

BUSINESS / BUSINESS

The Businesses Nepal Doesn't Count: What 1.5 Million Microenterprise Workers Reveal About the Economy

New evidence on Nepal's smallest businesses shows why many are survival strategies, why formalization alone is not enough, and which firms may actually be ready to grow.

OCTOBER 4, 2026



The Businesses Nepal Doesn't Count: What 1.5 Million Microenterprise Workers Reveal About the Economy

New evidence on Nepal's smallest businesses shows why many are survival strategies, why formalization alone is not enough, and which firms may actually be ready to grow.

By Nepal Digest - October 4, 2026 - Nepal

On a Kathmandu pavement, a tea seller adjusts a kettle around the morning foot traffic. In a narrow room nearby, a tailor works from a single machine. A woman sells flowers or snacks from home because the business has to fit around care work. These are businesses, but they are rarely the kind that appear in startup headlines, investment decks or national growth stories.

Yet taken together, they form a huge part of Nepal's working economy.

A 2026 World Bank analysis of Nepal's microenterprise landscape estimates that close to **1.5 million Nepalis** work in formal and informal microenterprises. That is more people than work in the country's small and medium-sized firms combined.

The finding changes how Nepal's entrepreneurship story should be understood. Much of what looks like "small business" is not necessarily the first stage of a company on its way to becoming bigger. Often, it is a household's way of creating an income when a stable wage job is unavailable.

The businesses hiding in plain sight

Microenterprises are visible everywhere: roadside stalls, repair shops, home-based tailoring, tiny groceries, beauty services, food carts, workshop businesses and informal trading. What makes them difficult to understand is that many are poorly represented in conventional business statistics.

The World Bank analysis draws on new enterprise survey work that tries to see this part of the economy more clearly. The picture is striking.

- The average informal microenterprise employs about **1.5 people**, usually the owner and a family member.
- Only around **8 percent** have even one paid worker.
- Nearly **half are owned by women**.

- Many owners started because they lacked a better income option, not because they had identified a high-growth commercial opportunity.

This matters because the word “entrepreneur” can hide two very different realities.

One person starts a company because they see a market opportunity, have capital, can hire staff and want to expand. Another person sells snacks, repairs phones or runs a tiny shop because there is no reliable job available. Both are self-employed. Economically, however, they are in very different positions.

For many, self-employment is a survival strategy

The strongest conclusion from the new evidence is uncomfortable: a large share of Nepal’s informal microenterprises are not growth engines. They are survival mechanisms.

Many operate at monthly profits below the minimum wage. In such cases, what looks like “profit” often represents little more than payment for the owner’s own labour. There may be almost no return to capital, no real capacity to hire, and little room for reinvestment.

That helps explain why the country can look intensely entrepreneurial at street level while still struggling to generate

enough productive jobs.

It also connects directly to the broader question of why strong financial indicators do not automatically translate into a richer-feeling economy. Money may enter the system through remittances, deposits or credit, yet a large number of people still depend on low-productivity work with limited prospects for moving up.

When formal wage employment does not grow fast enough, self-employment absorbs the pressure.

The productivity gap is enormous

The World Bank analysis finds that formal microenterprises in Nepal produce roughly **six times more output per worker** than informal ones.

At first glance, that seems to support a simple conclusion: formalize informal businesses and productivity will rise.

But the evidence is more complicated.

About **68 percent of formal microenterprises were formal from the day they opened**. In other words, many productive firms did not become productive because they registered. They were already different at the beginning: better prepared, better capitalized, more capable of keeping records, more connected to

markets or more able to use formal systems.

Firms that began informally and formalized later generally carried weaker productive capabilities with them.

So registration matters, but registration alone is not a growth strategy.

Formalization is useful, but it is not magic

There are good reasons to make registration easier. Formal firms can gain access to contracts, finance, tax records, larger suppliers and institutional markets. Government also needs visibility into the business base.

But if a one-person enterprise has low skills, little capital, weak demand and no reason to expand, reducing registration paperwork will not suddenly turn it into a high-productivity company.

This distinction matters because policy can easily confuse administrative compliance with economic capability.

A better question is not simply:

How do we make every informal firm formal?

It is:

Which businesses have the potential to grow, and what does each type of business actually need?

The 22 percent that could grow

The World Bank analysis identifies an important minority: about **22 percent of informal firms show genuine productive potential.**

These businesses look more like formal firms in their behaviour. Their owners may keep accounts, negotiate with suppliers, think about expansion and show stronger business capabilities even though the firm remains informal.

For this group, targeted support could make a meaningful difference.

- Access to credit that does not depend entirely on traditional collateral.
- Technology that improves bookkeeping, inventory, payments or customer management.
- Business coaching focused on actual operations rather than generic entrepreneurship seminars.
- Stronger links to suppliers and markets.
- A simpler path into formal status when formalization becomes commercially useful.

This is where finance becomes relevant. In February 2026, the World Bank approved a \$95 million operation aimed at expanding finance to more than 100,000 small and medium enterprises in Nepal. The programme is designed in part to address long-standing constraints such as inadequate collateral and limited credit histories.

That kind of financing can matter greatly for firms with real demand and productive capacity. It is less likely to transform a subsistence business whose deeper problem is that the owner has no better employment option.

Women-owned businesses need a different lens

Nearly half of Nepal's informal microenterprises are women-owned, according to the analysis. Many operate from home.

That should not automatically be interpreted as a preference for home-based entrepreneurship. For some women, working from home makes income generation possible while balancing unpaid care responsibilities, household work and limited mobility.

The constraint may therefore not be “business ambition.” It may be time.

Credit alone does not solve that. Childcare, transport, digital access, market connections and greater control over working

hours can be equally important.

This is why treating every business owner as if they face the same obstacle produces weak policy. A woman running a home-based food business, a young repair-shop owner with expansion plans and an older street vendor protecting a basic household income do not need the same intervention.

Why this matters to the middle class too

The microenterprise story is not separate from Nepal's wider cost-of-living problem.

When a large share of households depend on low-productivity self-employment, incomes remain fragile. At the same time, urban households face rising costs for housing, education, transport and imported goods. That is part of why Kathmandu can feel expensive even when local incomes remain relatively low.

A household may technically own a business but still have little economic security.

The distinction between “business owner” and “worker” becomes blurred. Many microentrepreneurs are effectively buying themselves a job—often without paid leave, social protection, predictable earnings or a clear path to higher productivity.

Remittances can keep tiny businesses alive without making them productive

Nepal's remittance economy adds another layer.

Money sent from abroad often supports consumption, education, housing, debt repayment and everyday household stability. It can also finance small shops and self-employment.

But as Nepal Digest has previously examined in where remittance money actually goes, household inflows do not automatically become productive investment.

A family may use remittance savings to open a shop because it offers a local income source. If the market is already crowded and demand is limited, that shop can help the household survive without creating meaningful new productivity.

That is not failure. It is simply a different economic function from a business designed to scale.

The diaspora question: invest in what can actually grow

This distinction is especially relevant to Nepalis abroad who want to invest back home.

The instinct to support a relative's shop, restaurant, farm or trading business is understandable. But money alone does not

create a strong enterprise.

Before investing, the more useful questions are:

- Is there clear demand beyond family and friends?
- Does the business keep proper accounts?
- Can the owner explain margins and cash flow?
- Would additional capital increase productive capacity, or merely cover existing losses?
- Is the constraint really finance, or is it market access, skills, technology or management?

Those questions also apply to anyone considering building a business in Nepal while living abroad.

The evidence suggests that the best investment targets are not necessarily the firms that are most visible. They are the businesses that already show the behaviours associated with productive potential.

What should happen to the remaining majority?

The hardest part of the story is that not every microenterprise should be pushed to grow.

For firms operating at or near subsistence, the priority may be resilience rather than expansion.

That can mean:

- basic financial and risk protection;
- light-touch training that helps owners earn slightly more;
- childcare support for home-based women entrepreneurs;
- digital-payment and bookkeeping tools;
- and, crucially, better pathways into wage employment when stronger jobs become available.

This is a different philosophy from the idea that every small seller should become a larger company.

For many households, the best long-term outcome may not be a bigger microenterprise. It may be access to a stable, more productive job.

The real problem sits outside the shop

That is the larger lesson.

Nepal's microenterprise economy is not simply a collection of small business problems. It is a reflection of the wider labour market.

When productive firms do not create enough jobs, people create work for themselves. When finance, infrastructure and investment remain constrained, those businesses often stay small. When households depend heavily on remittances, self-employment can

become a way of converting family savings into local income without necessarily increasing national productivity.

The street stall, the home-based tailor and the tiny repair shop are therefore not marginal to Nepal's economy.

They are evidence of how the economy is functioning.

Seeing the businesses clearly

Nepal does not need to romanticize microenterprise, and it does not need to dismiss it.

The country needs to distinguish between three different realities:

1. **survival businesses** that mainly protect household income;
2. **potential-growth businesses** that could become stronger with targeted finance, skills and market access;
3. **productive firms** that should be able to enter the formal economy early and scale without unnecessary friction.

Treating all three the same wastes money and misses opportunity.

The new evidence is valuable precisely because it makes Nepal's smallest businesses harder to simplify. They are simultaneously a sign of resilience, a response to weak job creation and, for a smaller group, a genuine source of future growth.

The challenge is not to turn 1.5 million workers into startup founders. It is to give each kind of business—and each kind

of worker—a better route forward.

Originally published by Nepal Digest - <https://nepaldigest.com/nepal-microenterprises-informal-economy/>