

Prospects and Challenges of Informal Economic Activities in Nepal: A Comparative Study of Two Sub-Metropolitan Cities in Lumbini Province

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Abstract

This paper analyzes informal economic developments in Nepal and their prospects and challenges by evaluating two sub-metropolitan cities named Butwal and Nepalgunj within Lumbini Province. A total of 130 informal business owners from 65 establishments in each city participated in the survey, which used a quantitative research design and closed-ended questionnaire assessment. Two policy-level interviews through key informant interviews were conducted with the mayor of Butwal Metropolitan City and the chief administrative officer of Nepalgunj. The study unveils the problems during business operations, growth potential, and social and economic implications that informal businesses face in these metropolitan areas. The study confirms that informal businesses in Butwal and Nepalgunj face infrastructure, financial, and regulatory barriers that hinder their growth, yet contribute to employment, market adaptability, and potential formalization. The business conditions in these cities differ regarding market infrastructure, financial access, regulatory challenges, and growth potential. Finally, the study contributes to offering strategic policies that will allow informal businesses to become part of the formal economy and support sustainable urban economic growth.

Keywords: Informal economy, development, livelihood, Nepal

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Introduction

The informal economy is an essential economic foundation in Nepal because it provides employment and generates income for numerous population segments. A large group of people in developing countries maintains their existence through informal businesses because standard employment opportunities remain out of their reach (Dell'Anno, 2022). Economic activities within this sector consist of street vending, home-based enterprises, and small-scale retail operations. In particular, the urban economy gets stronger because informal businesses fulfil various consumer demands, provide economical products, and encourage entrepreneurial initiative. The informal sector successfully contributes to the economy but remains without regulation while business owners function illegally, which exposes them to economic risks and mistreatment (Khuong et al., 2021).

The informal economic system presents various operational difficulties to its participants. Financial sector professionals regularly meet roadblocks in regulations which prevent them from growing and handling business operations smoothly. The troubles informal entrepreneurs face become more severe when they lack formal credit and have poor infrastructure along with shifting policy regulations. Business owners face an unpredictable setting because of market competition, increasing operational costs, and the nonexistence of social security programs in the informal sector (Zhong & Werner, 2025). Different barriers stop informal entrepreneurs from seeking formal registration because they remain trapped in economic instability. To address these challenges, specific policies that understand informal activities and their potential to thrive are needed. The policy research is particularly important in linking people's livelihood in the informal economy and the extent of the inequalities they are facing (Kum, 2024). These policies should focus on providing financial support, improving infrastructure, and creating a conducive business environment for informal entrepreneurs.

The informal economy, a significant and unavoidable part of Nepal's national economy, plays a crucial role in creating and diversifying livelihoods, particularly in urban areas (Parajuli et al., 2021). The Central Bureau of Statistics (CBS) of Nepal conducted the first-ever establishment-based Economic Census in 2018, revealing that 49.9 percent of the country's 923,027 establishments are unregistered, indicating a substantial informal sector presence. Furthermore, 62.2 percent of Nepal's labour force is engaged in informal sector activities (Pradhan, 2023). Given the importance of this issue, comprehensive statistics on the informal sector are vital for strengthening national accounts and informing public policy development. In the federal context and local development, there is a significant lack of specific locality-based studies and micro-narratives about livelihood. This highlights the need for more research and understanding in this area.

As part of this research, I compare informal economic activities throughout Butwal and Nepalgunj, two giant cities of Lumbini Province, to analyze the circumstances and challenges of business owners as major urban centres of Nepal Butwal Sub-Metropolitan

City and Nepalgunj Metropolitan City. They represent different socio-demographic and administrative characteristics. According to the 2021 Nepal census, Butwal Sub-Metropolitan City has a population of 194, 335, while Nepalgunj Sub-Metropolitan City has a population of 164, 444 (CBS, 2023). Unfortunately, both cities do not have official statistical databases regarding informal business activities in terms of their types, investments, and people's participation. Butwal City has remained as Lumbini Province's main junction between Tarai district communities and residents of the hilly areas (particularly a migratory hub of Synjha, Gulmi, Palpa, Baglung and Arghakhanchi). It has an eclectic resident population with a growing middle class performing trade services and manufacturing activities. It has been a hub of educational and health services for all the districts of Lumbini. The status of Butwal as a sub-metropolitan city requires it to focus on municipal infrastructure development, industrial expansion, and urban development planning.

On the other hand, Nepalgunj is the administrative headquarters of Banke District in Lumbini Province, where it maintains metropolitan status while serving western Nepal as its principal commercial entry point. The population mix in this area contains substantial numbers of Madhesis, Tharus, and Muslims, which creates its multicultural character. The city has a migratory hub from hilly mid-western and far-western districts, which is particularly important for the people of Karnanli Province. Due to its proximity, Nepalgunj takes advantage of opportunities to conduct business transactions across its frontier with India. Vibrant economic growth in both cities struggles against management obstacles that affect municipal governance structures and infrastructure and informal business control systems.

The study strives to discover relevant information that will enable policymakers to create economic solutions that support informal enterprises. Observing the peculiar economic characteristics of Butwal and Nepalgunj will provide insights into how different areas operate their informal businesses and suggest possible strategies to boost this sector's long-term growth and economic value generation.

Methodology

This study employed a quantitative-dominant mixed methods design (QUAN–qual), prioritizing quantitative data while incorporating qualitative insights to enrich interpretation. It is therefore post-positivist articulation of the reality. The approach enabled a more comprehensive understanding by triangulating measurable facts about the informal economy with contextual narratives. First, with the positivist approach, the research method employed in this study combines quantitative elements with surveys distributed to Butwal and Nepalgunj's informal business owners. These study sites were purposively selected due to their significant presence of informal businesses and diverse economic landscapes. This research analyzes business sustainability together with financial accessibility, as well as regulatory challenges and growth prospects. One hundred thirty

informal business owners participated in the survey based on purposeful selection, and both survey locations (Butwal and Nepalgunj) received 65 respondents each from the random selection method guided by a systematic approach.

For the embedded triangulation from a constructivist perspective, I also conducted two key informant interviews (KIIs) with the mayor of Butwal Metropolitan City and the Chief Administrative Officer (CAO) of Nepalgunj. Descriptive statistics, cross-tabulations, and Likert scale measures were utilized to analyze the gathered data, which assessed informal business owner perceptions of opportunities and challenges. The research analysis used inferential methods for identifying unique patterns among and between the business owners' experiences of each city. The main field visit was conducted (including survey and interviews) in the last week of December 2024, using the peak hours of New Year's Eve for 2025.

Results and Discussion

Socio-Economic Profile of Informal Business Owners

Survey results indicate that most informal businesses across both areas have different socio-economic characteristics, though not different in a significant way (Table 1). They function by managing people with minimal educational experience and restricted financial resources. It is evident that small businesses mostly obtain their capital investment through personal funds along with informal loan networks, as they may have less capital for investment from ancestral property or any kind of cash capital.

Table 1.

Socio-Economic Profile of the Respondents

Characteristic	Butwal (N=65)	%	Nepalgunj (N=65)	%	Total (N=130)	%
Primary education or less	39	60	49	75	88	67.7
Use of personal savings for capital	52	80	55	85	107	82.3
Dependence on informal lending	33	50	46	70	79	60.8
Monthly revenue below NPR 50,000	42	65	51	78	93	71.5

Source: Field Survey, 2024

The demographic conditions of Butwal and Nepalgunj's informally run businesses demonstrate fundamental operational relationships that affect their trajectory. Many respondents limited themselves to primary-level education or below, indicating restricted access to standard programs, such as vocational training or business management courses, which would teach skills and financial literacy. Their limited formal education prevents

them from developing their business operations and financial management skills while entering the formal market. Financial exclusion exists because informal entrepreneurs need personal funds from savings more than any other capital source at (82.3%). The high percentage of business owners who use informal lending networks reaches (60.8%) in total but increases to (70%) in Nepalgunj while remaining at (50%) in Butwal, reflecting this financial access issue. The lack of formal financial support systems prevents informal business owners from achieving sustainability and expanding their operations, exposing them to economic instability.

The financial resources available in the two cities create different potential business stability rates across the locations. Most entrepreneurs (71.5%) received incomes less than NPR 50, 000 per month, yet Nepalgunj-based businesses (78%) faced more income restrictions than Butwal (65%). Differences in market accessibility standards, consumer purchasing power, and infrastructure quality create differences between businesses. The research outcomes prove the arguments in existing scholarly works about how educational restrictions, financial obstacles, and bureaucratic hurdles prevent informal enterprises from advancing. The urgency for broader financial education programs is evident, as they should be combined with programs that ensure simple access to small loans while improving essential services to strengthen business conditions. These findings therefore indicate that informal businesses can attain economic stability and contribute to urban development by addressing and removing structural environmental barriers.

Challenges Faced by Informal Businesses

The informal economy faces several significant challenges that hinder its potential for growth and integration into formal systems. One major issue is the lack of access to formal financial services, which limits the ability of informal businesses to expand and invest in sustainable practices (Chen, 2023). Moreover, informal workers are often excluded from legal protections, such as minimum wage laws and social security, which perpetuates a cycle of vulnerability and insecurity (ILO, 2018). The absence of regulatory oversight also contributes to inefficiency and environmental degradation, as informal practices frequently disregard environmental standards (Sultana et al., 2022). These barriers not only impede the sector's productivity but also make it difficult to leverage its full potential for economic development and social stability. Addressing these obstacles requires targeted policies to enhance access to resources, provide social protection, and integrate the informal economy into broader regulatory frameworks.

This research identifies five primary problems that informal business owners must face in Butwal and Nepalgunj (Table 2). Informal business owners often have fundamental regulatory obstacles including obtaining licenses and following tax regulations. The second major impediment, finance exclusion, showcases the resourcefulness of informal business owners as they struggle to access credit and formal financial service options. The third challenge, infrastructure limitations, encompasses market infrastructure, inadequate

storage facilities, and restricted access to essential utilities. Fourth, among the significant obstacles is market competition, as formal businesses and new players in the informal sector generate increased competition. Municipality-related challenges, consisting of ambiguous policies, excessive taxation, and law enforcement issues, stand as the fifth significant barrier that informal business operators face.

Table 2.*Major Challenges Faced by Informal Businesses*

Challenge	Butwal (n = 65)	Nepalgunj (n = 65)	Total (N=130)	Agg %
Difficulty in obtaining a business license	36 (55%)	46 (70%)	81	62.3
Limited Access to Credit	39 (60%)	52 (80%)	91	70.0
Inadequate market infrastructure	33 (50%)	49 (75%)	81	62.3
High competition	42 (65%)	47 (72%)	89	68.5
Emergency crises (road construction/ maintenance, pandemic, climate adversity)	40 (62%)	50 (77%)	90	69.2
Municipality-related challenges (unclear policy, over-taxation, law enforcement issues)	38 (58%)	48 (74%)	86	66.2

Source: Field Survey, 2024

Business operators running informal establishments in Butwal and Nepalgunj, where there are approximately [insert number] informal businesses, encounter multiple obstacles related to infrastructure, finance, and official regulations that block their expansion opportunities. Lack of accessible funding (70%) emerges as the prime concern among businesses since they need to use personal or alternative loan resources because bank funding is unavailable. The intense competition in the market (68.5%) continues to be observed in both cities because new business entries increase the competition level among small vendors. Obtaining business licenses represents the main regulatory challenge (62.3%), which prevents informal businesses from formalizing their operations while blocking their ability to receive governmental support.

The COVID-19 pandemic has had a profound impact on informal enterprises in Nepalgunj and Butwal. It has had a severe impact both in international as well as national context (Chaudhary et al., 2021). Statistical evidence indicates that external disturbances due to road breakdowns, pandemic outbreaks, and climate-related challenges hit (69.2%) of informal enterprises (39), with unique vulnerability affecting businesses in Nepalgunj (77%). The businesses in Nepalgunj that form (77%) of operations suffer the most because they face extreme weather conditions and inadequate infrastructure, leading to a more severe impact. Many business owners faced difficulties maintaining stability due to the COVID-19 pandemic, which led to extended lockdowns and decreased customer activity

at their stores. Formal relief programs remain unavailable to informal entrepreneurs who use their own funds to bear the brunt of losses and face obstacles to recovery after crises. The situation calls for the immediate development of specialized disaster preparedness measures for informal enterprise operations.

Informal business owners in metropolitan areas face a myriad of obstacles, including unclear municipal guidelines (66.2%), high municipal taxation, and conflicts with police departments (66.2%). The municipality of Nepalgunj reports that (74%) of businesses are affected, while Butwal reports (58%), indicating varying enforcement practices. To address these issues, informal business operators need better integration with local government entities. This would enable them to resolve complaints regarding municipal authority harassment, inconsistent taxation policies, and insufficient policy disclosure. By funding supportive policies, improving infrastructure, and expanding financial opportunities, we can enhance informal business conditions, strengthen economic stability, and ensure the protection of residents' incomes in these two cities.

Opportunities for Informal Businesses

Different scholars have portrayed different types of opportunities and implications of informal economy with different arguments and synthesis. Sultana et al. (2022) analyze the role of the informal sector in sustainable development across developing countries, emphasizing its economic contributions while also acknowledging regulatory and environmental challenges. Korsunova et al. (2022) highlight how necessity-driven informal sector practices contribute to circular economies by retaining value and minimizing waste in low-income contexts. Misra et al. (2024) extend this discussion by modeling the informal sector's impact on employment generation, arguing that it plays a crucial role in mitigating unemployment in developing economies. Together, these studies underscore the informal sector's dual nature—offering economic resilience and sustainability benefits while posing challenges related to regulation and integration into formal economic structures.

Despite various challenges, informal businesses in Butwal and Nepalgunj offer several benefits, including employment generation, market adaptability, potential for formalization, low investment requirements, and reduced risk (Table 3). Employment opportunities emerge because informal businesses enable people who cannot find formal work to become employed. The enterprises show flexibility and adaptability since they respond rapidly to market shifts while bypassing the bureaucratic problems that traditional businesses experience. Importantly, the right policies play a crucial role in enabling informal businesses to transition into the formal sector, where they start receiving financial and legal benefits, offering hope for the future.

Table 3.*Analysis of Opportunities for Informal Businesses in Butwal and Nepalgunj*

Opportunity	Butwal (n = 65)	Nepalgunj (n = 65)	Total (N = 130)
Employment generation	52 (80%)	55 (85%)	107 (82.3%)
Market adaptability	47 (72.5%)	47 (72.5%)	94 (72.3%)
Potential for formalization	36 (55%)	33 (50%)	69 (53.1%)
Low investment requirement and reduced risk	51 (78%)	45 (69%)	96 (73.8%)

Source: Field Survey, 2024

The strength of informal businesses in Butwal and Nepalgunj lies in their ability to address the pressing issue of unemployment. As the results reveals, a staggering (82%) of respondents recognize this advantage. These businesses serve as crucial employment centres, primarily hiring individuals with limited formal education or skills. They seem to be more effective in addressing the unemployment problem in Nepalgunj (85%) than in Butwal (80%). The importance of these businesses is underscored by their role in creating employment opportunities for marginalized people, reducing their reliance on formal employment that is often scarce.

Informal businesses, with their remarkable ability to adapt to market changes quickly (72.5%), serve as a source of inspiration. They outpace the slow response times of formal businesses hampered by bureaucracy, demonstrating a resilience that is truly commendable. This agility in responding to market dynamics not only enables them to stay competitive but also thrive during periods of change. It's a clear demonstration of the flexibility advantage of informal enterprises, a stark contrast to the challenges formal businesses face in competing with their rigid structures and strict regulatory framework.

The potential of formalization as an opportunity is underappreciated, with only (52.5%) of survey respondents recognizing its value. However, the survey results in Butwal found that (55%) of enterprises and (50%) in Nepalgunj are hesitant to formalize due to complications with rules and a lack of funds for business development. Yet, the benefits of formalization are promising. With the right policy interventions, such as streamlined registration systems and better access to microfinance solutions, these barriers can be overcome. The popularity of informal businesses among entrepreneurs is largely due to their minimal start-up costs and reduced fiscal risk, a trend demonstrated by both Butwal (78%) and Nepalgunj (69%). The low financial risk of informal businesses provides entrepreneurs with limited capital and a secure starting point for their enterprise. With the development of infrastructure and skills training initiatives, these businesses can significantly sustainably contribute to local economies.

Comparative Analysis of the Perceptions

The evaluation demonstrates that Nepalgunj and Butwal exhibit different business conditions regarding market infrastructure, access to finance, regulatory challenges and business growth potential (Table 4). Butwal, with its better market infrastructure and medium-level financing accessibility, provides a conducive environment for informal businesses to grow. The moderate level of business owner contentment in Butwal indicates that growth circumstances are appropriate, despite the presence of environmental obstacles such as regulatory limits and limited funding opportunities. Business owners in Butwal view their local municipality with moderate regard, suggesting fair backing from the local government, although there is potential for even better municipal-business owner relations. In contrast, Nepalgunj faces severe conditions due to its business market infrastructure and restricted financial accessibility, making entrepreneurship in the informal economy challenging. The business owners in Nepalgunj express average levels of satisfaction, even with infrastructure issues, but their weak perception of local municipal services reveals dissatisfaction with their support or offerings.

Table 4

Comparative Analysis of Diverse Perceptions in the Study Site

Factor	Butwal	Nepalgunj	Business owner's satisfaction	Positive perception about local government
Market infrastructure	Better	Poorer	Moderate	Moderate
Access to finance	Moderate	Limited	Moderate	Low
Regulatory challenges	Moderate	High	Moderate	Low
Business growth potential	Higher	Lower	Moderate	Moderate

Source: Field Survey, 2024

The regulatory framework presents major shifts between these two cities since Nepalgunj has high obstacles, whereas Butwal encounters manageable administrative hurdles. The business growth potential remains low in Nepalgunj due to restrictive government regulations, inadequate infrastructure, and difficulties in accessing financing. The operating environment at Nepalgunj has become more challenging for business owners, thus explaining their unfavourable view of local municipal support. This highlights the urgent need for change. In contrast, the business infrastructure in Butwal presents better opportunities for growth along with an average satisfaction rate from local

businesses, which receive decent assistance from municipal leadership. The municipal business facilitation framework in Butwal demonstrates superior effectiveness because it creates an enhanced supportive environment for informal businesses to thrive.

Triangulation of Narrative Perceptions

Butwal Municipality: Mayor's Perception

The Mayor of Butwal stresses how informal businesses supply both economic strength and job opportunities to the local community (*based on a personal conversation, 26 December 2024*). The Mayor stated that Butwal's well-developed marketplace together with reasonable financial availability helps informal businesses succeed. The businesses create adaptable employment positions that accept numerous people, particularly those who possess minimal education or lack formal qualifications. Basic services, including transportation and improved access to local markets, are key priorities of the municipality because they promote the advancement of informal businesses. The moderate level of satisfaction expressed by business owners indicates a mostly positive outlook, but they still need stronger support, especially from the local government. The Mayor's call for better support is urgent and crucial to help simplify administrative procedures.

The Mayor supports a realistic approach to municipal involvement, understanding that it is crucial for building bridge connections in the business world. He acknowledges the major obstacles informal businesses encounter due to their difficulties in legal registration and tax compliance rules. Such problems act as barriers to informal enterprise growth and their potential transition into formal businesses. The Mayor promotes better policy outcomes through a cooperative relationship between informal businesses and government institutions by establishing incentives for formalization along with decreased compliance requirements. He believes more attention must be focused on business-owner needs and better communication channels.

Nepalgunj Municipality: Chief Administrative Officer's Perception

According to the Chief Administrative Officer (CAO) of Nepalgunj, the municipality faces two main barriers that limit informal business development: stringent regulations and inadequate market facilities (*based on the personal conversation, 30 December 2024*). The Chief Administrative Officer stresses that informal businesses contribute significantly to local job markets. Yet, their growth stays restricted due to infrastructure deficiencies, inadequate financial services, and regulatory assistance. Nepalgunj business owners face additional hurdles due to restricted financing chances and high regulatory burdens that create a challenging operating space for them. According to him, informal enterprises need to overcome dual obstacles, which include their unrecognized status, leading to being excluded from financial systems that could help businesses expand. The business owners in Nepalgunj show diminished satisfaction, corresponding to their belief that they receive inadequate assistance for handling business problems.

The CAO emphasizes that improving microfinance accessibility is a vital solution to combat the challenges faced by informal businesses in Nepalgunj. He believes that this improvement, along with enhancing regulatory process efficiency and improving infrastructure, can significantly contribute to the long-term growth of these businesses. The CAO experiences displeasure about the involvement of the local municipality according to his assessment. Due to financial limitations and deficient infrastructure the local government demonstrates restrained ability in extending major support to informal businesses. The low assessment by business owners indicates their negative opinion regarding the local municipality in Nepalgunj. The CAO emphasizes that improving infrastructure and enhancing regulatory process efficiency, together with improving microfinance accessibility represent vital solutions to combat these problems. The potential for long-term growth of informal businesses in Nepalgunj faces severe constraints that must be resolved for sustainable formalization to happen.

Triangulation and Synthesis

The comparison between the Mayor of Butwal and the Chief Administrative Officer of Nepalgunj reveals several important findings through perceptual triangulation analysis methods. The two opinion holders concur that informal businesses are an essential employment source mainly for unqualified workers. Views between the Mayor of Butwal and the Chief Administrative Officer of Nepalgunj show significant differences regarding assessing opportunities and challenges. The Butwal mayor displays a positive outlook because of robust market foundations together with the implementation of business-enhancing services by their municipality. Local entrepreneurs in Butwal exhibit moderate approval of municipal administration's genuine efforts at creating better business conditions yet declare that more enhancements such as improved infrastructure, streamlined regulations, and increased financial support are required.

The Chief Administrative Officer from Nepalgunj highlights how inadequate market conditions and stringent regulations limit informal business advancement in his city. He emphasizes the widespread dissatisfaction among business owners, who feel that the local government has failed to reduce its operational challenges adequately. The challenging conditions caused by strict regulations and limited funding opportunities within Nepalgunj produce a negative perspective on the possible growth and formalization of informal businesses. According to local leaders, informal entrepreneurs face dissimilar opportunities in both municipalities despite their shared concern about local government support through better facilities and more straightforward regulations.

Discussion

Fundamental economic and sociological theories illustrate how informal businesses operating in Butwal and Nepalgunj follow the dual economy pattern during their developmental phases toward formalization. The dual economy Pattern, as explained by

Lewis (1954), refers to the coexistence of a modern, industrialized sector and a traditional, subsistence sector within an economy. Informal businesses function as an employment safety measure which supports workers who lack employment opportunities within the formal sector. Informal business operations remain widespread throughout both locations especially within Butwal although Table 1 shows these numbers in detail (Table 1). Table 2 confirms Lewis' (1954) statement about informal businesses struggling to sustain their development and achieve growth because they lack stability and proper resources. Business growth finds better conditions in Butwal than informal businesses located in Nepalgunj experience since they face obstacles including inadequate infrastructure and burdensome regulations.

Institutional Theory, developed by North (1990), clarifies the main obstacles that prevent informal businesses from adopting formal sector regulations. Table 2 demonstrates that the finance availability stands at a middle level in Butwal while Nepalgunj witnesses restricted financial opportunities, directly reflecting institutional weaknesses across those two cities. Table 4 demonstrates that Nepalgunj presents high regulatory barriers that confirm North's Theory about institutional weaknesses hampering companies from entering the formal market sector. In this context, Hamilton (2016) explores the institutional approach to economic theory, emphasizing the role of institutions in shaping economic behavior and challenging orthodox economic models. Castellano and Garc^a\sa-Quero (2012) extend this discussion by examining contemporary debates on institutional approaches to economic development, highlighting theoretical advancements and policy implications. Similarly, according to Chen (2012), informal businesses prosper when formal institutions cannot properly function or fail to reach selected areas. The business owner satisfaction levels in Nepalgunj exhibit diminishing performance (Table 4) because of stringent regulatory constraints and financial hurdles that restrict potential expansion and formalization, although informal enterprises gain significance in generating local employment.

Mead and Morrison (1996) developed the Survivalist vs. Growth-Oriented Model to explain different informal business growth patterns. This model categorizes informal businesses into two types: survivalist, which focuses on meeting immediate needs and often operates at subsistence levels, and growth-oriented, which aims for expansion and development. This study has been further employed by Williams and Kedir (2019) in the contemporary context of livelihood diversification. The business sector in Butwal demonstrates superior growth potential in Table 3 because the market infrastructure provides opportunities and the finance requirements remain manageable. The elements mentioned under market adaptability in Table 3 offer informal businesses the adaptability they need to exceed subsistence levels of development. The business owners in Butwal have expressed moderate satisfaction despite existing opportunities to expand but informal operators continue to encounter multiple obstacles that limit their actual growth capabilities. The growth-oriented model demonstrates that positive business conditions

do not guarantee informal businesses will perform optimally because they still face institutional barriers such as market and credit access constraints.

La Porta and Shleifer's (2014) study demonstrates that although informal businesses adjust well to markets, they perform poorly due to restricted access to funding and necessary infrastructure. As shown in Table 4, market infrastructure serves as a fundamental factor in Nepalgunj and Butwal that determines either successful growth or limited development of informal businesses. Better infrastructure in Butwal enables businesses to have easier market access. In contrast, poor infrastructure in Nepalgunj increases difficulties for the informal sector because these enterprises have limited access to reliable utilities, roads, and communication systems. A low local municipality evaluation in Nepalgunj (Table 4) demonstrates how local authorities fail to deliver suitable infrastructure support for formal businesses despite recognizing their importance because improper institutional backing leads to diminished productivity results.

Chen (2012) underscores that informal businesses in developing economies, while thriving in the face of institutional voids, are hindered by significant legal and financial barriers to formalization. The empirical results from both Butwal and Nepalgunj support this view. Despite the shared recognition of the importance of informal enterprises, the high regulatory challenges reported in Nepalgunj (Table 4) indicate that businesses continue to grapple with significant legal hurdles. These include the difficulty in registering enterprises and accessing formal financial systems. The purpose of this comparative analysis is to underscore the urgent need for local government support in Butwal. This is based on the relatively higher satisfaction rate of business owners towards the regulatory environment and the legal structure in the city. Ultimately, the research highlights that while informal businesses can be vital sources of employment, they urgently need support to overcome the challenges they face.

Conclusion

The research emphasizes the essential position informal businesses maintain within the urban financial sectors of Nepal, especially in Butwal and Nepalgunj. The informal business sector functions as a main employment sustainer because it primarily caters to people who lack formal training or education. Nevertheless, these businesses have a key role to play in the local economies, yet they experience a variety of constraints, including lack of access to finance, specific regulatory constraints such as complex licensing procedures and tax regulations, and poor infrastructure. Numerous obstacles stand in the way of growth possibilities, which restrict numerous people from entering the formal sector. The Butwal and Nepalgunj analysis reveals the necessity of developing specific interventions to enable the informal sector to overcome its barriers while creating supportive business conditions.

The informal sector forms a fundamental economic pillar of Nepalese urban areas because it provides vital employment opportunities and generates essential livelihood

resources. Informal entrepreneurs need extensive policies to overcome their multi-faceted obstacles, including inadequate financial access and broken infrastructure. The formalization of informal businesses in Nepalese urban centres depends on simplified registration procedures, better financial services, enhanced infrastructure development, and training programs that policymakers can create to develop an inclusive, sustainable economic environment. These implemented measures create dual advantages by enabling entrepreneurial success and strengthening national economic development. To foster economic growth and sustainability for informal businesses in Nepal, policymakers should streamline business registration processes, expand access to microfinance, enhance infrastructure development, and invest in training and capacity-building programs to empower entrepreneurs and strengthen business operations.

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