes both primary and secondary data. The primary data is collected through personal interview surveys in the selected locations, while the secondary data is used from World Bank Enterprise Survey 2013, World Bank Informal Survey 2009, and World Bank Micro-Enterprise Survey 2009. The World Bank Enterprise Survey consists of 482 observations, while the World Bank Micro-Enterprise Survey consists of 120 observations. Likewise, the World Bank Informal Survey consists of 120

observations. The World Bank data is sampled using stratified random sampling. Three levels of stratification are used based on industry, establishment size, and region. Block enumeration is used for sampling out the respondents.

#### 4.4. Research Sites

As previously highlighted, Bagmati Province has the highest concentration of unregistered establishments, and the same goes for Kathmandu at the district level. The research primarily focuses on Kathmandu valley, building on the evidence provided by the representational data in the Nepal Economic Census 2018.

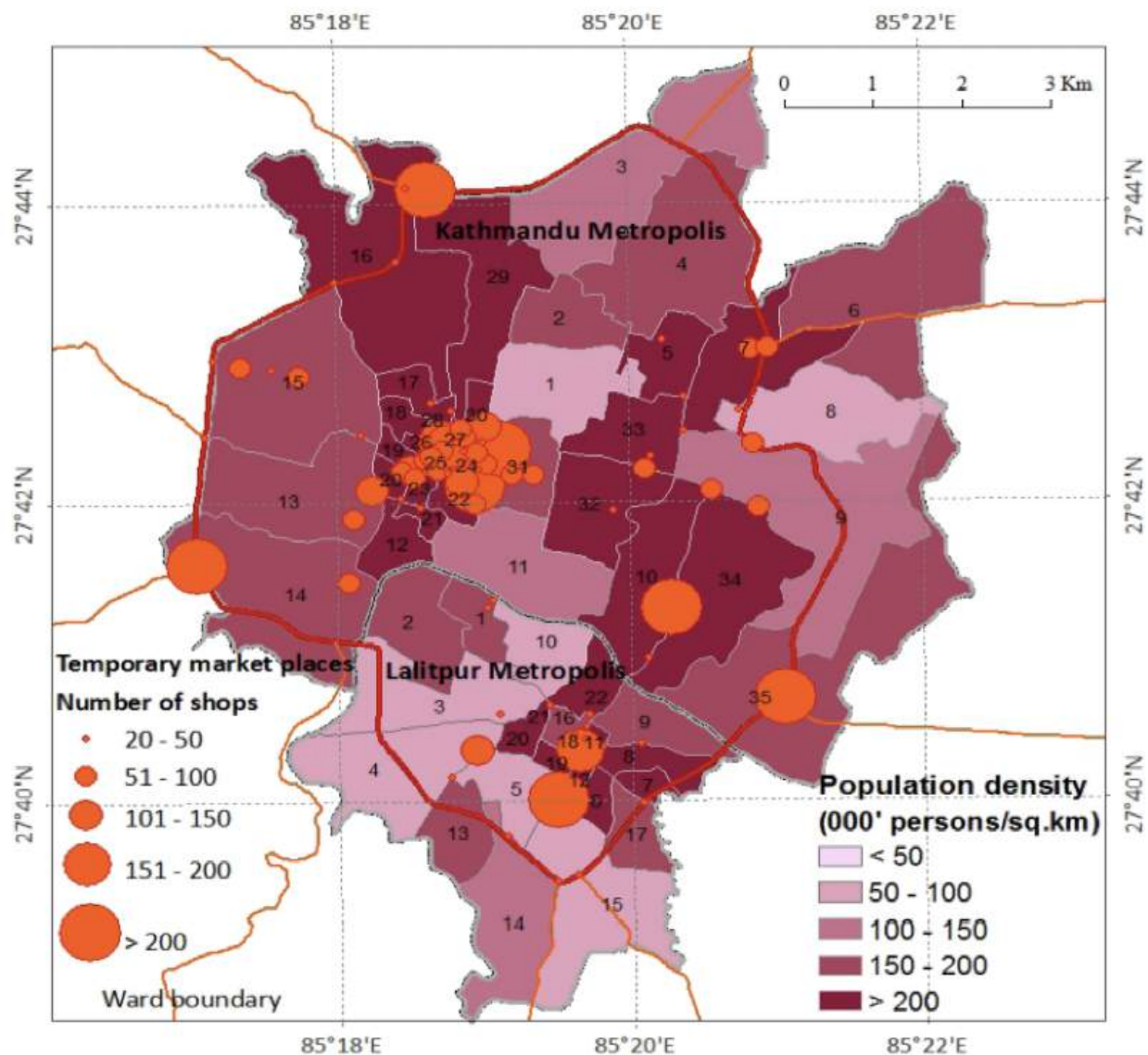


Figure 3: Spatial distribution of informal marketplaces in Kathmandu

Source: (Sharma, 2018)

The research focuses on areas with a high concentration of informal markets inside Kathmandu (see figure 3). Some of the key areas identified are Asan, Mahaboudha, Kalanki, Janabahal, and Gongabu.

## 5. DATA ANALYSIS

First, quantitative analysis is used to analyze the secondary data obtained from the World Bank. It is used to make inferences about the population of the informal enterprises in Nepal. After conducting exploratory data analysis, appropriate inferential statistical analysis is performed. Second, qualitative analysis is used to get varied insights into the issues we explore more detailedly. Content analysis is used to analyze the qualitative data obtained through a personal interview survey. The different stages of data analysis are illustrated in the sections below.

### 5.1. Likelihood to register

*Table 3: Difference in mean/median for two independent groups (like to register and not like to register)*

| Variables   | Mean/Median Difference | Mean (not like to register) | Mean (like to register) |
|---|------------------------|-----------------------------|-------------------------|
| Area and registration <sup>a</sup>  | -100**                 | 564.475                     | 1054.356                |
| Log total sales (usual month) and registration <sup>b</sup>   | -0.51**                | 10.139                      | 10.649                  |
| Log total cost (usual month) and registration <sup>c</sup>  | -0.612***              | 9.773                       | 10.385                  |
| ***p<0.01 (significant at 99% confidence level), **p<0.05 (significant at 95% confidence level), *p<0.1 (significant at 90% confidence level).  |                        |                             |                         |
| <sup>a</sup> Wilcoxon Rank-Sum Test is used to test whether there is a significant difference in the median area of the population of the two independent groups (like to register and not like to register).   |                        |                             |                         |
| <sup>b</sup> Welch's T-Test is used to test whether there is a significant difference in the mean log total sales of the population of the two independent groups (like to register and not like to register).  |                        |                             |                         |
| <sup>c</sup> Student's T-Test is used to test whether there is a significant difference in the mean log total cost of the population of the two independent groups (like to register and not like to register). |                        |                             |                         |
| Note: Here, we test the null hypothesis of no difference in means/medians against the alternative hypothesis, which states a significant difference in the means/medians of the two independent groups.         |                        |                             |                         |

*Source: (World Bank, 2009a)*

Firms that are likely to register are larger and have higher revenues/costs. From table 3, we observe a significant difference in the mean of log total sales (usual month) and log total cost (usual month) for informal enterprises between two independent groups (not like to register and like to register). Further, from the Wilcoxon Rank-sum test, we observe a significant difference in the median area of informal enterprises between the two independent groups. This observation suggests that the median area for informal enterprises is significantly different between groups that would like to register and groups that

would not like to register, where the median area for the group that would like to register is bigger than that of the group that would not like to register.

**Table 5: Difference in mean for two independent groups (like to register and not like to register)**

| Formal vs. Informal  | Mean Difference | Mean (formal) | Mean (informal) |
|--|-----------------|---------------|-----------------|
| Experience of owner/manager <sup>a</sup>   | 4.54***         | 15.5          | 10.96           |
| Age of business (formal vs informal) <sup>b</sup>  | 7.07***         | 15.51         | 8.44            |
| ***p<0.01 (significant at 99% confidence level), **p<0.05 (significant at 95% confidence level), *p<0.1 (significant at 90% confidence level)  |                 |               |                 |
| <sup>a</sup> Student's T-Test is used to test whether there is a significant difference in the mean log total cost of the population of the two independent groups (like to register and not like to register) |                 |               |                 |
| <sup>b</sup> Welch's T-Test is used to test whether there is a significant difference in the mean log total sales of the population of the two independent groups (like to register and not like to register)  |                 |               |                 |
| Note: Here, we test the null hypothesis of no difference in means against the alternative hypothesis, which states a significant difference in the means between the two independent groups                    |                 |               |                 |

*Source: (World Bank, 2009a, 2009b, 2013)*

Formal firms tend to have more experienced managers and more age than their informal counterparts. There is a significant observed average difference of approximately 4.54 years in experience between the top managers of formal firms and owners of informal firms. Although the observed average difference between managers and owners of formal and informal enterprises is 4.54 years only, informal enterprise owners lack proper education, which puts them at a severe disadvantage (shown in figure 4). Likewise, there is a significant observed difference in the mean age of business between formal and informal firms, which is approximately 7.07 years.

From table 6, the likeliness to register is unlikely for those who reject the possibility of registration, uncertain for those who are not sure about the possibility of registration, and likely for those who show a tendency to progress towards formalization.

**Table 6: Analytical codes and initial codes for likeliness to register**

| Analytical codes   | Initial codes                             | Raw Data   |
|--|---|--|
| Rejecting the possibility of registration in the future (Likelihood: unlikely) | Aging and discontinuation of the business | <p><b>Fruit seller</b> (Asan, Male, 68 years old, More than 50 years of experience in the sector, Lower secondary education, Married, Business age: more than 50 years, Location type: without fixed premises)</p> <p><i>I am already old—I plan to close this business in a couple of years.</i></p> <p><b>Clothing store</b> (Janabahal, Male, 60 years old, 30 years of experience in the sector, Higher secondary education, Married, Business age: 1 year, Location type: with a fixed premise and permanent structure)</p> |

|  |   |   |
|--|---|---|
|  |   | <i>I will not be able to operate this business for more than 2 years. It is becoming difficult for me to operate this shop in current circumstances. My age is catching up with me. So, I plan to close this business soon in the future.</i>   |
|  | No perceived benefits with registration                                     | <b>Vegetable seller</b> (Janabahal, Female, 44 years old, 20 years of experience in the sector, Lower secondary education, Married, Business age: 20 years, Location type: without fixed premises)<br><i>I do not think registration would help my business in any way. Moreover, the lack of a fixed premise further complicates the situation.</i>  |
|  | Uncertainty about the business environment                                  | <b>Guesthouse</b> (Gongabu, Male, 35 years old, 4 years of experience in the sector, Lower secondary education, Married, Business age: 4 years, Location type: with a fixed premise and permanent structure)<br><i>The repetitive lockdowns, along with the fear of contracting Covid-19, has hampered our business. There is no guarantee that this business will be able to sustain itself in the future. Thus, I do not look forward to registering.</i>   |
| Uncertainty about the possibility of registration in the future<br>(Likeliness: uncertain) | Registration subject to availability and fulfillment of specific conditions | <b>Belt seller</b> (Mahabouddha, Female, 51 years old, 7 years of experience in the sector, Lower secondary education, Married, Business Age: 7 years, Location type: without fixed premises)<br><i>We are already paying rent to occupy public spaces here. Even while doing so, we have to stay in constant fear of people from the municipality. I am willing to pay the government similar amounts and register, given that they provide us with viable space to operate our business.</i><br><b>Clothing store</b> (Gongabu, Female, 45 years old, 20 years of experience in the sector, No education, Married, Business Age: 20 years, Location type: without fixed premises)<br><i>At present, I do not think I will register this business since it is operating in a public space. But in the future, if this business grows and I find an appropriate space, I will register this business.</i> |
|  | Operating among other informal enterprises                                  | <b>Grocery store</b> (Asan, Male, 53 years old, 1.5 years of experience in the sector, Lower secondary education, Married, Business age: 1.5 years, Location type: with a fixed premise and permanent structure)<br><i>If most of the grocery shops in my locality register, I would also probably register my shop.</i>  |
| Progression towards formalization<br>(Likeliness: likely)                                  | Stage of Business   | <b>Canteen</b> (Kalanki, Male, 50 years old, 20 years of experience in the sector, Lower secondary education, Married, Business age: 2 months, Location type: with a fixed premise and permanent structure)<br><i>Since this business has just been established recently, I have not registered it as of now. But in the future, I do plan to register this establishment.</i>  |

|  |                                      |   |
|--|--------------------------------------|---|
|  | Registration in progress             | <b>Beauty Parlor</b> (Kalanki, Female, 38 years old, 5 years of experience in the sector, Lower secondary education, Married, Business age: 6 months, Location type: with a fixed premise and permanent structure)<br><i>My business is in the process of registration, and I have hired a lawyer to complete all the formalities. The required documents are being prepared and a form has also been collected from the ward office.</i> |
|  | Risk of scrutiny from the government | <b>Shoe store</b> (Mahaboudha, Male, 56 years old, 30 years of experience in the sector, Secondary education, Married, Business age: 5 years, Location type: with a fixed premise and permanent structure)<br><i>Currently, the government is pressurizing businesses to register. I cannot continue doing business like this, and someday the government officials might come and catch me. So, I plan to register soon.</i>             |

*Source: Personal Interview Survey*

## 5.2. Source of finance

**Table 7: Contingency table for most used sources of finance and registration**

| Variables  | Not Like to Register | Like to Register | Total |
|--|----------------------|------------------|-------|
| Most Used Source of Finance                      |                      |                  |       |
| Banks  | 0(0%)                | 1(100%)          | 1     |
| Credit from suppliers or advances from customers | 5(42%)               | 7(58%)           | 12    |
| Friends/relatives                                | 1(20%)               | 4(80%)           | 5     |
| Internal funds                                   | 54(56%)              | 42(44%)          | 96    |
| Microfinance Institutions                        | 0(0%)                | 4(100%)          | 4     |
| Moneylenders                                     | 0(0%)                | 1(100%)          | 1     |
| Total  | 60(50.4%)            | 59(49.60%)       | 119   |

*Source: (World Bank, 2009a)*

Table 7 presents a contingency table that cross-classifies the most used finance form based on two categorical variables (not like to register and like to register). From the sample, it can be observed that the majority of the informal enterprises use internal funds as the most used source of finance. Besides internal funds, credit from suppliers or advances from customers and friends/relatives seem to be the most used source of finance. Out of which, only 44% would like to register their enterprises. Although some informal enterprises use formal sources of finance, such as banks and microfinance institutions, we have to keep in mind that their count is comparatively low. If we compare across categories, most individuals who depend on credit from suppliers or advance from customers, friends/relatives, banks, microfinance institutions, and money lenders would like to register their enterprises. From the sample, we can observe that most individuals who depend upon informal sources of finance would like to register their firms (except for internal funds).

Table 8: Analytical codes and initial codes for sources of finance

| Analytical Codes                         | Initial Codes   | Raw Data   |
|--|---|--|
| Alignment to informal sources of finance | Internal funds as the only feasible source of finance                   | <p><b>Fruit seller</b> (Asan, Male, 68 years old, More than 50 years of experience in the sector, Lower secondary education, Married, Business age: more than 50 years, Location type: without fixed premises)<br/> <i>We use internal funds the most because we cannot meet the collateral requirements of other financial institutions, as we do not have enough assets to take loans.</i></p> <p><b>Canteen</b> (Kalanki, Male, 50 years old, 20 years of experience in the sector, Lower secondary education, Married, Business age: 2 months, Location type: with a fixed premise and permanent structure)<br/> <i>I invest my savings into this business.</i></p> <p><b>Grocery store</b> (Asan, Male, 53 years old, 1.5 years of experience in the sector, Lower secondary education, Married, Business age: 1.5 years, Location type: with a fixed premise and permanent structure)<br/> <i>Some portion of the profit earned from this grocery store is again invested in this business.</i></p> <p><b>Vegetable seller</b> (Janabahal, Female, 44 years old, 20 years of experience in the sector, Lower secondary education, Married, Business age: 20 years, Location type: without fixed premises)<br/> <i>We do not use any other sources of finance, and money from our earnings and savings are utilized in this business.</i></p> <p><b>Guesthouse</b> (Gongabu, Male, 35 years old, 4 years of experience in the sector, Lower secondary education, Married, Business age: 4 years, Location type: with a fixed premise and permanent structure)<br/> <i>My savings is mainly used to invest in this business.</i></p> |
|  | Relying on friends/relatives due to difficulty in securing formal loans | <p><b>Clothing store</b> (Gongabu, Female, 45 years old, 20 years of experience in the sector, No education, Married, Business Age: 20 years, Location type: without fixed premises)<br/> <i>We mostly take loans from friends or relatives. For a business like ours, which occupies public space, it would be difficult to secure loans from banks or any other type of financial institution.</i></p>   |

|                                 |   |  |
|---------------------------------|---|--|
|                                 | Reliability and simplicity offered by credit from suppliers | <p><b>Belt seller</b> (Mahaboudha, Female, 51 years old, 7 years of experience in the sector, Lower secondary education, Married, Business Age: 7 years, Location type: without fixed premises)<br/> <i>Credit from suppliers is easy, simple, and reliable. This relationship is based on trust and it is easier for my business to operate when you get goods from suppliers on credit.</i></p> <p><b>Shoe store</b> (Mahaboudha, Male, 56 years old, 30 years of experience in the sector, Secondary education, Married, Business age: 5 years, Location type: with a fixed premise and permanent structure)<br/> <i>Wholesaler usually gives goods on credit, and this facility makes it easier for us to conduct business transactions.</i></p> |
|                                 | Financing through multiple informal sources                 | <p><b>Beauty parlor</b> (Kalanki, Female, 38 years old, 5 years of experience in the sector, Lower secondary education, Married, Business age: 6 months, Location type: with a fixed premise and permanent structure)<br/> <i>We use our funds to invest in this business. Sometimes, we do take assistance from our friends or relatives.</i></p>   |
| Formal finance through networks | Using networks to use formal sources of finance             | <p><b>Clothing store</b> (Janabahal, Male, 60 years old, 30 years of experience in the sector, Higher secondary education, Married, Business age: 1 year, Location type: with a fixed premise and permanent structure)<br/> <i>Usually, funds from our own pockets are utilized in this business. Moreover, I have also taken a small loan from a finance company. I have contacts in the finance company because of which it became easier for me to secure such loan deals.</i></p>  |

Source: Personal Interview Survey

Alignment to informal sources of finance and formal finance through networks have emerged as the two analytical codes for sources of finance.

### 5.3. Reason for not registering

Table 9: Reason for not registering

| Main Reason for Not Registering                        | Frequency | Percent |
|--|-----------|---------|
| There is no benefit for my business being registered   | 54        | 45%     |
| Getting information on what you need to do to register | 29        | 24%     |
| Fees to complete registration procedures               | 21        | 18%     |
| Taxes on registered business                           | 7         | 6%      |
| Time to complete registration procedures               | 7         | 6%      |
| Lack of title over land needed to register             | 1         | 1%      |
| This is a very small business                          | 1         | 1%      |



|       |     |      |
|-------|-----|------|
| Total | 120 | 100% |
|-------|-----|------|

*Source:(World Bank, 2009a)*

From the sample, the majority of the respondents (45%) believe that there is no perceived benefit from registering. Getting information on what to do to register (24%) is the second major reason for informal enterprises not registering. At the same time, only 18% of the respondents believe fees to complete registration as the main reason for not registering.

*Table 10: One proportion Z-test of the major reason for not registering*

| Why unregistered?  | Observed Proportion |
|--|---------------------|
| No perceived benefit or getting information on what you need to do to register <sup>a</sup>  | 0.6917***           |
| ***p<0.01 (significant at 99% confidence level), **p<0.05 (significant at 95% confidence level), *p<0.1 (significant at 90% confidence level)  |                     |
| <sup>a</sup> One proportion Z-Test is used to test whether the actual proportion of individuals who either believe no perceived benefit or information regarding registration procedure is greater than 50% (0.5). |                     |
| Note: Here, we test the null hypothesis of population proportion equal to 50% (0.5) against the alternative hypothesis, which states that the true population proportion is greater than 50% (0.5).                |                     |

*Source:(World Bank, 2009a)*

The observed proportion is approximately 69.17%, significant at a 99% confidence level. Hence, we have enough evidence to show that the actual proportion of enterprises that believe either no perceived benefit or getting information regarding registration to be the reason for not registering is greater than 50%.

From table 11, rejecting registration, progressing towards the formal economy, and postponing registration have emerged as the three analytical codes which describe respondent's attitudes towards registration. The initial codes shed more light upon why informal enterprises do not choose to register.

*Table 11: Analytical codes and initial codes for the reason for not registering*

| Analytical Codes       | Initial Codes   | Raw Data   |
|------------------------|---|--|
| Rejecting registration | Non-compliance to registration culture and asymmetric information | <b>Fruit seller</b> (Asan, Male, 68 years old, More than 50 years of experience in the sector, Lower secondary education, Married, Business age: more than 50 years, Location type: without fixed premises)<br><i>I have been operating this business from the time of the monarchs. We did not need to register during those times. The culture of registration has just started recently. Moreover, I do not know anything about the registration procedure. Registration for a street vendor like me, who does not have proper space, is also not feasible.</i> |

|  |   |  |
|--|---|--|
|  | Size of business and economic constraints                     | <p><b>Clothing store</b> (Gongabu, Female, 45 years old, 20 years of experience in the sector, No education, Married, Business Age: 20 years, Location type: without fixed premises)</p> <p><i>I am operating this business from a public space, and it will not be reasonable to register this business. Likewise, this is a small business and we cannot afford to rent a shutter to run this business.</i></p>  |
|  | Limited livelihood alternatives and restricted access to land | <p><b>Belt seller</b> (Mahaboudha, Female, 51 years old, 7 years of experience in the sector, Lower secondary education, Married, Business Age: 7 years, Location type: without fixed premises)</p> <p><i>It does not make sense for me to register this business. This business is occupying public space, which is a problem in itself. I am doing so because I do not have any other option to feed my family.</i></p> <p><b>Vegetable seller</b> (Janabahal, Female, 44 years old, 20 years of experience in the sector, Lower secondary education, Married, Business age: 20 years, Location type: without fixed premises)</p> <p><i>There is no fixed premise. We do not have a permanent premise to run our business. Likewise, the people from the municipality usually come on a timely basis to clear the streets. It would not be feasible to register our business unless it acquires some permanent premise. Trying to register without a fixed premise would further create problems for us.</i></p> |
|  | Taxes and uncertain business environment                      | <p><b>Clothing store</b> (Janabahal, Male, 60 years old, 30 years of experience in the sector, Higher secondary education, Married, Business age: 1 year, Location type: with a fixed premise and permanent structure)</p> <p><i>We need to pay taxes annually after registering. Further, there is no guarantee that this shop will continue to make profits in the future. Even though the municipality has informed us to register, I have not, and I do not have any plans to register.</i></p> <p><b>Guesthouse</b> (Gongabu, Male, 35 years old, 4 years of experience in the sector, Lower secondary education, Married, Business age: 4 years, Location type: with a fixed premise and permanent structure)</p> <p><i>The current situation of Covid-19 has severely affected my business, and the future is uncertain. So, I do not plan on registering.</i></p>  |
|  | Lack of information regarding registration procedures         | <p><b>Shoe store</b> (Mahabouddha, Male, 56 years old, 30 years of experience in the sector, Secondary education, Married, Business age: 5 years, Location type: with a fixed premise and permanent structure)</p> <p><i>I do not have much idea about the registration procedure. Hiring lawyers to do so would be expensive.</i></p>   |

|  |   |   |
|--|---|---|
|  | Formalization posing as a threat to the competitiveness of the business | <b>Grocery store</b> (Asan, Male, 53 years old, 1.5 years of experience in the sector, Lower secondary education, Married, Business age: 1.5 years, Location type: with a fixed premise and permanent structure)<br><i>Most of the competitors in the market have not registered. So, if I were to register, it would pose a severe disadvantage to my business.</i>  |
| Progressing towards the formal economy | Registration in progress  | <b>Beauty parlor</b> (Kalanki, Female, 38 years old, 5 years of experience in the sector, Lower secondary education, Married, Business age: 6 months, Location type: with a fixed premise and permanent structure)<br><i>I have not registered as of now but I am in the process of doing it. I do not know the registration process here, so I have hired a lawyer to complete the necessary procedure. I have already taken the required form from the ward office. The necessary documents for registration are also being prepared.</i> |
| Postponing registration                | Early-stage of business and registration in the future                  | <b>Canteen</b> (Kalanki, Male, 50 years old, 20 years of experience in the sector, Lower secondary education, Married, Business age: 2 months, Location type: with a fixed premise and permanent structure)<br><i>I do have plans to register this business in the future. Besides, it has only been two months since I established this business.</i>  |

Source: Personal Interview Survey

#### 5.4. Most important benefit from registering

Table 12: Most important benefit from registering

| Most Important Benefit from Registering                               | Frequency | Percent |
|---|-----------|---------|
| No perceived benefit  | 67        | 56%     |
| Better access to financing  | 32        | 27%     |
| More access to government programs or services                        | 6         | 5%      |
| Better opportunities of negotiation with formal firms                 | 5         | 4%      |
| Better access to raw materials  | 3         | 3%      |
| Don't know  | 3         | 3%      |
| Better access to markets  | 2         | 2%      |
| Better legal foundations on the property rights of land and buildings | 2         | 2%      |
| Total   | 120       | 100%    |

Source: (World Bank, 2009a)

From this sample, we can notice that the majority (56%) of the individuals believe there is no perceived benefit from registering their enterprise. At the same time, 27% of the respondents believe better access to finance to be the most important benefit from registering.

*Table 13: One proportion test to estimate the population proportion (most important benefit of registering)*

| Most Important Benefit of Registering   | Observed Proportion |
|---|---------------------|
| No perceived benefit or better financial access <sup>a</sup>  | 0.825***            |
| ***p<0.01 (significant at 99% confidence level), **p<0.05 (significant at 95% confidence level), *p<0.1 (significant at 90% confidence level)   |                     |
| <sup>a</sup> One proportion Z-Test is used to test whether the actual proportion of individuals who either believe no perceived benefit or better financial access is greater than 50% (0.5).       |                     |
| Note: Here, we test the null hypothesis of population proportion equal to 50% (0.5) against the alternative hypothesis, which states that the true population proportion is greater than 50% (0.5). |                     |

*Source: (World Bank, 2009a)*

The observed proportion is approximately 82.5% which is significant at a 99% confidence level. Hence, we have enough evidence to show that the actual proportion of enterprises that believe no perceived benefit or better financial access as the most important benefit is greater than 50%.

## 5.5. Firm location, asset ownership, production contracts, law enforcement, and rent

*Table 14: One proportion test to estimate the population proportion*

| Variables                    | Observed Proportion |
|------------------------------|---------------------|
| Vocational training          |                     |
| No vocational training       | 0.825***            |
| Production under contract    |                     |
| No production under contract | 0.875***            |
| Type of location             |                     |
| Within household premises    | 0.667***            |
| Ownership of land, building  |                     |
| No ownership                 | 0.924***            |
| Payment for security         |                     |
| No                           | 0.95***             |
| Payment for protection       |                     |
| No                           | 0.975***            |

\*\*\*p<0.01 (significant at 99% confidence level), \*\*p<0.05 (significant at 95% confidence level), \*p<0.1 (significant at 90% confidence level)

Note: One proportion Z-Test is used to test whether the true population proportion is equal to 50% (0.5) against the alternative hypothesis, which states that the true population proportion is greater than 50% (0.5).

*Source: (World Bank, 2009a)*

From the analysis, it is evident that most of the informal enterprises do not produce under contract, operate within household premises, have no ownership of land or building, do not pay for security or protection, and their respective owners have no vocational training. A larger proportion of the population of informal enterprises does not have vocational training (approximately 82.5% (sample point estimate), which is significant at 99% confidence level). Further, the majority of the population of informal enterprises do not produce under contract (approximately 87.5% (sample point estimate), which is significant at 99% confidence level) and are located within household premises (approximately 66.7% (sample point estimate), which is significant at 99% confidence level). These informal enterprises are also not prone to make security or protection payments, as shown in table 14. Besides, we can observe that most informal enterprises do not own land or building (approximately 92.4% (sample point estimate), which is significant at 99% confidence level). Variables such as payment for security and protection can be taken as a proxy for the level of law enforcement.

*Table 15: Payment of rent for street vendors and rent collecting parties*

| Location   | Business type                         | Rent  | Intermediary       |
|------------|---------------------------------------|---|--------------------|
| Asan       | Street Vendor (Without fixed premise) | Rs. 200 to Rs. 400 per week (usual week)<br>Up to Rs. 500 per week (during festivals) | Asan Sewa Samiti   |
| Mahaboudha | Street Vendor (Without fixed premise) | Rs. 200 to Rs. 300 per week (usual week)<br>Up to Rs. 500 per week (during festivals) | Tarani Makhan Club |
| Janabahal  | Street Vendor (Without fixed premise) | Rs. 200 to Rs. 300 per week   | Machhindra Club    |

*Source: Personal Interview Survey*

It is evident from the table that street vendors located at places such as Asan, Mahaboudha, and Janabahal pay rent upwards of Rs. 200 per week to different rent collecting parties, respectively. During the month of festivals, rent also increases up to Rs.500 per week in locations such as Asan and Mahaboudha. Asan Sewa Samiti, Tarani Makhan Club, and Machhindra Club collect rent from the street vendors for occupying public space.

## 5.6. Understanding Entrepreneurial and Enterprise characteristics

Upon visual inspection from figure 4, we can observe that 84 (70%) of the sample are male owners while the remaining 36 (30%) are female. It is also evident that most of the owners of the informal enterprises were either self-employed in a different type of business or unemployed. It is also to be noted here that about 29 respondents were self-employed in the same business. Out of the total 120 respondents, 53 respondents have completed or not completed secondary school education, while 47 respondents have completed or not completed primary school education. Likewise, most of the respondents are currently

married. The figure 5 highlights that the informal firms in the sample are primarily concentrated in the capital city (central region), while a single owner owns 90% of the firms. The prevalence of informal enterprises also seems to increase with the size of locality.

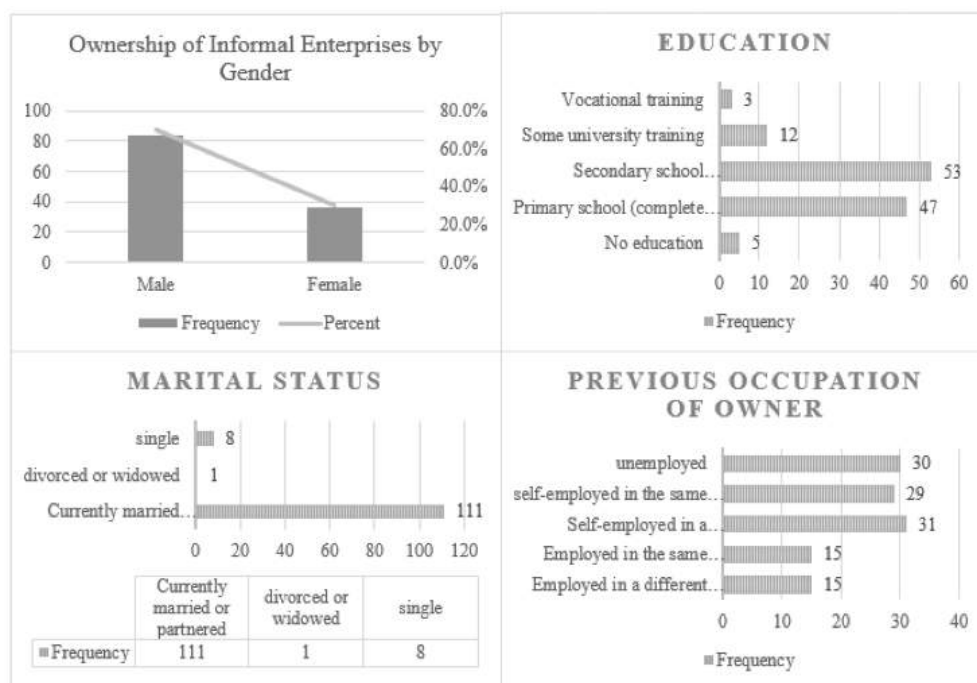


Figure 4: Entrepreneurial Characteristics (Informal Enterprise)  
Source: (World Bank, 2009a)

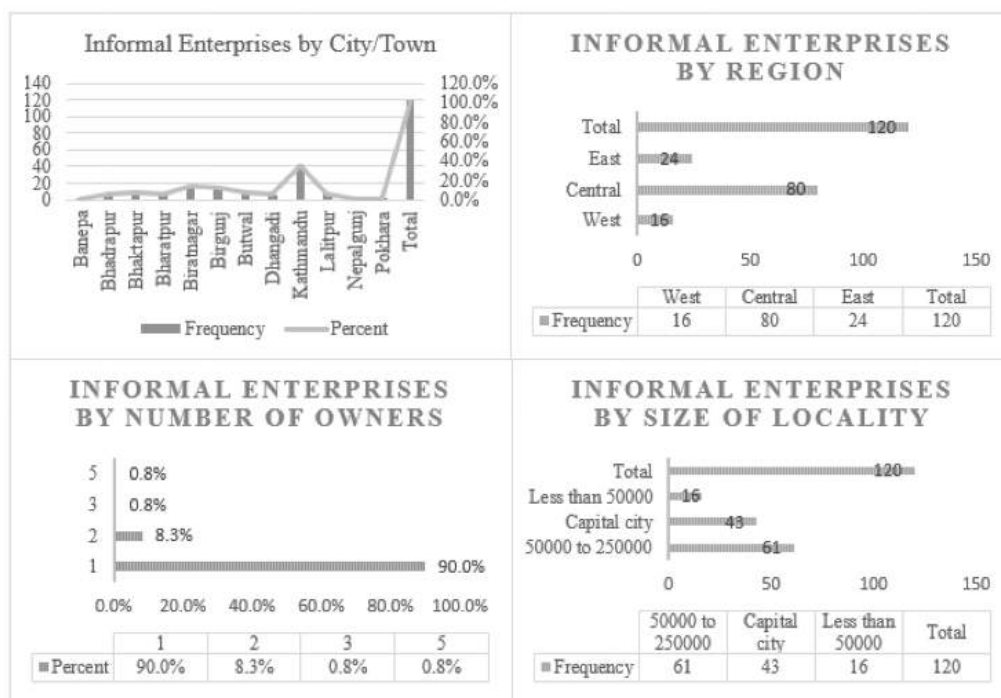


Figure 5: Enterprise Characteristics (Informal Enterprises)  
Source: (World Bank, 2009a)

**Table 16: Entrepreneurial characteristics by location (informal enterprise)**

| <b>Owner</b> | <b>Location</b> | <b>Age</b> | <b>Years of experience</b> | <b>Education</b> | <b>Marital status</b> | <b>Previous occupation</b>          |
|--------------|-----------------|------------|----------------------------|------------------|-----------------------|-------------------------------------|
| Male         | Asan            | 68         | More than 50               | Lower secondary  | Married               | Self-employed in same activity      |
| Male         | Asan            | 53         | 1.5                        | Lower secondary  | Married               | Employed in different activity      |
| Female       | Gongabu         | 45         | 20                         | No education     | Married               | Self-employed in same activity      |
| Male         | Gongabu         | 35         | 4                          | Lower secondary  | Married               | Self-employed in same activity      |
| Male         | Janabahal       | 60         | 30                         | Higher Secondary | Married               | Self-employed in same activity      |
| Female       | Janabahal       | 44         | 20                         | Lower secondary  | Married               | Self-employed in different activity |
| Female       | Kalanki         | 38         | 5                          | Lower secondary  | Married               | Employed in different activity      |
| Male         | Kalanki         | 50         | 20                         | Primary level    | Married               | Self-employed in the same activity  |
| Female       | Mahaboudha      | 51         | 7                          | Lower secondary  | Married               | Self-employed in the same activity  |
| Male         | Mahaboudha      | 56         | 30                         | Secondary level  | Married               | Employed in different activity      |

**Source: Personal Interview Survey**

Entrepreneurs in our sample have a relatively lower level of education, whereas most of the respondents have lower secondary education (6 out of 10). There are 6 male and 4 female respondents, with the age of respondents ranging from 35 to 68 years old. Also, the years of experience working in the sector vary from 1.5 years to more than 50 years. 6 out of the 10 respondents were self-employed in the same activity, whereas 3 were employed in a different activity, and the remaining respondent was self-employed in a different activity.

**Table 17: Enterprise characteristics by location (informal enterprise)**

| <b>Location</b> | <b>Status</b> | <b>Previously registered</b> | <b>Size</b> | <b>Business age</b> | <b>Kind of location</b> | <b>Business</b> |
|-----------------|---------------|------------------------------|-------------|---------------------|-------------------------|-----------------|
|-----------------|---------------|------------------------------|-------------|---------------------|-------------------------|-----------------|

|            |              |              |                |                 |  |                  |
|------------|--------------|--------------|----------------|-----------------|--|------------------|
| Asan       | Unregistered | Unregistered | Micro (1 to 9) | 50              | Without fixed premises                     | Fruit seller     |
| Asan       | Unregistered | Unregistered | Micro (1 to 9) | 7               | With fixed premise and permanent structure | Grocery store    |
| Gongabu    | Unregistered | Unregistered | Micro (1 to 9) | 20              | Without fixed premises                     | Clothing store   |
| Gongabu    | Unregistered | Unregistered | Micro (1 to 9) | 0.5 (6 months)  | With fixed premise and permanent structure | Guest house      |
| Janabahal  | Unregistered | Unregistered | Micro (1 to 9) | 0.17 (2 months) | With fixed premise and permanent structure | Clothing store   |
| Janabahal  | Unregistered | Unregistered | Micro (1 to 9) | 1               | Without fixed premises                     | Vegetable seller |
| Kalanki    | Unregistered | Unregistered | Micro (1 to 9) | 1.5             | With fixed premise and permanent structure | Beauty parlor    |
| Kalanki    | Unregistered | Unregistered | Micro (1 to 9) | 5               | With fixed premise and permanent structure | Canteen          |
| Mahaboudha | Unregistered | Unregistered | Micro (1 to 9) | 20              | Without fixed premise                      | Belt seller      |
| Mahaboudha | Unregistered | Unregistered | Micro (1 to 9) | 4               | With fixed premise and permanent structure | Shoe store       |

*Source: Personal Interview Survey*

The informal micro-enterprises from our sample were not previously registered. The age of business ranges from 0.5 years (6 months) to 50 years, where the majority of the enterprises have fixed premise and permanent structure (6 out of 10), followed by enterprises without fixed premise (4 out of 10).

## 5.7. Formal enterprises compete against informal enterprises

*Table 18: One proportion Z-test (market competition)*

| Variables                            | Observed Proportion |
|--------------------------------------|---------------------|
| Compete against informal enterprises |                     |
| Yes (formal enterprises)             | 0.571***            |



|  |          |
|--|----------|
| Yes (formal micro-enterprises)   | 0.678*** |
| Yes (formal small enterprises)   | 0.641*** |
| Yes (formal medium enterprises)  | 0.405    |
| Yes (large formal enterprises)   | 0.379    |
| Practices of informal enterprises as an obstacle   |          |
| Biggest obstacle (formal enterprises)  | 0.646*** |
| Biggest obstacle (formal micro-enterprises)  | 0.684*** |
| Biggest obstacle (formal small enterprises)  | 0.737*** |
| Biggest obstacle (formal medium enterprises)   | 0.516    |
| Biggest obstacle (large formal enterprises)  | 0.424    |
| ***p<0.01 (significant at 99% confidence level), **p<0.05 (significant at 95% confidence level), *p<0.1 (significant at 90% confidence level)  |          |
| Note: One proportion Z-Test is used to test whether the true population proportion is equal to 50% (0.5) against the alternative hypothesis, which states that the true population proportion is greater than 50% (0.5). |          |

*Source: (World Bank, 2009b, 2013)*

The majority of the formal enterprises compete with enterprises in the informal economy. Breaking it down further, competition from informal enterprises poses a significant obstacle for formal micro and small enterprises, suggesting why there is a prevalence of small and micro enterprises in the informal economy. The observed proportion for formal, formal micro and formal small enterprises is greater than 50% (significant at 99% confidence level). Thus, there is enough evidence to show that the actual proportion of these enterprises which compete with informal enterprises and perceive their practices as the biggest obstacle is greater than 50%.

## 5.8 Obstacle to doing business

*Table 19: Biggest obstacle (informal enterprises)*

| <b>Biggest Obstacle</b>                 | <b>Frequency</b> | <b>Percent</b> |
|---|------------------|----------------|
| Limited demand for products or services | 48               | 41%            |
| Limited access to finance               | 30               | 25%            |
| Political instability                   | 28               | 24%            |
| Poor public infrastructure              | 5                | 4%             |
| Restricted access to land               | 5                | 4%             |
| Inadequately educated workforce         | 1                | 1%             |
| Crime, theft, and disorder              | 1                | 1%             |

|       |     |      |
|-------|-----|------|
| Total | 118 | 100% |
|-------|-----|------|

*Source: (World Bank, 2009a)*

Enterprises in the informal economy perceive “limited demand for products and services” and “access to finance” as the biggest problem facing their businesses. Approximately 41% of the informal enterprises perceive limited demand for products or services as the major obstacle to doing business, followed by limited access to finance (25%) and political instability (24%).

*Table 20: Difference in proportion test (obstacles to business)*

| <b>Obstacle</b>        | <b>Observed difference</b> |
|------------------------|----------------------------|
| Formal vs. informal    |                            |
| Financial access       | -13.5%***                  |
| Corruption             | 1.7%                       |
| Tax rates <sup>a</sup> | 3.7%**                     |
| Political instability  | 24.5%***                   |
| Micro vs. informal     |                            |
| Financial access       | -11.4%**                   |
| Political instability  | 32.5%***                   |
| Small vs. informal     |                            |
| Financial access       | -11.8%***                  |
| Corruption             | 1.4%                       |
| Tax rates              | 3.1%                       |
| Political instability  | 22.1%***                   |
| Medium vs. informal    |                            |
| Financial access       | -17.97%***                 |
| Corruption             | 4.7%**                     |
| Tax rates              | 2.3%                       |
| Political instability  | 24.5%***                   |
| Large vs. informal     |                            |
| Financial access       | -15.8%***                  |
| Tax rates              | 13.8%***                   |
| Political instability  | 20.7%***                   |

|  |  |
|--|--|
| ***p<0.01 (significant at 99% confidence level), **p<0.05 (significant at 95% confidence level), *p<0.1 (significant at 90% confidence level)  |  |
| <sup>a</sup> Simulation-based test for difference in proportion is used to test whether the difference in population proportion is equal to 0 against the alternative hypothesis, which states that the difference in population proportion is not equal to 0. |  |
| Note: Two proportion Z-Test is used to test whether the difference in population proportion is equal to 0 against the alternative hypothesis, which states that the difference in population proportion is not equal to 0.                                     |  |

*Source: (World Bank, 2009a, 2009b, 2013)*

From the perspective of informal enterprises, we can observe a significant difference in financial access across all the categories. The table shows that the population of informal enterprises perceive access to finance as a bigger obstacle than their formal counterparts. There is a significant difference in tax rates between formal and informal enterprises and formal large and informal enterprises only. However, the population of formal and formal large enterprises perceives tax rates as a much bigger obstacle than their informal counterparts. A significant difference in corruption can also be observed for the medium vs. informal category. Although this difference is significant, corruption seems to be a bigger obstacle for formal medium enterprises rather than informal enterprises. Likewise, significant differences in political instability can be observed across all categories. It can be observed that the population of formal enterprises, formal micro-enterprises, small enterprises, medium enterprises, and large enterprises perceive political instability as a significant obstacle in comparison to their informal counterparts.

From table 21, limited access to finance, restricted access to land, limited demand for goods and services, and uncertain business environment due to Covid-19 and constant speculation regarding lockdown have emerged as the four analytical codes for obstacles to doing business.

**Table 21: Analytical codes for obstacles to doing business (informal enterprises)**

| Analytical Codes          | Raw Data  |
|---------------------------|---|
| Limited Access to Finance | <p>Fruit seller (Asan, Male, 68 years old, More than 50 years of experience in the sector, Lower secondary education, Married, Business age: more than 50 years, Location type: without fixed premises)</p> <p><i>The financial condition of my family is not good. To run this business, getting access to funds is difficult. I cannot even take small loans from financial institutions as they require collateral. We do not have enough assets to put in collateral.</i></p> <p>Clothing store (Gongabu, Female, 45 years old, 20 years of experience in the sector, No education, Married, Business Age: 20 years, Location type: without fixed premises)</p> <p><i>The business requires frequent injection of cash, without which getting goods from suppliers becomes difficult.</i></p> |

|  |  |
|--|--|
| Restricted Access to Land  | <p>Belt seller (Mahaboudha, Female, 51 years old, 7 years of experience in the sector, Lower secondary education, Married, Business Age: 7 years, Location type: without fixed premises)</p> <p><i>Restricted space has been a significant problem for a business like ours. We know we are occupying public space, and it creates problems both for the seller and the people walking by. Sometimes, some products are damaged because some people step on these products by mistake. Also, the people from the municipality come and seize our assets.</i></p> <p>Vegetable seller (Janabahal, Female, 44 years old, 20 years of experience in the sector, Lower secondary education, Married, Business age: 20 years, Location type: without fixed premises)</p> <p><i>The officials from the municipality regularly visit to clear the streets. At times, they even seize our goods. We do not have any other options, and we are forced to do business in this manner to survive.</i></p>   |
| Limited demand for goods or services   | <p>Beauty parlor (Kalanki, Female, 38 years old, 5 years of experience in the sector, Lower secondary education, Married, Business age: 6 months, Location type: with a fixed premise and permanent structure)</p> <p><i>A concerning issue for our business is that the clients do not have proper knowledge about the location of this parlor since it is relatively new.</i></p> <p>Canteen (Kalanki, Male, 50 years old, 20 years of experience in the sector, Lower secondary education, Married, Business age: 2 months, Location type: with a fixed premise and permanent structure)</p> <p><i>As customers are more afraid to have food outside in the restaurant because of Covid-19, the restaurant sales are relatively low.</i></p> <p>Clothing store (Janabahal, Male, 60 years old, 30 years of experience in the sector, Higher secondary education, Married, Business age: 1 year, Location type: with a fixed premise and permanent structure)</p> <p><i>There are numerous shops like mine in this location and the market is very competitive. There is always a risk of having unsold commodities after they are bought from the wholesaler.</i></p> |
| Uncertain business environment due to Covid-19 and constant speculation regarding lockdown | <p>Shoe store (Mahaboudha, Male, 56 years old, 30 years of experience in the sector, Secondary education, Married, Business age: 5 years, Location type: with a fixed premise and permanent structure)</p> <p><i>The lockdown halted our business for a couple of months. Thankfully, we had enough savings to sustain our livelihoods. Speculation about future lockdowns and planning to cope with lockdown is an additional burden to our business.</i></p> <p>Guesthouse (Gongabu, Male, 35 years old, 4 years of experience in the sector, Lower secondary education, Married, Business age: 4 years, Location type: with a fixed premise and permanent structure)</p> <p><i>As of now, the number of customers that we serve is comparatively low. Repetitive lockdowns and additional restrictions have reduced the number of individuals who travel.</i></p>   |

*Source: Personal Interview Survey*

## 5.9. Impact of Covid-19

Table 22: Analytical codes and initial codes for the impact of Covid-19

| Analytical Codes   | Initial Codes  | Raw Data   |
|--|--|--|
| Unfavorable business environment and livelihood difficulties | Limited window to conduct business and lower-income (impact: severe)             | <p><b>Fruit seller</b> (Asan, Male, 68 years old, More than 50 years of experience in the sector, Lower secondary education, Married, Business age: more than 50 years, Location type: without fixed premises)</p> <p><i>Restricted business hours were a severe problem for me during the lockdown. Inability to conduct business as usual posed a serious problem for our livelihood. The income earned was low as sales were also low, and my family had to depend on the savings from previous months to sustain our livelihoods.</i></p>                                |
|  | Limited window to conduct business and lack of demand for goods (impact: severe) | <p><b>Belt seller</b> (Mahaboudha, Female, 51 years old, 7 years of experience in the sector, Lower secondary education, Married, Business Age: 7 years, Location type: without fixed premises)</p> <p><i>People do not wear belts inside their homes during the lockdown. We could only do business for limited hours (2 to 3 hours per day). Consequently, there was no demand for my products in the market. I even tried to sell masks and sanitizers during the lockdown. Still, the earnings were not good because we could only operate during limited hours.</i></p> |

|  |  |
|--|--|
|  | <p>No business during lockdown<br/>(impact: severe)</p> <p><b>Clothing store</b> (Gongabu, Female, 45 years old, 20 years of experience in the sector, No education, Married, Business Age: 20 years, Location type: without fixed premises)<br/> <i>For two years, the business has been affected by the Covid-19 pandemic. Still, now, our business is being affected by it. Sales are slow but it is enough to sustain our livelihood. The business was closed during the lockdown; nevertheless, we still managed to survive during that period.</i></p> <p><b>Beauty parlor</b> (Kalanki, Female, 38 years old, 5 years of experience in the sector, Lower secondary education, Married, Business age: 6 months, Location type: with a fixed premise and permanent structure)<br/> <i>The business was closed during the lockdown, and there was no source of income during the lockdown. Almost 90% of the business is still affected due to the Covid-19 pandemic. Also, since this parlor business is a touch-based service, clients are more afraid to come to the parlor. The fear of Covid-19 in clients has led to heavy losses in the business. There is a 10% increase in the number of clients post-lockdown.</i></p> <p><b>Clothing store</b> (Janabahal, Male, 60 years old, 30 years of experience in the sector, Higher secondary education, Married, Business age: 1 year, Location type: with a fixed premise and permanent structure)<br/> <i>The shop was closed for 3 months due to the lockdown. This shop is our only source of income. Financially it was difficult for us during the lockdown. At present, the situation is better than before.</i></p> <p><b>Shoe store</b> (Mahaboudha, Male, 56 years old, 30 years of experience in the sector, Secondary education, Married, Business age: 5 years, Location type: with a fixed premise and permanent structure)<br/> <i>My business was closed for about 2 to 3 months during the lockdown. Closure of the business was the main problem that I had to face. We had enough savings from the previous months to cover the expenses.</i></p> |
|--|--|

|                        |  |  |
|------------------------|--|--|
| Livelihood sufficiency | Business operational during lockdown (impact: minor) | <b>Grocery store</b> (Asan, Male, 53 years old, 1.5 years of experience in the sector, Lower secondary education, Married, Business age: 1.5 years, Location type: with a fixed premise and permanent structure)<br><i>The shop is on my premises. During the lockdown, people in the locality contacted us for food supplies at our home. Consequently, we were able to do business even during the period of lockdown.</i> |
|------------------------|--|--|

Unfavorable business environment and livelihood difficulties, and livelihood sufficiency have emerged as the two analytical codes for the impact of Covid-19 on informal enterprises.

## 6. FINDINGS AND DISCUSSION

### 6.1. Likelihood to register

Formalizing or registering informal enterprises remains a key issue in developing countries like Nepal. To address formalization, we need to understand the type of informal enterprises that are more likely to formalize. From table 3, we observe from the analysis that informal firms are more likely to formalize, on average, as they grow in size (area occupied), sales, and costs. Similar findings can also be found in a study conducted by Amin & Huang (2014) (Amin & Huang, 2014), where larger informal enterprises seem to be more willing to register than their smaller counterparts. Firm size does seem to matter when it comes to registration. Also, informal enterprises have lower age and their respective owners have lower experience on average. One of the important determinants of the likelihood of formalization is the length of time an enterprise has been operating (Babbitt et al., 2015). Hence, a distinguished policy for formalization could be formulated by focusing on the size of the informal enterprises.

GDP per capita and its growth are potentially important for reducing informality. There is also a negative relationship between GDP per capita and the share of informal employment. Countries with a lower level of GDP per capita tend to have a higher level of informality (International Labor Organization, 2018). However, this does not necessarily mean that growth in terms of GDP is in itself a sufficient condition for reducing informality (International Labor Organization, 2018). It is likely that as enterprises grow in size, costs, and sales, they tend to formalize. A favorable business environment and a strategy for prolonged growth are necessary, and this initiative can influence employment generation and capacity enhancement of workers and enterprises in the long term. Social development also remains a key component for formalizing informal enterprises alongside economic growth.

Three important analytical codes emerged for likelihood to register from the qualitative content analysis. These codes are discussed in detail in the following sections.

#### 1. *Rejecting the possibility of registration in the future*

Informal enterprises in our sample rejected formalization in the future as operating in the informal economy seems to be more relevant and practical for their business. The age of the primary owner seems to provide a cogent insight into the decision to formalize. The perspective from the fruit seller in Asan helps us to understand that after a certain age, carrying out business as usual becomes challenging because

of the limitations that come with old age. Instead, it would be more practical for such enterprises to operate informally and close down business in a couple of years. In a similar vein, the owner of a clothing store in Janabahal reiterated analogous perception:

*I will not be able to operate this business for more than 2 years. It is becoming difficult for me to operate this shop in current circumstances. My age is catching up with me. So, I plan to close this business soon in the future. (Clothing store, Janabahal)*

The perceived benefits and associated costs also play an essential role in the decision to formalize. It can also be observed that there is no perceived benefit from registering as some enterprises lack a fixed premise. Registration, in such cases, appears to be a much more convoluted process than otherwise imagined. Additionally, uncertainty about the business environment also poses as one of the important reasons for not registering, as illustrated by the owner of a Guesthouse in Gongabu:

*The repetitive lockdowns, along with the fear of contracting Covid-19, has hampered our business. There is no guarantee that this business will be able to sustain itself in the future. Thus, I do not look forward to registering. (Guesthouse, Gongabu)*

These examples highlight important insights on the likeliness to register a business, which seems to depend on the owner's age, speculation in the market, and associated costs and benefits to registration.

## *2. Uncertainty about the possibility of registration in the future*

Some of the participants seem to be uncertain about their decision to formalize. Formalization seems to revolve around an amalgam of multiple factors. For some, registration depends on the availability of appropriate space to operate their business, usually the case for informal street vendors who operate from a public space. The belt seller from Mahaboudha exemplifies such cases:

*We are already paying rent to occupy public space here. Even while doing so, we have to stay in constant fear of people from the municipality. I am willing to pay the government similar amounts and register, given that they provide us with viable space to operate our business. (Belt seller, Mahaboudha)*

Registration is also subject to the growth of a business. The clothing store owner in Gongabu showed a willingness to register if her business grows in the future and if proper space is available for her to operate her business. Also, in some cases, the decision to register depends on other parties' actions. A concentrated group of informal enterprises in a particular location provides conformity and acceptance to operating informally, and these networks help provide validity and legitimacy to informal enterprises in the locality.

## *3. Progressing towards formalization\*

A business' likelihood of formalizing depends on its maturity and the effectiveness of the business regulations. From our sample, it is evident that micro-enterprises that are recently established do not register. The possibility of registration also depends on the perception of the formal economy. The owner of a canteen located in Kalanki believes registration would impact his business positively. However, since his business was recently established, he has not registered. Also, the risk of scrutiny from the



government plays a vital role in deciding to register in the future. For instance, the owner of the shoe store in Mahaboudha represents this case:

*Currently, the government is pressurizing businesses to register. I cannot continue doing business like this, and someday the government officials might come and catch me. So, I plan to register soon. (Shoe store, Mahaboudha)*

Thus, the likelihood of registration is higher for individuals who have a positive outlook on the formal economy and at places where law enforcement is strict. Factors such as speculation about the market, associated costs and benefits, availability of appropriate space, business growth, and actions of other informal enterprises collectively play an integral role in determining the likeliness to register.

## **6.2. Informal enterprises are more aligned towards informal sources of finance**

Financial access can play a critical role in incentivizing informal enterprises to formalize. From table 7, we can observe that most of the individuals in our sample depend upon informal sources of finance. Moreover, the qualitative analysis points out that informal enterprises are more aligned towards informal sources of finance because of their reliability and feasibility. The prerequisites for access to formal sources of finance acts as an impediment to informal enterprises. The case of a fruit seller in Asan highlights this example:

*We use internal funds the most because we cannot meet the collateral requirements of other financial institutions, as we do not have enough assets to take a loan. (Fruit seller, Asan)*

Subsequently, one of the participants relied upon friends or relatives due to difficulty securing formal loans. The belt seller from Mahaboudha highlights the importance of trust-based credit from suppliers. The owner of the beauty parlor in Kalanki relies upon multiple informal sources of finance. Our qualitative and quantitative analysis shows that most individuals use internal funds as the primary source of finance. One of the participants in our sample has used a formal source of finance. However, the use of such sources is through personal connections or networks:

*Usually, funds from our own pockets are utilized in this business. Moreover, I have also taken a small loan from a finance company. I have contacts in the finance company because of which it became easier for me to secure such loan deals. (Clothing store, Janabahal)*

It is evident from our data that informal enterprises have limited access to formal sources of finance. Further, institutions such as the International Labor Organization (ILO) have supported experiments to show the positive effect of financial institutions on the registration of informal enterprises. For instance, Evangelical Social Action Forum Microfinance and Investments (P) Ltd (EMFIL) generated a 70% increase in registration among their clients after providing business development services. Likewise, institutions such as Réseaux des Caisses Populaires du Burkina Faso's (RCPB) generated a 10% increase in registration of informal enterprises after it provided its clients with business development services (International Labor Organization, 2016). Business development services involve alternative financing mechanisms, training, technical assistance, market access, policy advocacy, infrastructure, etc.

### 6.3. Formalization comes at a higher cost

The exclusion view explains informality due to high entry costs, high levels of taxes, fees, and contributions subject to formalization. It assumes informal firms do not differ much from formal firms of similar size (van Elk et al., 2014). Contrastingly, World Bank Informal Survey data indicates that taxes on registered businesses do not seem to be one of the significant reasons for informal enterprises not registering. Similarly, informal firms tend to differ from their formal counterparts in terms of characteristics. From table 10, we observe that no benefit from registration and getting information on registration procedures are the two major reasons for informal enterprises not registering. From table 13, it can be observed that the majority of the informal enterprises in Nepal (more than 50%) believe either better access to finance or no perceived benefits as the significant benefit of registering. From table 12, we can observe that 56% of the informal enterprises believe that there is no perceived benefit from registering.

From the qualitative content analysis, three important analytical codes emerged as reasons for not registering. These codes are discussed in detail in the following sections.

#### 1. Rejecting registration

To comprehensively understand the preference for operating in the informal economy, we need to understand the different reasons for enterprises not registering. The majority of the participants are not aware of the registration procedure. Besides, only one participant had some idea about the different facilities provided by the government for micro-enterprises. The Nepal Government has made PAN (Permanent Account Number) bill mandatory for financial transactions above Rs. 1000 from Fiscal Year 2019/20 (Republica, 2019). The culture of operating business informally has been the tradition in local marketplaces in Nepal. Keeping this in mind, changing this culture and complying to register seems to be a major obstacle. This seems to be the case for a fruit seller in Asan who has been operating his business for about 50 years:

*I have been operating this business from the time of the monarchs. We did not need to register during those times, and the culture of registration has just started recently. Moreover, I do not know anything about the registration procedure. Registration for a street vendor like me, who does not have proper space, is also not feasible. (Fruit seller, Asan)*

For street vendors, which do not have a fixed premise, registration without a fixed premise is another layer of intricacy that needs to be addressed. The owners of informal enterprises in our sample have lower educational qualifications, which restricts alternative means of sustaining livelihoods. To make ends meet, they have to operate informally in a public space. Most of them operate at a small scale and it is not feasible for them to occupy a fixed premise due to economic constraints, as is highlighted by the case of the owner of a clothing store in Gongabu:

*I am operating this business from a public space, and it will not be reasonable to register this business. Likewise, this is a small business and we cannot afford to rent a shutter to run this business. (Clothing store, Gongabu)*

For a clothing store located in Janabahal, paying taxes is the main reason for not registering. Moreover, at times of uncertainty posed by the outbreak of Covid-19, individuals are unwilling to take risks and register. The uncertainty posed by Covid-19 on the business environment does not guarantee the future

sustainability of their business. Interestingly, registration is, a collective decision rather than an individual one in some cases. This is highlighted by the case of a Grocery store owner in Asan:

*Most of the competitors in the market have not registered. So, if I were to register, it would pose a severe disadvantage to my business. (Grocery store, Asan)*

Here, formalization poses a threat to business competitiveness, which creates a strategic problem where it does not make sense for the entrepreneur to incur compliance costs unless their competitors do the same (Kenyon, 2007). The grocery store owner admits that registration will help his business get better discounts and credit from suppliers. In contrast, it seems the cost of non-compliance from competitors far outweighs his benefits from discounts and credits as he is unlikely to register his business in the future.

## *2. Progressing towards the formal economy*

The decision to register also depends on current business needs and the associated benefits and costs of registration. For the owner of a beauty parlor in Kalanki, registration is in progress as she believes that she would be able to issue training certificates when she registers:

*Registration will help to conduct business lawfully. Moreover, we can even give training and issue certificates, if registered. I have also heard that registration would make it easier to get loans. The possibility of business expansion is also higher when registered. (Beauty parlor, Kalanki)*

In this case, the associated benefits from registration outweigh the cost. However, only one of the participants in our sample expressed this view. The majority of the participants were unaware of the benefits of registration.

## *3. Postponing registration*

Our data reveal a story for deferral or postponement of registration. Deferral of registration plans is exemplified by the case of a canteen owner in Kalanki. He has decided to postpone registration since his business is in an early stage. However, registration in the future is likely as the owner believes the business will gain legitimacy if registered. Further, the chances of scrutiny from the government will also be minimal. Therefore, a positive outlook towards formalization can play a critical role in registration in the future.

Although the literature suggests that easing tax regulations will help informal firms to formalize, it does not seem to be the case here. Instead, the majority of the informal enterprises in Nepal do not register as they either believe there is no perceived benefit or do not have the required information regarding the registration procedure (from table 10). Asymmetric information regarding registration procedures and the negative perception of registration seems to be one of the major reasons for informal enterprises not registering. Since most of these enterprises have low educational levels, a more innovative strategy should promote a smooth flow of information.

The exit view explains informality through the perspective of costs and benefits, and it explains the prevalence of informality due to benefits not being large enough to compensate for the costs of formalizing (van Elk et al., 2014). Here, we observe results that are familiar to the exit view. Contrarily, following the policy implication of eradicating informal enterprises, as suggested by the exit view, will

not be feasible in the case of Nepal. In summary, there is a need for a policy that would focus on incentivizing formalization, better financial access, and promotion of registration procedures along with its benefits.

#### **6.4 Firm location, asset ownership, production contracts, and law enforcement**

Vocational training can be viewed as one of the tools to bridge the gap between informal and formal economy. It can help pave the way for formalizing by boosting productivity, facilitating higher quality products and services. In the context of Nepal, a more significant proportion of the population of informal enterprises does not have vocational training (approximately 82.5% (sample point estimate), which is significant at 99% confidence level) (from table 14). It seems that there is limited access to vocational training programs for individuals in the informal economy. If we are to look at the case of China, its formal employment (regular employment) stood at 39.55% in 1990, which rose to 63.97% of total employment in 2011. This remarkable transformation is attributed to China's industrialization strategy with proper sequencing of policies within a planned framework. The second stage of China's rural industrialization strategy was most noticeably characterized by growth in technical and vocational education (TVE) in the 1980s (Mehrotra, 2020).

Further, in the context of Nepal, the majority of the population of informal enterprises do not produce under contract and are located within the household premises (table 14). Informal enterprises in Nepal do not seem to make security or protection payments. Since such enterprises do not enter into legally binding contracts for production, they do not tend to formalize, and their lack of educational skill or vocational training keeps them at a severe disadvantage if they formalize. Informal firms are also harder to detect as most such enterprises are located within the household premises, suggesting that a larger proportion of informal enterprises are hard to detect or law enforcement and monitoring are not strong. As these firms do not produce under contract and are either not appropriately monitored or are hard to detect, it becomes easier for them to prefer informality as they do not have to go through registration.

The enterprises in the informal economy, on average, are comparatively 7.07 younger than their formal counterparts. Similarly, entrepreneurs in the informal economy have, on average, 4.54 years less experience than their formal counterparts. As our intuition tells us, formal enterprises, on average, tend to be more stable and have longer survivability than their informal counterparts (check table 5 for the test of difference in proportions). Our sample shows that informal enterprises expect no benefits from registering.

#### **6.5 Existence of rent collecting organizations at marketplaces**

Street vendors at Asan, Mahaboudha, and Janabahal pay rent to organizations such as Asan Sewa Samiti, Tarangi Makhn Club, and Machhindra Club to occupy public space. The rents paid seem to vary during festivals at Asan and Mahaboudha. Despite paying rent, the officials from the municipality visit such locations on a timely basis to remove street vendors from the public spaces. These organizations can act as intermediaries since they know better conditions and may be better placed for providing selective benefits to enterprises that choose to formalize (Kenyon, 2007). Such institutions can also help provide information about the informal enterprises at particular locations as they seem to be more credible in the

eyes of the local people. Additionally, cooperating with such intermediaries can help formulate a better policy to regulate such marketplaces.

## **6.6 Formal enterprises compete against informal enterprises**

From our analysis, competition and practices of informal enterprises seem to be a major obstacle for formal enterprises. In summary, the majority of the formal enterprises compete with enterprises in the informal economy. Breaking it down further, competition from informal enterprises poses a significant obstacle for formal micro and small enterprises, suggesting why there is a prevalence of small and micro enterprises in the informal economy. Formalizing can put these enterprises at a severe disadvantage when their counterparts bypass regulatory bodies' jurisdiction.

## **6.7 Informal enterprises are flexible**

The absence of production or transactions under contract allows the owner of informal enterprises to pursue different jobs and operate business informally. As a consequence, informality offers the flexibility of working hours. This case is exemplified by the owner of the grocery store who works as a blacksmith and operates his informal enterprise at the same time:

*I am a blacksmith by profession. Currently, I run this grocery store and also take orders for crafting metals at the same time. (Grocery store, Asan)*

Also, informal enterprises can quickly adapt and change their products or services according to the demand for goods or services in the market. For instance, in places like Asan, street vendors usually sell lights and lamps during the festival of Tihar. Similarly, the belt seller from Mahaboudha tried selling sanitizers and masks during lockdown when its demand was high. In such instances, the demand for these products is usually inelastic. As a result, such enterprises capitalize on the chance to earn higher revenue through higher prices. Thus, one of the reasons for preference to operate in the informal economy is the flexibility it provides in terms of working hours and the simplicity with which it can respond to a sudden spike in demand for goods or services.

## **6.8 Obstacle to doing business**

In our sample, it can be observed that the majority of the informal enterprises perceive limited demand for products or services as a major obstacle (41%), followed by limited access to finance (25%) (table 19). We can infer from the difference in proportion test for obstacles to business (table 20) that informal enterprises generally have financial access as a bigger obstacle than formal enterprises. Tax rates seem to be a bigger obstacle for formal and formal large enterprises than informal enterprises. Likewise, corruption seems to be a bigger obstacle for medium and large enterprises than the informal enterprises in Nepal. Also, formal enterprises, formal micro-enterprises, small enterprises, medium enterprises, and large formal enterprises perceive political instability as a major obstacle to their informal counterparts. From qualitative analysis, we found that informal enterprises mostly have limited access to finance, restricted access to land, limited demand for goods or services, and uncertain business environment due to Covid-19 and constant speculation regarding lockdown as a major obstacle to doing business. Restricted

access to land seems to be a major problem for those enterprises which do not have a fixed premise. This problem can be further understood by looking at the case of the vegetable seller in Mahaboudha:

*Restricted space has been a major problem for a business like ours. We know we are occupying public space, and it creates problems both for the seller and the people walking by. Sometimes, some products are damaged because some people step on these products by mistake. Also, the people from the municipality come and seize our assets. (Vegetable seller, Mahaboudha)*

Informal enterprises in our sample seem to be facing the problem of limited demand for goods or services. For a newly established business, clients lack proper knowledge about the location of the enterprise. Moreover, the fear of contracting Covid-19 has resulted in lower sales figures, especially for enterprises offering touch-based services like canteens. High competition from other shops in a particular location is another reason for the limited demand for goods and services. Constant speculation about lockdown and uncertain business environment has also posed a severe obstacle for some enterprises in our sample. This issue can be understood by looking at the case of a shoe store in Mahaboudha:

*The lockdown halted our business for a couple of months. Thankfully, we had enough savings to sustain our livelihoods. Speculation about future lockdowns and planning to cope with lockdown is an additional burden to our business. (Shoe store, Mahaboudha)*

In summary, a policy that ensures a stable business environment, political stability, and financial access is necessary. Reducing tax rates might be beneficial for larger enterprises, and however, it will not guarantee the formalization of informal enterprises. Promoting stability in the business environment and political scenario can help enterprises grow and sustain in the long run. In doing so, formal enterprises will mostly reap the benefits, while in the long run, this might promote the formalization of informal enterprises as well.

## **6.9 Informal enterprises are vulnerable to external shocks such as the Covid-19 pandemic**

In general, informal enterprises are usually excluded from government support schemes. Owners and workers of the informal enterprises lack social security. In turn, during unprecedented events or external shocks, these groups tend to suffer the most as they are vulnerable. The qualitative content analysis revealed two important analytical codes for the impact of Covid-19 on informal enterprises, and we will discuss them in detail below.

### *1. Unfavorable business environment and livelihood difficulties*

The impact of Covid-19 on informal enterprise seems to be severe. Especially during the lockdown, informal enterprises were left vulnerable. As a result of the lockdown, either informal enterprises had a limited window to operate their business or zero business during the period. The fear of contracting Covid-19 has severely affected the business of touch-based enterprises. Difficulty in sustaining livelihoods due to lower sales figures was a common problem most of the participants in our sample faced. For a fruit seller located at Asan, lower-income posed as a serious problem during the period:

*Restricted business hours were a severe problem for me during the lockdown. Inability to conduct business as usual posed a serious problem for our livelihood. The income earned was low as sales*

*were low, and my family had to depend on the savings from previous months to sustain our livelihoods. (Fruit seller, Asan)*

Participants reported that they are still recovering from the repercussions of the lockdown. Post lockdown, sales are lower for most enterprises in our sample. The Covid-19 pandemic has severely affected the business of a beauty parlor in Kalanki:

*The business was closed during the lockdown, and there was no source of income during the lockdown. Almost 90% of the business is still affected due to the Covid-19 pandemic. Also, since this parlor business is a touch-based service, clients are more afraid to come to the parlor. The fear of Covid-19 in clients has led to heavy losses in the business. There is a 10% increase in the number of clients post-lockdown. (Beauty parlor, Kalanki)*

For some, the situation is somewhat better than before. The majority of the informal enterprises in our sample had to depend on internal funds to sustain their livelihoods and to cover the incurred costs of their respective businesses.

## *2. Livelihood sufficiency*

Interestingly, one of the participants in our sample has benefited from the lockdown. The grocery store located at Asan was operational during the lockdown. Since most shops were closed and movement was restricted, people in the locality used his shop for supplies. Consequently, they were able to sustain their livelihood through their informal business.

These insights provide valuable information about the intricacies and difficulties faced by informal enterprises due to the Covid-19 pandemic. In reaction to the onset of the Covid-19 pandemic, the Ministry of Finance (MoF) had prioritized relief measures for informal enterprises and workers in the urban informal economy. However, the perceived outputs were not realized as the municipalities lacked pertinent information on informal enterprises and workers (Shah, 2021). Identifying informal enterprises and workers itself seems to be a big issue. In addition to understanding these cogent insights, it is also necessary to develop a proper database for informal enterprises and workers to successfully implement policies about informal enterprises. The overall objective of the qualitative content analysis is to provide valuable insights on informal enterprises rather than generalization. These insights can be further used to develop realistic models and formulate appropriate policies based on ground reality. The prevalence of informal micro-enterprises can be mainly attributed to limited market access, limited access to finance, lack of training, lower levels of human capital, and lack of information regarding registration procedures.

## **7. CONCLUSION AND POLICY RECOMMENDATIONS**

Informality is a complex phenomenon, often characterized by different layers of intricacies. We have tried to understand some of these convolutions here. The decision to remain informal can mainly be attributed to the associated costs and benefits, the flexibility of informal enterprises, perception towards formalization, strategic resolutions of the competitors, feasibility, and the business environment. Also, informal enterprises are found to have limited access to finance and limited demand for goods and services. The Covid-19 pandemic has also made the informal enterprises vulnerable. Both the quantitative

and qualitative analysis have helped make important generalizations and provide informative insights regarding the informal enterprises in Nepal respectively. The dual economy view signifies the existence of informal enterprises due to the lack of suitable wage jobs and the absence of a proper social security system. The dual economy view recommends policies to improve the business environment and stimulating the business environment and stimulating employment growth in the formal economy to absorb workers in the informal economy (van Elk et al., 2014). It is important to understand that the dual economy view is the most applicable in the Nepalese economy. Also, policies need to take a synergistic approach, where different policies that deal with different aspects of informality need to be put in place simultaneously. While keeping these aspects in mind, the following policy recommendations are formulated:

- Identification of informal enterprises and informal workers should be prioritized for the successful implementation of policies concerning informal enterprises. A proper record or centralized database of informal enterprises is necessary. A similar initiative like E-shram (portal for registration of informal workers in India) can be launched to make a proper database of informal workers.
- Emphasis should be given to a distinguished policy for large and small informal enterprises since the former is more likely to register than the latter. An incentive-based strategy that increases the benefit of registration should be adopted to formalize small informal enterprises. On the other hand, a blend of carrots (positive incentives) and sticks (strict law enforcement and detection) approach should be adopted for larger informal enterprises.
- Long-term policy on economic growth and educational opportunities: An acceptable policy that focuses on maintaining a favorable business environment and a strategy for prolonged economic growth is required. This will influence employment generation and capacity enhancement of workers in the long term. Further, priority should be given to improving educational opportunities for all, and this, in turn, would help to improve livelihood alternatives for individuals in the future.
- Work through intermediaries: Identification of intermediaries in the informal marketplace is essential. Intermediaries have more credibility, knowledge about the marketplace and may have better power to enforce bargains (Kenyon, 2007). Such intermediaries can provide information regarding the informal workers or enterprises in a particular locality and can help build a proper database for informal enterprises. Selective benefits can be provided through these intermediaries to those enterprises which choose to register. For instance, intermediaries, with the help of the government, provide better financial access, product-market certification, cold-storage facilities, better discount rates from suppliers, and technical assistance. These intermediaries can also help towards understanding the needs of the informal enterprises.
- Conditional access to finance: Collaborating with formal financial institutions can also be an important strategy towards formalizing informal enterprises. The government can collaborate with these sources and persuade them to provide affordable and cheaper access to finance for informal enterprises committed to formalization.
- Periodic dialogues with significant stakeholders in the policy-making process are also necessary to identify the needs and expectations of the informal enterprises.
- Training programs need to be more accessible, market-oriented, and flexible.



- Registration and benefits to registration should be based on information campaigns and public-private dialogues. Additionally, providing better market linkages and increasing the accessibility of cheap loans, through micro-finance institutions, can play a significant role in formalization.
- Formulate mechanisms to provide safety nets for informal workers and owners of informal enterprises.

## **ANNEX A: Policies related to micro-enterprises in Nepal**

| <b>Policies</b>                       | <b>Objectives</b>  |
|---------------------------------------|--|
| Industrial Policy                     | <ul style="list-style-type: none"> <li>•Increase the export of industrial products along with national income and employment</li> <li>•Promote forward and backward linkages while also giving particular emphasis to industries that use local resources</li> <li>•Develop productive human resources for industrial development and promote industrial investment</li> <li>•Protect industrial intellectual property rights with special emphasis to micro-enterprises, cottage, and small industries</li> <li>•Develop micro-enterprises, cottage, and small industries as ancillary industries to produce auxiliary goods to be used by medium and large scale industries</li> <li>•Promote micro-enterprises, cottage, and small industries</li> <li>•Develop and promote women entrepreneurship</li> </ul> |
| National Employment Policy            | <ul style="list-style-type: none"> <li>•To make the national economy strong and dynamic by making the labor force competitive, productive, and dignified in employment through a competent labor market.</li> <li>•Provide productive and rewarding employment opportunities to all citizens</li> <li>•To prepare human resources as per the requirement of the labor market</li> <li>•To gradually transform informal employment into formal employment</li> <li>•To provide employment opportunities to youths</li> <li>•To appropriately manage the migrant workers</li> </ul>  |
| Agriculture Business Promotion Policy | <ul style="list-style-type: none"> <li>•To produce competitive and market-oriented agricultural commodities</li> <li>•To contribute to the internal market and export promotion by developing agro-industry</li> <li>•Poverty alleviation through commercialization of agriculture</li> </ul>  |
| Dairy Development Policy              | <ul style="list-style-type: none"> <li>•To increase the productivity and production of milk in rural areas</li> <li>•Expansion of milk collection and processing by making milk and milk products competitive and commercial</li> <li>•To diversify the milk products as per the potential of the domestic market, import-substitution, and to make milk products exportable goods</li> <li>•To improve the quality of dairy products and make them readily available to consumers</li> </ul>  |

|  |   |
|--|---|
| National Agriculture Policy                            | <ul style="list-style-type: none"> <li>•To contribute to food security and poverty alleviation by achieving high economic growth through commercial and competitive agricultural system</li> <li>•To increase agricultural production and productivity</li> <li>•To make the agricultural system commercial and competitive with the regional and global markets</li> <li>•To conserve, promote and utilize natural resources, biodiversity, and environment</li> </ul>   |
| National Agroforestry Policy                           | <ul style="list-style-type: none"> <li>•To increase the production of agroforestry-based products and increase the productivity of land</li> <li>•To conserve the environment and biological diversity</li> <li>•To create livelihood, employment, and income generation through the promotion of agroforestry</li> <li>•To commercialize and facilitate investment in agroforestry</li> <li>•To research agroforestry</li> </ul>   |
| National Fertilizer Policy                             | <ul style="list-style-type: none"> <li>•Provide a guaranteed supply of quality fertilizers to contribute towards productivity and poverty alleviation</li> <li>•Increase the use of fertilizers by making policy reforms and infrastructure</li> <li>•To promote an integrated crop nutrition system for efficient and balanced use of fertilizers</li> </ul>   |
| National Forest Policy                                 | <ul style="list-style-type: none"> <li>•To increase productivity, production, environmental services, and self-reliance in the forestry sector</li> <li>•To conserve, restore and sustainably use forests</li> <li>•To commercialize forest-based products</li> <li>•To promote exports of forest-based products with value addition</li> <li>•To increase quality and capacity of research in the forestry sector</li> </ul>   |
| National Seed Policy                                   | <ul style="list-style-type: none"> <li>•To make available good quality seeds and promote exports</li> <li>•To make seed business effective and to conserve and maintain genetic characteristics of indigenous specialty seed of Nepal</li> </ul>  |
| TEVT Skill Development Policy                          | <ul style="list-style-type: none"> <li>•To expand training opportunities</li> <li>•To provide access to training the needy citizens</li> <li>•To integrate training modes and trainers into a system</li> <li>•To provide market-oriented training</li> <li>•To Provide sustainable funding for technical education and vocational training</li> </ul>  |
| Information and Communications Technology (ICT) Policy | <ul style="list-style-type: none"> <li>•To make information and communications technology accessible and affordable</li> <li>•To carry out sustainable and inclusive socio-economic development through ICT</li> <li>•To develop ICT infrastructure</li> <li>•To promote research and use of the latest ICT to tackle environmental, economic, technical, and social challenges</li> <li>•To develop and create opportunities for human resource development in ICT</li> <li>•To promote good governance through ICT</li> </ul> |

|                                 |  |
|---------------------------------|--|
| Land Use Policy                 | <ul style="list-style-type: none"> <li>•To categorize land into various Land Use Zones (LUZs)</li> <li>•To devise Land Use Plans (LUPs)</li> <li>•To ensure Land and Land Resources (LLRs) based on LUPs</li> <li>•To mitigate natural and human-made disasters</li> <li>•To apply minimum property valuation and progressive tax system on lands</li> </ul>   |
| National Microfinance Policy    | <ul style="list-style-type: none"> <li>•To formulate rules and regulations related to micro-finance</li> <li>•To operate small-scale employment and income generation programs</li> <li>•To make micro-credit supply system more accessible</li> <li>•To help develop the capacity of related organizations, cooperatives, and non-governmental organizations to provide micro-financial services in a sustainable manner</li> <li>•To develop institutional machinery for micro-finance</li> <li>•To establish second-tier institutions (STIs)</li> </ul>   |
| National Gender Equality Policy | <ul style="list-style-type: none"> <li>•To make structural arrangements along with policies for socio-economic empowerment of females</li> <li>•To establish a society based on the principles of equality and gender values by ending gender discrimination, violence, and exploitation</li> <li>•To adopt a gender-responsive governance system</li> <li>•To empower women economically</li> </ul>   |
| Commercial Policy               | <ul style="list-style-type: none"> <li>•To increase supply capacity and reduce the trade deficit by increasing export of goods and services that add value to the global market</li> <li>•To increase access to intellectual property, goods, and services in the regional and global markets</li> </ul>   |
| Supply Policy                   | <ul style="list-style-type: none"> <li>•To arrange for regular and easy access to quality goods and services in collaboration with cooperatives, private and public sector</li> <li>•To protect consumer rights and interests</li> <li>•To establish a cost-based price system and maintain quality of goods and services supplied</li> <li>•To make arrangements for food security</li> <li>•To develop an integrated supply system for the relief of consumers in remote areas</li> <li>•To control artificial shortages and the black market for goods and services</li> <li>•To control non-competitive practices in goods and services</li> </ul> |
| Nepal Trade Policy              | <ul style="list-style-type: none"> <li>•To create a conducive environment for trade and business</li> <li>•To promote economic development and alleviate poverty through enhancement of trade sector</li> <li>•To minimize the trade deficit</li> <li>•To increase employment and income-generating opportunities</li> <li>•To establish linkages between internal and foreign trade</li> </ul>  |

|                           |   |
|---------------------------|---|
| National Education Policy | <ul style="list-style-type: none"> <li>•To provide quality education focused on the all-round development of children</li> <li>•To ensure equitable access to primary education for all</li> <li>•To ensure free access to quality secondary education for all</li> <li>•To ensure technical and vocational education and training opportunities for all interested citizens</li> <li>•To make Nepal a fully literate country and develop a lifelong learning culture</li> <li>•To ensure quality education for persons with all types of disabilities</li> </ul> |
|---------------------------|---|

## ANNEX B: Questionnaire

प्रश्नावली ढाँचा

सिरियल नं: \_\_\_\_\_

### ■ उद्यम को औपचारिक/अनौपचारिक स्थिति

1. के यो व्यवसाय आन्तरिक राजस्व विभागसंग दर्ता छ?

a. छ (if yes terminate)

b. छैन

### ■ सामान्य जानकारी, औपचारिकतालाई असर गर्ने कारकहरु, र कोभिड - १९को प्रभाव

उद्यमी विशेषताहरु

1. के तपाईं यस व्यवसायको प्राथमिक मालिक हुनुहुन्छ?

a. हो

b. होइन (if no terminate)

2. यस व्यवसायमा कति जना कामदार (मालिक सहित) कार्यरत छन्?

|  |                          |
|--|--------------------------|
| १ देखि ९                               | <input type="checkbox"/> |
| ९ भन्दा बढी (if more than 9 terminate) | <input type="checkbox"/> |

3. यो व्यवसायको प्राथमिक मालिक पुरुष हो कि महिला?

|                                |                                |                              |
|--------------------------------|--------------------------------|------------------------------|
| <input type="checkbox"/> पुरुष | <input type="checkbox"/> महिला | <input type="checkbox"/> अरु |
|--------------------------------|--------------------------------|------------------------------|

4. यस क्षेत्रमा तपाईंसंग कति बर्ष कामको अनुभव छ?

|                         |  |
|-------------------------|--|
| अनुभव को वर्ष को संख्या |  |
| थाहा छैन                |  |

5. मुख्य मालिक को शिक्षा को उच्चतम स्तर:

|                                 |   |  |
|---------------------------------|---|--|
| शिक्षा छैन                      | 1 |  |
| प्राथमिक विद्यालय (पूरा वा छैन) | 2 |  |
| माध्यमिक विद्यालय (पूरा वा छैन) | 3 |  |
| केहि विश्वविद्यालय प्रशिक्षण    | 4 |  |

6. के यो व्यवसाय विरासतमा थियो?

- a. थियो
- b. थिएन
- यदि थियो भने, को बाट?

|                        |  |
|------------------------|--|
| आमा बुबा               |  |
| आफन्तहरु               |  |
| परिवारका अन्य सदस्यहरु |  |
| अरु                    |  |

7. यो व्यवसाय शुरू गर्नु अघि प्राथमिक मालिकको अघिल्लो पेशा के थियो?

|   |   |  |
|---|---|--|
| Employed in the same activity<br>एउटै गतिविधि मा कार्यरत            | 1 |  |
| Employed in different activity<br>अर्कै क्रियाकलापमा कार्यरत        | 2 |  |
| Self-employed in different activity<br>अर्कै क्रियाकलापमा स्वरोजगार | 3 |  |
| Self-employed in same activity<br>एउटै क्रियाकलापमा स्वरोजगार       | 4 |  |

|                        |   |  |
|------------------------|---|--|
| Unemployed<br>बेरोजगार | 5 |  |
|------------------------|---|--|

- यदि १,२,३ वा ५: तपाइँले किन यो व्यवसाय संचालन गर्ने निर्णय गर्नुभयो? के तपाइँले यो व्यवसाय सञ्चालन गर्नु अघि अन्य विकल्पहरुको अन्वेषण गर्नुभयो?

उद्यम विशेषताहरु

1. यो व्यवसाय सञ्चालन गरेको कति वर्ष भयो?

|          |  |
|----------|--|
| वर्ष     |  |
| थाहा छैन |  |

2. के यो व्यवसाय पहिला दर्ता भएको थियो?

|           |  |
|-----------|--|
| भएको थियो |  |
| भएको थिएन |  |
| थाहा छैन  |  |

- यदि भएको थियो भने: तपाइँले तपाइँको ब्यापार दर्ता गर्ने निर्णय किन गर्नुभयो? अहिले किन दर्ता भएको छैन?

3. व्यापारको स्थान को प्रकार:

|   |  |
|---|--|
| With fixed premises and permanent structure<br>निश्चित परिसर र स्थायी संरचनासंग |  |
| With fixed premises and temporary structure                                     |  |

|  |  |
|--|--|
| निश्चित परिसर र अस्थायी<br>संरचनासंग         |  |
| Without fixed premises<br>निश्चित परिसर बिना |  |

4. के यो व्यवसायले जग्गा, भवन वा अस्थायी संरचना को लागी भाडा तिर्छ?
- तिर्छ Rs. \_\_\_\_\_
  - तिर्दैन
- यदि तिर्छ भने: तपाईं कसलाई भाडा तिर्नुहुन्छ?

औपचारिकता निर्णयलाई प्रभावित गर्ने कारकहरु

- के तपाईंलाई व्यवसाय दर्ता गर्ने प्रक्रिया थाहा छ?
  - थाहा छ
  - थाहा छैन
- यदि थाहा छ भने: तपाईंले तपाईंको ब्यापार कसरी दर्ता गर्नुहुन्छ?

- के तपाईंलाई तपाईंको जस्तो व्यवसायलाई सरकार द्वारा दिएको विभिन्न सुबिधाहरु बारे जानकारी छ?
  - छ
  - छैन
- यदि छ भने: कस्ता प्रकारका सहूलियतहरु/सुविधाहरु बारे तपाईंलाई थाहा छ?

- तपाईंले तपाईंको व्यवसाय दर्ता नगर्नु को मुख्य कारण के हो?

|   |  |
|---|--|
| Getting information on what you<br>need to do to register<br>दर्ता गर्ने प्रक्रियाबारे जानकारी नभएर |  |
| Time to complete registration<br>procedure<br>दर्ता प्रक्रिया पुरा गर्ने समयले गर्दा                |  |

|   |  |
|---|--|
| Fees to complete registration procedure<br>दर्ता प्रक्रिया पूरा गर्ने शुल्कले गर्दा               |  |
| Taxes on registered business<br>दर्ता भएको व्यवसाय सम्बन्धि करले गर्दा                            |  |
| Potential inspections<br>सम्भावित निरीक्षण  |  |
| Bribes that registered business need to pay   |  |
| There is no benefit for my business being registered<br>मेरो व्यवसायलाई दर्ता गरेर कुनै फाइदा छैन |  |
| Others<br>अरु   |  |

- तपाईंले किन तपाईंको व्यवसाय दर्ता नगर्नुको लागि यो विशेष कारण छान्नुभयो?

4. तपाईंको विचारमा दर्ता गरेको फाइदा र बेफाइदाहरु के के हुन्?

|             |        |
|-------------|--------|
| बेफाइदाहरु: | फाइदा: |
|-------------|--------|

5. तपाईंले तपाईंको व्यवसाय भविष्यमा दर्ता गर्ने सम्भावना कति छ?

|                    |   |  |
|--------------------|---|--|
| धेरै कम सम्भावना छ | 1 |  |
| कम सम्भावना छ      | 2 |  |



|                                   |   |  |
|-----------------------------------|---|--|
| सम्भावना छ पनि छैन पनि<br>(तटस्थ) | 3 |  |
| सम्भावना छ                        | 4 |  |
| धेरै सम्भावना छ                   | 5 |  |

- तपाइँले किन यो विकल्प/कारण छान्नुभयो?

कोविद-१९ को प्रभाव र वित्तीय स्थिति

1. कोभिड -१९ को प्रकोपले तपाइँको व्यवसायलाई कसरी असर गरेको छ??

|           |   |  |
|-----------|---|--|
| धेरै कम   | 1 |  |
| कम        | 2 |  |
| ठिकै      | 3 |  |
| धेरै      | 4 |  |
| एकदम धेरै | 5 |  |

- लकडाउनको बेला तपाइँले कस्ता प्रकारका समस्याहरुको सामना गर्नुभयो?? के तपाइँले अझै पनि वर्तमानमा यी समस्याहरुको सामना गरिराख्नु भएकोछ?

2. निम्न मध्ये कुन यो व्यवसायको लागि सबैभन्दा ठूलो बाधा/ समस्या हो

|   |  |
|---|--|
| Limited access to finance<br>वित्तको लागि सिमित पहुँच |  |
| Restricted access to land<br>भूमिमा प्रतिबन्धित पहुँच |  |

|  |  |
|--|--|
| Limited demand for product and services<br>उत्पादन र सेवाहरूको लागि सीमित माग                            |  |
| Crime, theft, and disorder<br>अपराध, चोरी, र विकार   |  |
| Inadequately educated workforce<br>अपर्याप्त शिक्षित जनशक्ति   |  |
| Political instability<br>राजनीतिक अस्थिरता   |  |
| Workers are unreliable due to their poor health<br>कामदारहरू आफ्नो खराब स्वास्थ्य को कारण अविश्वसनीय छन् |  |
| Corruption<br>भ्रष्टाचार   |  |
| Others<br>अरु  |  |

- तपाइँको विचारमा यो किन सबै भन्दा ठूलो समस्या हो?

- के तपाइँलाई लकडाउनको समयमा यस व्यवसायको खर्च बेहोर्न कठिनाईहरू भयो?
  - भयो
  - भएन
- यदि भयो भने: तपाइँलाई व्यवसाय को कति प्रतिसत खर्च बेहोर्न कठिनाई भयो, अनुमान गरिदिनु होला:
- तपाइँले कुन वित्तीय श्रोत आफ्नो व्यवसाय संचालन गर्नको लागि प्रयोग गर्नुहुन्छ

|  |  |
|--|--|
| Internal funds<br>आन्तरिक कोष                    |  |
| Credit from suppliers or advances from customers |  |

|   |  |
|---|--|
| आपूर्तिकर्ताहरूबाट क्रेडिट वा ग्राहकहरूबाट अग्रिम |  |
| Moneylenders<br>साहूकारहरू                        |  |
| Microfinance institutions<br>लघुवित्त संस्थाहरू   |  |
| Banks<br>बैंकहरू                                  |  |
| Friends/Relatives<br>साथीहरू/आफन्तहरू             |  |
| Other sources<br>अन्य स्रोत                       |  |

5. सबै भन्दा धेरै प्रयोग गरिने वित्तीय स्रोत कुन हो र किन?

\_\_\_\_\_

6. के तपाईंले लकडाउनको समयमा यी कुनै स्रोतहरूको उपयोग गर्नुभयो?

- a. गरे \_\_\_\_\_  
b. गरेन

उद्यमी विशेषताहरू

1. उत्तरदाता को उमेर: \_\_\_\_\_  
2. मुख्य मालिक को वैवाहिक स्थिति:

|                    |                          |
|--------------------|--------------------------|
| एकल                | <input type="checkbox"/> |
| हाल विवाहित        | <input type="checkbox"/> |
| बिछोडिएको वा विधवा | <input type="checkbox"/> |

उद्यम विशेषताहरू

1. उद्यम को स्थान

|                              |                                |                                   |                                |                                  |
|------------------------------|--------------------------------|-----------------------------------|--------------------------------|----------------------------------|
| <input type="checkbox"/> असन | <input type="checkbox"/> गौगबु | <input type="checkbox"/> महाबौद्ध | <input type="checkbox"/> कलंकी | <input type="checkbox"/> जनबाहाल |
|------------------------------|--------------------------------|-----------------------------------|--------------------------------|----------------------------------|

2. उद्योग:

## ANNEX C: Informed Consent Form

**Description of the Study and Participant's Role:** This study will be conducted through in-depth, one-on-one interviews, lasting approximately 30 to 35 minutes. Topics include questions about your enterprise and your perspective towards formalization, reflections on your experiences, and Covid-19. The interviews will be tape-recorded and transcribed. This research focuses primarily on informal enterprises. The interviewees, the owners of informal enterprises, are expected to participate in this study voluntarily. You can stop participating at any time, for any reason, if you so decide, and you may ask for the recorded information to be destroyed immediately.

**Purpose of the Study:** This study aims to provide information and resources to help understand the factors that influence and affect formalization decisions. Additionally, this project is also carried out to assess the impact of Covid-19 on informal firms and to check whether formalization is a feasible option for such enterprises.

**Risks:** Participants may be challenged by ideas or questions that they might not have considered before. If the questions or answers in the interviews bring up unpleasant experiences for you and you feel it's better not to include them, you can inform the researcher to exclude these aspects. All this information and recordings will be deleted.

**Confidentiality:** All the information you provide will be kept private and used only for study purposes. Your name will not appear in any report or publication. The information will be collected through audio devices such as tape recorders and handwritten notes. Your information will be safely stored in a password-protected computer, and only the researcher will have access to it. The audio files will be deleted as soon as it is transcribed. The final report will be made available upon request.

**Questions about the Research?** If you have any questions or concerns about the research or your role in this study, please feel free to contact the researcher, Satish Bajracharya, either by phone at +977-9813536622 or by email at [satish.bajracharya@daayitwa.org](mailto:satish.bajracharya@daayitwa.org). You may also contact the organization, Daayitwa Abhiyaan, by phone at +977-1-5544914 or email at [contact@daayitwa.org](mailto:contact@daayitwa.org).

I agree to have this interview recorded:

☐ Yes

☐ No

I consent to participate in this study conducted by Mr. Satish Bajracharya. I understand the nature of this research and wish to participate. The signature below indicates my consent.

|           |            |             |
|-----------|------------|-------------|
| Signature | Date _____ | _____       |
|           |            | Participant |
| Signature | Date _____ | _____       |
|           |            | Researcher  |

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