Entrepreneurship and Enterprise Development

ASSESSING ENTREPRENEURSHIP AND ENTERPRISE DEVELOPMENT IN KATHMANDU
ACKNOWLEDGEMENT

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ABSTRACT

This paper seeks to analyze youth entrepreneurship and enterprise development, its gaps and constraints, and recommends methods to provide skills and access to investment regarding youth enterprise development. This is done on the basis of key informant interviews with key individuals representing business groups, business incubators, start-up accelerators, entrepreneur’s group among others working in Kathmandu Valley. The paper also discusses policy suggestions for the creation and development of enterprise development programs which provides skills and access to investment based on the findings of the paper.
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<tr>
<td>BFI</td>
<td>Banks and Financial Institutions</td>
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<td>CTEVT</td>
<td>Council for Technical Education and Vocational Training</td>
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<td>ERF</td>
<td>Economic Rehabilitation Fund</td>
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<td>GoN</td>
<td>Government of Nepal</td>
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<td>MoU</td>
<td>Memorandum of Understanding</td>
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<td>Non-Government Organization</td>
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<td>Rural Self Rehabilitation Fund</td>
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<td>Small and Medium Enterprises</td>
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<td>Technology Development Fund</td>
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INTRODUCTION

ENTREPRENEURSHIP IN KATHMANDU

One of the earliest research about entrepreneurship in Nepal described the Thakalis of Marpha as having a ‘culture of entrepreneurship’, ‘possessing a powerful cultural impetus towards trade, investment, and capital accumulation.’ (Parker, 1988). While the entrepreneurial ecosystem in Kathmandu came into prominence in the early 2010s, Nepali, in general, have always been very entrepreneurial. The startup ecosystem is growing; there are more business accelerators, private equity companies, mentorship programs, and formal education provided than existed a decade ago. Much of this growth is driven because of knowledge transfer, the growth in the number of people with education and exposure to entrepreneurship, rise in access to public media, and the exponential development of mobile telecommunications and outreach. This growth was concomitant with the growth of incubators, investor confidence, and policy changes.

Private entrepreneurs in Nepal had traditionally remained very shy to come forward for investment in industrial ventures due to various reasons (K.C. 2003) aside from having limited financial resources, low rate of return from industrial investment and the then conservative lending policy of BFIs, they also faced a dearth of appropriate entrepreneurial education, training facilities that were suited to their circumstances, and wide-spread corruption in the public sector. Even for the investors, there weren’t adequate protection measures, stable and apt economic or industrial policies. This situation, however, has changed in the past two decades, likely for the better. According to Dr. Swarnim Wagle, ‘Nepal needs an “economic war room” to launch the new wave of reforms to boost entrepreneurship and investments in Nepal’ (NPC, 2016). This wave has already started rising in Kathmandu.

Even among developing countries, Nepali entrepreneurs face their own quite unique set of problems. For more than a decade, the nation was unstable in many senses—unstable governments, unstable electricity supplies, unstable bandhs, unstable natural disasters, unstable diplomatic relations. These things, which can easily be taken for granted by more developed countries, are a very tangible concern to entrepreneurs and people in general. Furthermore, we stand today both as a consequence of a history that disallowed innovation and stifled education among the general people for centuries and specified it to a small domain of individuals, and as a testament to the will and wile of the average Nepali person to find solutions even under the worst of circumstances.
**EXISTING SCENARIO**

The *Doing Business in 2018* report by World Bank puts Nepal at the 105th rank out of a total of 190 countries in 2018, doing better than all other South Asian countries except Bhutan and India. Furthermore, more than half of the country’s population is under the age of 24. This provides a huge challenge and an opportunity for the country. Entrepreneurship, particularly focused on the youth, remains an important priority. Despite these two facts, the youth aren’t proportionally represented as ministries at all levels of the government – local, provincial and federal, don’t recognize the need for youth’s involvement in decision-making. More importantly, it isn’t recognized by the youth themselves (Agrawal et. al., 2014). If the ecosystem fails to provide skills and capacitate our youth, Nepal’s potential demographic dividend could very well turn into a demographic disaster. Consequently, the country’s economic growth prospects, development strategy, and social cohesion will depend progressively upon forming alternative employment sources for the youth. According to a World Bank report (2013) ‘recent government actions have begun to lay the foundation for greater national engagement with the youth while creating new possibilities for youth entrepreneurship and employment. Furthermore, Nepal has set the goal to reach middle-income status by 2030, which is dependent on sectoral enterprise development ((Lemma and te Velde, 2017)) and established Youth Vision 2025 (MYS, 2015). To promote the business sector, the government must provide a sound business environment (Karki, 2011), and given such an environment, more households may be attracted to become entrepreneurs in Nepal (Zwager and Sintov, 2017).

This has a lot of implications for Nepal, and not just Kathmandu. In rather rural areas, there is a tremendous need for economic growth and; therefore, entrepreneurs motivated with rural
management, poverty reduction, education and welfare have a wider scope to focus on. But perhaps, the greatest numbers of entrepreneurs gather in urban cities and metropolitans due to the incredible amount of opportunities available in countless fields which include the ever expanding IT sector, ecommerce, retail among others.

Urban areas and metropolitans like Kathmandu tend to be more flexible towards entrepreneurial ideas due to the reliance on big business and mass production. This means that there is a lot of space to commit and work for innovative entrepreneurs. Urbanization itself is a global driving factor but what makes Kathmandu unique, is its amalgamation of cultural, religious identity along with the growing commercial side driven by modernization. Nepal’s strengths in our unique landscape, culture, and hospitality are well-renowned, and most organizations, even if they focus outside the valley are connected to the capital.

**Research Objective**

To guide the research for understanding the entrepreneurial ecosystem in Kathmandu, I intended to address the following:

- Where do we stand regarding youth entrepreneurship in Kathmandu?
- What problems and challenges do young entrepreneurs face, specifically regarding skills and access to investment?
- What do we need to develop the entrepreneurial ecosystem in Kathmandu for young people?

The questions above were intended to gain the following outcomes:

- To find ways to grow the entrepreneurial ecosystem in Kathmandu.
- To analyze challenges and find solutions regarding entrepreneurial skilling and investment in Kathmandu for the youth.
- To investigate new ways of capacitating youth entrepreneurship in Kathmandu.
LITERATURE REVIEW

What do I expect from the literature review? List 5-10 questions. What is the role of government or other agencies for investment? How can government support for funding?

ENTREPRENEURSHIP

While the definition of an entrepreneur varies widely, there are a few terms on which there is more consensus than others. For this research, we will work under the assumption that an ‘entrepreneur is anyone who undertakes the organization and management of an enterprise involving innovativeness, independence and risk, as well as the opportunity for profit’ (Timmons and Spinelli 2006). The process of entrepreneurship too involves multiple functions in domains of production, investment, enterprise organization, capital raising, resource management – human and raw materials, technique innovation and application, and more importantly the combination of all these factors (Higgins, 1966:88).

The most important contributions of entrepreneurship comprise job creation, smoothing of the markets by introducing innovation, and enhancing efficiency through more competition and poverty reduction by self-employment options (Pfeifer and Sarlija, 2010). An entrepreneur has to play multiple roles in many different dimensions, especially in the context of a developing country like Nepal (K.C, 1993).

SKILLS AND ACCESS TO SKILLS

A large component of success in entrepreneurship and venture capital can be attributed to skill (Gompers et. al, 2006). Basic business skills, leadership and management skills, practical entrepreneurship, innovation, and learning from success stories are aspects of entrepreneurship education that are considered vital in preparing entrepreneurs to start their own business (Kelley, Singer and Herrington, 2016).

Entrepreneurship and skill development can also help overcome the challenges of youth non-involvement. Due to a perceived lack of opportunities, readily available information and sociopolitical barriers, youth are uninvolved in their community activities. This is exacerbated by a dearth of training opportunities, time and geographical barriers (Shrestha, 2011) Many youths have very limited knowledge about the opportunities that are available to them. Furthermore, they lack basic
information about the skills required to compete successfully in our 21st century economy. They need different kinds of skills including interpersonal skills, career exploration and preparation, finance and budgeting, business plan development, computer and multimedia skills, leadership skills, job shadowing and internship opportunities to deal with such situation. These skills are part of the entrepreneurial skillset.

The Industrial Policy 2011 of Nepal mentions increasing employment through promoting opportunities for self-employment and developing industrial skills and entrepreneurship (SET, 2017). The Global Entrepreneurship Monitoring Report (GEM, 2009) names education and training in entrepreneurial skills as two of the conditions for a favorable environment in which entrepreneurship can flourish. There is a need to align youth economic empowerment to government policies, strategies and programs towards this end. Financial support, training and facilities need to be provided in order to ensure young people’s active participation in decision-making, and development activities and programs. This favorable environment need to be created and retained to increase investment in relevant training matching with job market and self-employment. Promotion of entrepreneurship among young women and men for the provision of better information on market opportunities, training in business skills, access to capital (credit and other financial services), mentoring by qualified persons, and other business support services.

**ACCESS TO INVESTMENT**

Access to appropriate finance is not a problem unique to Nepal. Various research done on entrepreneurship in Nepal has focused on the importance of access to finance, among other factors, as an important measure of motivating entrepreneurs (K.C, 1993). The close association between entrepreneurship and economic growth means that wealth creation is often used as a measure of success for entrepreneurs (HSBC, 2016). This includes both equity and debt financing through a variety of BFIs. Access to finance remains a problem for enterprises across the world. (SSES 2017). One of the biggest skill deficiencies of entrepreneurs was financial management and the ability to seek external finance (SSES 2007).

According to Pradhan (2016), SMEs received only 2.6% of the total loans from commercial banks in 2015. SME loans offered by BFIs are largely collateral based requiring stringent documentation and make no distinction between rural and urban clients. Thus, entrepreneurs either want to avoid BFIs or prefer to take personal loans with higher interest rates in Nepal. Most people expect collateral free
loans followed by loans in low interest rates. Either way, people want easy loans if they are to invest in any enterprise sectors. The other expectation from BFIs is to make legal process easier and user friendly and provide people with financial information in regular basis (Joshi, 2016).

In the formal sector, there are a few BFIs willing to give loans to startups, some even non-collaterally like Laxmi Bank, Global IME Bank, Himalayan Bank. According to research done by Joshi (2016), the most repeated reasons for not investing in enterprise are: having no prior idea about investment, lack of business support and contacts, incapable of bearing the unexpected loss, low self-confidence; followed by a lack of startup capital for new entrepreneurs, complex legal and financial processes; and political instability. With the recent elections in 2017 and a new government set to be in place for at least 5 years, there is more political stability than before the elections.

**EXISTING SCENARIO**

According to a World Bank report in 2013,

i) Nearly half of the Nepali youth surveyed had either invested in or were thinking of investing in business (new or existing).

ii) After returning to Nepal from external labour migration, entrepreneurship was more of an economic necessity for them given the lack of jobs available in Nepal, rather than their desire to find new opportunities to use the skills they had learnt overseas.

iii) Because of their age, limited resources, and limited life-work experiences, the youth, especially young migrant returnees, face unique constraints in starting new businesses.

iv) The majority of respondents who had/were thinking of investing in a business did not believe that the skills they had learnt while working overseas were relevant/applicable in Nepal.

v) Lack of access to business information, credit, trainings, technical support and organizations linking skills with prospects were seen by these youth migrant returnees as major hindrances to their own entrepreneurship possibilities in Nepal.

vi) In this regard, most returning migrants stated that investing in either existing businesses and/or starting a new business would require additional sources of business management advice and investment capital, either from the GoN or the private sector.
There has been very little research on the status of Nepalese youth or youth entrepreneurship. Although most of the survey respondents desired to start their own enterprise, they were hampered by lack of skill and capital among other constraints. The data suggests a strong inverse relation between employment and conflict. Marred by nepotism and unfair practices, majority of the youth are devoid of vocational training opportunities. Furthermore, the participants also confirmed that many training programs are ineffective because most of the workshops are based on pre-planned notion without adequate homework. Most of the trainings are given for a short time and are rarely tied up with job guarantees. Despite the challenge presented by the ‘youth bulge’ in Nepal, it can also be seen as an opportunity to move ahead in future as a demographic dividend. Youth make largest educated cohorts amongst all the demography present in Nepal, after all (British Council, 2011).

**GLOBAL SCENARIO**

Across 60 economies around the world, 68% of working-age adults, on average, perceive high status for entrepreneurs in their societies. Most entrepreneurs become entrepreneurs out of seeking opportunity, not necessity. (Kelley, Singer and Herrington, 2016) 64% of entrepreneurs surveyed by HSBC believe it is their duty to have a positive social and economic impact on society and 74% gave to good causes in the preceding year. Even among young people, seventy-nine percent of them have been involved in charitable giving in the last 12 months and many have already established a trust or foundation to manage their giving, or undertake social investment. (HSBC, 2016)

**GOVERNMENT**

The signing of an agreement on April 28, 1954, between the Ford Foundation and the-then His Majesty’s Government of Nepal for the Foundation to provide financial and technical assistance to Nepal for the growth of its cottage and small industries is assumed to be the EDP of Nepal (Shrestha, 1981) (Karki, 2014). EDPs provide a variety of services to both potential and existing entrepreneurs and enterprises, and the supporting auxiliary organizations that are involved in the ecosystem. Entrepreneurship development training, skills development training, entrepreneurial competency development, training for trainers, business start and improvement training, micro enterprise creation, business counseling, production management and productivity improvement, marketing, financial management, business management, business expansion/ growth, business identification and selection, business planning and feasibility study and research etc are major activities of the EDP for enhancement of enterprises.
There are currently a few major funds available besides the formal financing sector which is involved, directly or otherwise, in entrepreneurship and enterprise development. Some of these are the Youth and Self Entrepreneur Self-Employment Fund (YSEF), launched in 2009. According to Surath Giri (2014), ‘YSEF barely had any impact in developing entrepreneurship in Nepal despite spending huge amount of money as a large volume of low interest loan was lent to speculative business instead of new ventures that create employment opportunities.’ There is also the Poverty Alleviation Fund (Rural Self Reliance Fund (RSRF), Economic Rehabilitation Fund (ERF), Women Entrepreneurship Development Fund (WEDF), Technology Development Fund (TDF) and the Challenge Fund. The Women Entrepreneurship Development Fund (WEDF) started with the Industrial Policy 2010, under Number 21.11 stating, “For development of women entrepreneurship, a separate women entrepreneurship fund shall be created” (Adhikari, 2017). Technology Development Fund lies dormant at the moment since its formulation in 2013 (K.C., 2016). According to a World Bank report (2013), the Youth Self-Employment and Small Enterprise Fund which seeks to ease access to investment are overly politicized with few or no connections to other important entrepreneurship plans.

In this regard, the Government of Nepal has begun to acknowledge the multiple benefits of promoting entrepreneurship as part of its national economic development and post-conflict strategies – with a focus on youth. These recent government actions have begun to lay the foundation for greater national engagement with the youth while creating new possibilities for youth entrepreneurship and employment. (World Bank, 2013). Social entrepreneurship in particular has remarkable contribution in triple-bottom-line components of community development as well (Khatiwada, 2014). The government aims to promote entrepreneurship among the youths and will invest around Rs 500,000-Rs 1 million each on thousands of youths without seeking collateral from them (RSS, 2018).
RESEARCH DESIGN

KEY INFORMANT INTERVIEWS

For this assessment, the questions were chosen mainly based on the discussions and interviews with key informants, local entrepreneurs, review of enterprise literature, extensive consultation and discussion with Daayitwa and Office of MP, and by evaluating the rationale of any previous assessment done on enterprise and youth entrepreneurship in Nepal and elsewhere.

SAMPLING

There were four primary stakeholders set out by for the study: entrepreneurs, investor groups, business undergraduates, and enterprise developers. A total of X interviews were conducted (see Annex 1). All of the interviewees were based in the Kathmandu and Lalitpur metropolis.

Entrepreneurs: All interviewed people in this group needed to self-identify as an entrepreneur with at least a year of track record, thereby including both growth and mature stage companies. There were no criteria to choose with respect to whether their companies were for-profit or not-for-profit. For the research entrepreneurs from all three stages below were chosen.

   *Start-ups*: Business model still in development; initial funding secured, though not necessarily repayable investment (this is the only organizational type which does not have to have had a round of ‘hard’ investment).

   *Growth stage*: Business model is settled; organization entering or in expansion phase; investment has been secured.

   *Mature organizations*: At least one phase of expansion has been executed; multiple rounds of investment may have been closed.

Investor Groups: This group included business developers who look after enterprises from the seed-stage to mature organizations.

Business Undergraduates: Seven students were selected at random from a pool of thirty business undergraduate students from three universities and colleges.
Enterprise Developers: Furthermore, the businesses should aim at financial self-sustainability through their market activities – or in the case of start-ups/growth stage businesses, they should plan on achieving financial sustainability based on revenue generation.

**INTERVIEW APPROACH**

The research was conducted using a qualitative paradigm. The interviews relied on a semi-structured style, meaning that there was a prescribed set of questions to be asked, but that the interviewer also had some freedom with respect to the order in which the questions got asked and whether additional questions could be added. The semi-structured approach is advantageous in that it leaves room for the interviewees to express concerns or ideas, which may not have been considered significant as we designed the research project. Furthermore, the interviews were recorded with the prior permission of the interview for the purposes of the research and note-taking. Once the interviews had been conducted, summaries were produced for each. The data generated were sorted along the lines of the hypotheses, while further points of significance were also noted. The data was jointly interpreted in consultation with Daayitwa research team in weekly meetings.

**INTERVIEW TOPICS**

The interview questions were grouped into four main topics

i. introduction about the interviewee, their job, their experiences, their general views on entrepreneurship
ii. skills,
iii. enterprise development,
iv. collaboration.

**SECONDARY DATA**

Desk research on prior research, censuses, past records, market data and informal or off-record discussions and government records were conducted to inform the research.
Limitations

Interviews are influenced by state of respondents at the time of responding to the questions. Reverse-coding helps reduce subjective bias but isn’t perfect. Questions represent opinion, not fact. Each group interviewed may have incentive to prioritize certain skills or place importance on certain issues, especially when the question concerns the effectiveness of their own work. While an extensive review of existing literature, policies, and past research was done, further research could have benefitted the research more. More stakeholders could have been included, including government ministries, NGOs and cooperatives which might have given insight into the analysis. Given the limited time and resources available, these limitations were not able to be addressed fully.
FINDINGS AND DISCUSSION

OPTIMISM

Upon collecting the data, a few key findings were revealed. There was a sense of optimism towards the near-future in the entrepreneurial ecosystem, the enterprise and about prospect of entrepreneurship formation in general. 19 out of the 20 interviewees said they would recommend youth to be entrepreneurs in Kathmandu today. All of them categorically agree that the quantity of places where one can get sources for information and mentorship has increased. There are more incubators, business accelerators, college majors and private equity companies than there was a decade ago.

A significant majority of interviewees believed in entrepreneurship as a gateway, a catalyst, or some other form of facilitation method. An entrepreneur won’t necessarily change the economy, but will become leading examples of young people. They serve a great deal to inspire masses of young people. The more enterprises and startups thrive, the more there is employment opportunity, healthy competition, and innovation. Furthermore, all of the interviewees are open for collaboration with other private and civic sector organizations, and with the government to further develop the entrepreneurial ecosystem.

They also believe that entrepreneurship can help illuminate, and perhaps even help solve, some of our deeply entrenched problems – especially local problems which require local context, local understanding, and local. A thriving entrepreneurial ecosystem characterized by localized and regional socioeconomic success is believed to be an important pull factor as well as a safety net for migrants who will be coming back, or are forced to come back. But to create such an ecosystem will be full of challenges. The culture itself needs to be established, and this goes concomitantly with the creation of a stable environment. This may even bring NRNs back to investment or enterprise, some interviewees opine. Meliorating governmental stability at the local and central level, combined with a advancing communication and technology industry has made it easy to be connected with the, much wealthier, Nepali diaspora.
ENTREPRENEUR GROWTH

MINDSET

Nearly every interviewee stated that entrepreneurship is a mindset, or some other close version of it. Before any technical, or interpersonal skill, or the possession of wealth, the mindset of a person is most important. Entrepreneurship can trigger deep learning and instill engagement, joy, motivation, confidence and feelings of relevancy of students. It also has the capacity to impact society at large by creating jobs, economic success and innovation in individuals. Allowing entrepreneurial skills to be at the core and foundation of education allows you to communicate effectively, listen effectively, network, hustle, negotiate, public speaking, present.

SKILLS

Among the list of skills interviewees considered important for a young entrepreneur were vision; risk taking; planning ability; willingness to change; forecast and model; networking and other interpersonal skills; persistence, grit or resilience; resourcefulness or \textit{jugaad}; passion; patience; leadership; team building, practically experienced; clarity; and knowledge of rules and regulations. Among these, the most cited was ‘persistence, grit or resilience’, with 50% citing it, followed by ‘interpersonal skills or networking’, with 45% citing it.

Most interviewees believed that entrepreneurship may not necessarily be taught. But instead, what can be taught as far as skilling and training goes, is improving how one can manage and grow a business, or knowing the rules and regulations of Nepal including taxation and other legalities. Sometimes an idea gets sidelined because of the legality. Entrepreneurs must know the competition, how they are conducting business, triage their resources, and implement strategies. In other words, anything that is auxiliary and supplementary can be more easily taught. This includes learning skills like conducting market feasibility tests, niche market finding, building revenue models, gauging their sustainability, and knowing their industry, their company, their competitors, and their customers. Trainings can be focused on organizational skills as well. Learning how to use something as simple as Google calendar, for example, is an easy way of improving day-to-day efficiency.

More intangible things like patience, which is needed because of the very particular collectivist working culture of Nepal, aren’t easily amenable to training. The same is the case for things like ‘grit’, ‘resilience’, and ‘determination’ which has to come from within the entrepreneur themselves. Everything else can
be learned. All interviewees opined that interpersonal skills are essential. Specifically, the ability to explain and get people on board one’s ideas was considered most crucial. For this, a sense of clarity is absolutely important, and this come with organic passion. To plan big and have the drive to do something different, and being disciplined, consistent and resourceful to do it by starting small was considered an important skill.

**Enterprise Growth**

**Identifying and Creating Enterprises**

Among the list of components of high growth potential enterprises interviewees considered important were a proper plan or technically sound business model; the market they operate in; the team or the founder; scalability; adaptability; adhering to vision; sustainability; mentorship; and luck. Among these, the most cited was ‘the team or the founder’, with 80% citing it, followed by ‘proper plan or technically sound business model’, with 40% citing it.

The enterprise team has to know the strengths of their products. Technology certainly helps in this regard. Idea is secondary. It is execution that is important, it is more psychological than it is technical. Of course, the viability of the idea is first and foremost when it comes to seed funding based on ideas. But those are few and far in between, and even then, past experience of idea executions are held as criteria as well. Many interviewees believe the person is more important than the idea as ‘nothing is really unique that hasn’t been tried somewhere in the world.’

Entrepreneurs are more like to create a successful enterprise if the skillset of the founding team doesn’t overlap a lot. The team members must then identify a gap in the market, and learn how to capitalize on it. Every entrepreneur, depending on their field, has their own challenges and contexts to work in – be it the service sector or manufacturing. Entrepreneurs should be open to new ideas and be willing to fail fast and fail often – to get used to the design-thinking oriented reiterative process.

**Understanding Local Context**

The interviewees stressed on the uniqueness of the Nepali sociopolitical, cultural and economic context. Building successful enterprises requires tactful execution. As the networking circle - especially in the entrepreneurial ecosystem - is quite small, word travels around. Whether it be a new startup, a new idea, a revamping of old industry, or a blunder, it is almost guaranteed to be known by many. An
entrepreneur must therefore guard their and their enterprise’s reputation closely. This has the positive
effect of ensuring that great ideas don’t take long to find investment, either by private equity
companies hunting for the next big thing, and finding mentors easily in many fields of work. It is
useful if EDPs use ‘local facilitators who have local knowledge, are entrepreneurs, and understand
the needs of the community and its individuals’ (Dixit, 2014).

INVESTMENT

RISE OF ANGEL INVESTMENT

Development of angel investment opportunities and networks, although in its nascency, has the
potential to improve enterprises chances of getting investment. This is especially true for an urban
metropolis like Kathmandu where, by virtue of closely interlinked networks of people, entrepreneurs
will find it easier and less time-consuming to approach Angels who have an interest in their work.

Enterprise improve their chances of getting investment by willing to be compliant to the laws of the
land, but most of them are not. Entrepreneurs who have a vision, can track records, look at a financial
situation with clarity, and work with limited resource to maximum output and cost-effectiveness by
removing unnecessary costs are the ones likely to succeed in getting investment. Ideas don’t have to,
and usually are never perfect initially. But entrepreneurs need to have the readiness to work on iterative
feedback. It is important to find angels who can also serve as mentors, and one needs to be on the
same page as them, especially when talking about investment and impact.

SWEAT EQUITY

Some interviewees opine that investment money is not the prime concern when starting up. In other
words, it is possible to successfully expand an enterprise by providing sweat equity to the first team
that one hires, i.e. providing sweat equity. For this the entrepreneur has to be clear on why they need
the initial seed money in the first place, and to what endeavor will it be used. The ability to convince
team members will depend on passion and elucidating their vision with a sense of clarity. One
entrepreneur interviewee also recommended to never take loans if one is starting an enterprise for the
first time.
PRIVATE EQUITY

Understanding of what private equity investors want is different. Seed funding is different from places like the U.S. because the market size is small. The gap between investors and investor seekers is huge. One investor interviewee recommended entrepreneurs to never ask for investment on the basis of their idea alone. As reiterated earlier, execution is far more important. The investor also needs reassurance. Their mindset is money-oriented, i.e nothing can be done unless investing in the enterprise is profitable to them. The interviewees recognize that there are a lot of programs for networking that can help and initiate contacts and dealings. The founders must be clear on their business model. In general, PE firms and business accelerators in Kathmandu require at least two years of track record, and at least break even. Those that focus on SMEs require less than Rs30 million in assets and employ less than 50 people. Entrepreneurs need to realize that even investors are actively searching. According to the investor interviewees, not many entrepreneurs realize private equity is a way to raise finance.

GOVERNMENT

Most interviewees stressed on both the importance of the government’s role as a facilitator and its drawbacks. The government is the biggest stakeholder after the entrepreneurs in the ecosystem, according to a majority of interviewees. Without their tacit or explicit support, entrepreneurship cannot thrive. It stands to reason that they should be fully informed and advised on the topics concerning entrepreneurship. In this case as well, mindset serves to be the greatest bottleneck. Many interviewees feel that entrepreneurs have gone too far ahead and the government is too far behind. There are a lot of policies, good policies, in place, but they lack implementation or are of poor reasoning, some interviewees say. Interviewees recognize that political agenda also plays a factor but every government must be focused on the broader vision of entrepreneurial ecosystem development. A mindset change is needed and for the culture to change, it will take at least a generation or two.

Training provided by the government is wasted because either quotas aren’t filled, the training isn’t designed properly, or people lack awareness about such trainings in the first place. While CTEVT does provide training in fields of agriculture, engineering, health, tourism, management, education,
and handicrafts among others - along with its own refurbished online portal - it hasn't been able to manage training information, even after several MoUs. According to the words of one interviewee, there are three main problems with government funded training right now. First, is widespread bias at the local level, where at best, the information on training happening is given out to certain people, and at worst, it is a systemic case of nepotism.

Second, is the level of interest between the teachers and students don't match. To augment this, there is a perceived lack of respect for people with skills that aren't readily amenable to society's standards of proper, e.g. plumbing. Third, is a lack of monitoring and evaluation - what training was conducted, to how many, at what place, at what cost, with what result, the participants' expectations and outcomes among others. The local government barely has any mandate or power to play. Some policies require forming provincial government and delineating authoritative jurisdiction as to what aspects of business registration belong to the local, provincial, and federal government.

Interviewees believe the expectations of the government are wrong in the first place. Youth needs to be taught on financing, registration and compliance. Rather, government-led training, including informal education, is simply content on giving poor skills to poor people. To be employable and competitive in the future market, government needs to provide youth training that capacitates them with high skills. Even college graduates, some interviewees say, are not employable because of the sheer lack of skills that are taught and skills that are required by their work.

PROBLEMS AND CHALLENGES

OVERVIEW

While the problems of, associated with, and arising out of, youth employment, remittance dependence, enterprise development are common among other developing, middle-income, and/or LLDC, Nepal faces some peculiarly unique set of challenges. Firstly, research backed, evidence-based knowledge on Nepal’s youth is not the guiding factor in creating policies and programs at any level of the government regarding entrepreneurship, especially for the youth. ‘In general, entrepreneurship is seen in isolation from the creation of employment in Nepal,’ says a World Bank (2013) report. This is reflected in the way the government and private sector conducts its skill-based training, and in the higher education system where the field of management is more focused on creating job-seekers rather than job-creators.
Another problem lies with the supporting organizations themselves – particularly civic and private organizations working in isolation despite sharing similar goals of capacitating youth entrepreneurship. Historically, there haven’t been many government-led initiatives for the youth to follow entrepreneurial growth, and only a few organizations are working directly with historically marginalized groups at the peripheries of society. Identify entrepreneurs is hard, data is unavailable, research is unavailable.

YOUTH

In Nepal, youth constitute a major proportion of the population, with the median age being around 23.6 years. They also form a major proportion of unskilled and skilled migrants, with around 3.5 million Nepalese are under foreign employment (IOM, 2014). They are leaving at a rate of a thousand a day due to a variety of mostly economic, but also socio-political reasons, including lack of opportunities. Youth hold a disproportionate representation even among those who stay back and are unemployed, with 19.2% of youth between 15-29 years of age unemployed in Nepal compared to the national rate of 2.7% (ILO, 2014). Outflow of migrants in the past decade has been momentous in transforming the country’s economic, social and cultural fabric. The voluminous nature of labour migration for employment has brought both new opportunities and challenges for the Government and policy-makers (MLE, 2018).

Owing to lack of participation in business creation at home, younger persons could be losing out the many business opportunities that exist in the communities, districts or elsewhere in the country, as well as the benefits of entrepreneurship such as income generation, improvement of standard of living and so on. If this is the case and it continues to exist, youth unemployment will continue to rise. Furthermore, this exacerbates the difficulty of finding, hiring and retaining good employees for youth entrepreneurs in Kathmandu. This is consistent with Ohlief’s (2008) resulting discovery that today’s businesses, all over the globe, had difficulty in attracting and retaining talented and competent workers.

The situation looks grim for employability. Cultural clash may be possible. In the youth, focus on skill acquisition is increasing for sure. Technology can be very helpful in positivizing this future. Many young people lack confidence in starting a startup, they lack knowledge of their own business. Some are weak at numbers, while others have a hard time forming a business vision. Documentation and compliance is hard as well, for both entrepreneurs and for investors. Some interviewees believe that few youths have skills like identifying market gaps, focusing for a long time, and not getting distracted.
Preparation for creating and expanding an enterprise for a youth might be low, or their motivation might be lacking, and there could be a sense of entitlement as well. Market gap is there between wages.

Building an atmosphere of collaboration is important. Most interviewees believe that the youth are very enthusiastic, and more open to learning than older generations. However, they need a growth plan. The success of a startup depends on the alignment of the entrepreneur’s vision, and the presence of an investor in the company who aligns with that vision.

**INVESTMENT CONSTRAINTS**

Most startup enterprises are started by funds provided by family and friends, and the entrepreneur’s own funding. As most BFIs are reluctant or unable to provide loans for starting up without collateral, and a business track record of at least two years. As a result, lack of start-up capital was perceived to be key obstacle at starting business up (Sitoula, 2015). This spells additional problem, not for early entrepreneurs who already have a track record, but for those at the seed and idea stages.

First, lack of easy access to equity and debt is the most crucial constraint and, therefore, enterprises are unable to utilize the economic opportunities available in the local area in sustainable and successful manner. Secondly, Enterprises lack knowledge, specifically market data, and the skills necessary to produce the items as per market demand. Excellent entrepreneurs will be produced only if trainings are provided at different stages and levels. Monitoring is essential for validating and use of trainings (MEDEP, 2010). Skill and knowledge, access to financial services, demonstration effects and formal education are the major factors of success or failure of entrepreneurship. The role of formal education is not significant to the micro entrepreneurship development rather than the skills and knowledge gained by informal education (Gautam, 2014).

**SKILLING CONSTRAINTS**

One factor retarding the success of the many efforts to stimulate employment and self-employment is that most training programs are unidimensional, providing only one of the many skills that are needed to create sustainable enterprises. Skill training component should be provided by skilled personnel if necessary linking with other skill training institutions or activities (Bajracharya, 2011). Entrepreneurs need to be educated first. Nepal is still in the early stages of equity and private financing – and there is a lot of misinformation on what PE investors can and have the right to do.
Tech entrepreneurship is rising and they face their own unique issues. Social issues aren’t yet fully embedded with technological solutions. India’s example is good here – people-focused tech. People are being tech-savvy but not in ways beneficial to their entrepreneurial drive. Use of technology has been limited in a communication way only and not in a way that helps others.

But capacitating skilled people is not enough. Retaining skilled people is another challenge, and perhaps the hardest one. Most skilled people seem to migrate to developed nations and although part of the recent interest in entrepreneurship among youth can be explained due to relatively high youth unemployment levels, it is not the first choice for youth to work in. While youth entrepreneurship does foster employment, economy and development, most youth are reluctant in becoming entrepreneurs (Sitoula, 2015).

Another pressing problem is one of collaboration. Collaboration between different actors in the ecosystem does not happen often, especially regarding skill trainings and sharing learnings. It also stems from a lack of information and data tracking the type and effectiveness of training programs provided, and any subsequent analysis of its outcomes. Ecosystem players are not being innovative themselves in terms of providing trainings, although that has started to change in the past two to three years. Some interviewees argue that there already are a lot of programs for SMEs, but not many for the type that are needed to create startups that will absorb thousands of people. Innovation in technical and interpersonal skills is really important for this purpose. However, we lack the policy capacity, the technical and cultural capability to share learnings across trainings, and a focus on evidence-based policy.

EDUCATION

All of the interviewees identified the education system as a major roadblock and a hindrance that was in dire need for change. They opined that education needed reformation, especially in rural and local areas, in the methodology and approach to learning. While institutions that include entrepreneurship in its curriculum along with practical education and use of modern technology and information are few and far in between, this sparsity is more evident outside the valley. Education must be reformed, and especially so in rural areas and local areas.

Education, specifically in business undergraduate colleges have become more relevant to entrepreneurial development but there's a long way to go. Perhaps most importantly, says one interviewee, a ‘mentorship culture’ is missing that takes into account difference between delivery and
capacity to learn for students, and includes more practical lessons and workshops in an iterative process. There are some exceptions with teachers and some students who are not enthusiastic and are simply going through the motion. But as a general rule, a mentorship culture was believed to be essential – with the important distinction being the match of personalities and the extension of said culture to outside the valley.

Regarding the knowledge of startups and enterprise creation in the education system, the interviewees believed that startups weren’t just about idea generation, but also about taxes and finances among other technical skills. Colleges and universities need facilities like business incubators, ideas like ‘thesis to business’, and global learnings and methodologies like the ‘lean business model’. Furthermore, the collective mindset of people should shift from the perception that only business students do business, or engineering students do only engineering. An environment of collaboration and a multidisciplinary approach is missing.

The current of way business and management education in Kathmandu, and generally in Nepal is designed to make us job-seekers rather than job-creators. Interviewees believe a free mind, lack of pressure, a practical approach to entrepreneurship – through creating a dummy company, project work, and startup internship among others - should be done to transition from a system based more on rote-learning and grade-based system to one that focuses on the practicality of the pedagogy.

MINDSET

The greatest challenge to creating and sustaining a viable entrepreneurship ecosystem is the collective mindset of Nepali people, according to most of the interviewees. Nepali are resilient – both a good thing and a bad thing, and they possess a challenge-overcoming mindset as well for the most part. However, Nepalese are also characterized by a fast-cash earning, rent-seeking, risk-averse, and security-oriented mindset. This is reflected in the challenge many young entrepreneurs have in convincing their risk-averse parents to support -or at least not actively hinder - their entrepreneurial aspirations.

There is also the issue of glorification. Interviewees believe that entrepreneurship has become a fad where young people are simply interested in being called an entrepreneur because of the spotlight it brings to them. This is a consequence of entrepreneurs holding a lot of social influence, and media’s tendency to capitalize on this. As a result, there is a mismatch between true entrepreneurs and those who just want the title of being an entrepreneur. Many interviewees believe that entrepreneurship as
an industry should be celebrated more than the individual as the fad runs out eventually, but the work doesn’t. On the same note, there is a lot of media investment in the idea that everyone can be an entrepreneur. However, not everyone can, or needs to be, an entrepreneur. The glorification leads to employees and anyone working in a normal job feeling like second-class citizens. Personality traits matter, along with one’s aptitude and attitude. Professionalism and soft-skill development should be prioritized for those who want to follow, and not who want to lead.
POLICY RECOMMENDATIONS

The main recommendations from the exploration of this study and its findings are the following:

- Education sector and the government must provide up-to-date and globally practiced training backed by research and evidence of working, and share learnings with other players in the ecosystem. The skill training must be localized and contextualized.

- Intra-sectoral collaboration between the government, private sector and the civil sector is required to share learnings, knowledge and reduce information inefficiencies related to entrepreneurship ecosystem development.

- The Challenge Fund needs to be used through the creation of a special purpose vehicle which will loan or grant the fund money to entrepreneurs based on criteria set by a board comprised of experienced individuals.

- An online information repository needs to be formed with the support of the private sector who will handle the logistics and hosting of the platform, the civil sector which will provide the various information from different sectors, and the government which will help update rules, regulations, policies, and directives on a real-time basis.

- Government needs to channel remittance to investment and entrepreneurship development and training by promoting training to receivers of remittance, who are mostly women. This should be done via pre and post migration training.
CONCLUSION

As Nepal moves forward with its goals of reaching low-middle-income country status by 2030, and fulfilling its youth vision in 2025, entrepreneurship stands as a catapult from which Nepal can launch its youth to the future. This will depend on how well young people are capacitated through skill trainings and eased to access investment, how deeply the government, the civil, and the private sector foster collaboration and knowledge sharing with each other, and how effectively Nepalese as a people can change their cultural mindsets from one of risk-averseness to one of risk-willingness.

It is the responsibility of all the stakeholders in the ecosystem – the educators, the investment community, the government, students, and entrepreneurs themselves, to ensure that the ecosystem as much as the individuals are glorified, to safeguard that trainings are up-to-date with global standards and not subject to nepotistic and unjust practices, and to embolden future generations to come up with contextualized solutions to problems ailing our community, our economy, and our society.
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