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# ► Building Inclusive Entrepreneurship Ecosystems in Nepal

## An Analysis of Kathmandu and Pokhara





# **Building Inclusive Entrepreneurship Ecosystems in Nepal**

An Analysis of Kathmandu and Pokhara

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# Contents

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<b>Acknowledgements</b> . . . . .	<b>iv</b>
<b>List of Abbreviations</b> . . . . .	<b>v</b>
<b>Introduction</b> . . . . .	<b>1</b>
<b>1. Methodology</b> . . . . .	<b>2</b>
<b>2. Socioeconomic Analysis.</b> . . . . .	<b>3</b>
2.1 Economy of Nepal . . . . .	.3
2.2 Micro, Small, and Medium-Sized Enterprises in Nepal. . . . .	.4
2.3 Target Group Analysis: Youth in Nepal . . . . .	.4
<b>3. Entrepreneurship Ecosystem</b> . . . . .	<b>7</b>
3.1 Ecosystem Components. . . . .	.7
3.2 Ecosystem Map . . . . .	.9
3.3 Policy . . . . .	10
3.4 Finance . . . . .	13
3.5 Support. . . . .	16
3.6 Human Capital . . . . .	19
3.7 Market . . . . .	22
3.8 Culture . . . . .	24
<b>4. Priority Area Analysis and Recommendations.</b> . . . . .	<b>.27</b>
4.1 Kathmandu – Finance . . . . .	.27
4.1 Kathmandu – Human Capital. . . . .	.34
4.3 Pokhara – Markets . . . . .	.39
4.4 Pokhara – Culture . . . . .	.44
<b>5. Conclusion</b> . . . . .	<b>.48</b>
<b>References</b> . . . . .	<b>.49</b>

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## ▶ List of Abbreviations

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<b>ADB</b>	Asian Development Bank
<b>BDS</b>	Business Development Services
<b>BFI</b> s	Banks and Financial Institutions
<b>CBS</b>	Central Bureau of Statistics
<b>CNI</b>	Confederation of Nepalese Industries
<b>CNIYEF</b>	Confederation of Nepalese Industries Young Entrepreneurs Forum
<b>FDI</b>	Foreign Direct Investment
<b>FNCCI</b>	Federation of Nepalese Chamber of Commerce & Industries
<b>FNCSI</b>	Federation of Nepali Cottage and Small Industries
<b>FWEAN</b>	Federation of Women Entrepreneurs' Associations of Nepal
<b>GoN</b>	Government of Nepal
<b>ILO</b>	International Labour Organization
<b>MFI</b>	Micro finance institutions
<b>MoF</b>	Ministry of Finance
<b>MoLESS</b>	Ministry of Labour, Employment and Social Security
<b>MSMEs</b>	Micro-, Small-, and Medium-sized Enterprises
<b>NCF</b>	National Cooperative Federation
<b>NGO</b>	Non-governmental organization
<b>NPC</b>	National Planning Commission
<b>NRB</b>	Nepal Rastra Bank
<b>NYEF</b>	Nepalese Young Entrepreneurs Forum
<b>SWTS</b>	School-to-Work Transition Survey
<b>TVET</b>	Technical and Vocational Education and Training
<b>WEDF</b>	Women Entrepreneurship Development Fund
<b>YSEF</b>	Youth and Self-Employment Fund





## ▶ Introduction

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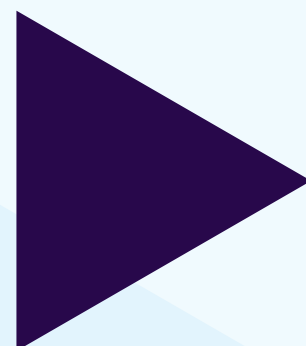
Given the high uncertainty and costs associated with starting a business, evidence increasingly shows that a holistic support system is necessary if entrepreneurship is to thrive. Such *entrepreneurship ecosystems* endeavour to facilitate business creation and growth by offering a comprehensive support 'infrastructure' to entrepreneurs.

Recently, the ILO has developed the *Inclusive Entrepreneurship Ecosystems Approach* to support the development of inclusive entrepreneurship ecosystems that support entrepreneurs in creating sustainable businesses. Building on Daniel Isenberg's 2011 entrepreneurship ecosystem

model, the approach emphasizes six core components that together form a holistic support system for entrepreneurs as well as two cross-cutting dimensions - Inclusiveness and Pathways to Decent Work - to ensure that the support system is inclusive of all entrepreneurs.

Although Nepal's entrepreneurship ecosystems can be considered to be in their early stages, they are also rife with potential. This report presents an analysis of the entrepreneurship ecosystems in Kathmandu and Pokhara with special focus on young entrepreneurs and their roles and opportunities in these systems. It is structured as follows:

- ▶ **Section 1** outlines the research methodology for the two entrepreneurship ecosystems
- ▶ **Section 2** provides context and figures on the state of entrepreneurship in Nepal as well as a socio-economic analysis of the selected target group, the youth of Nepal.
- ▶ **Section 3** proceeds to introduce the ILO entrepreneurship ecosystem model and offers a detailed mapping of the six ecosystem pillars in Kathmandu and Pokhara.
- ▶ Finally, **Section 4** details the selection of priority areas for deeper analysis and field research, which is followed by discussion of the underlying challenges and constraints and the corresponding recommendations for future interventions to address these.



## ► 1. Methodology

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This assessment seeks to provide a comprehensive overview of the unique entrepreneurship ecosystems in Kathmandu and Pokhara. Through in-depth research and analysis, it offers insights into key ecosystem constraints affecting young entrepreneurs, as well as recommendations to address said constraints sustainably and systemically.

This was achieved through a qualitative research design, including secondary research and semi-structured key informant interviews. The authors travelled to Kathmandu and Pokhara where in-person and virtual interviews were conducted with individuals and groups possessing extensive expertise or experience with the cities' respective entrepreneurship ecosystems. This included actors representing various government bodies,

academia, banks and financial institutions, business support and development services, and entrepreneurs. Overall, the authors interviewed 23 ecosystem actors and one focus-discussion group across the two cities. After the interviews, the findings were systematized and analyzed to gain a thorough understanding of the constraints most pertinent to the target group (youth). Findings from the research suggest data saturation was reached in both ecosystems.

In addition, desk research and a literature review were carried out to identify and understand existing research on Nepal's entrepreneurship ecosystems. This process provided a foundation upon which the primary research methods could be developed.



## ► 2. Socioeconomic Analysis

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### 2.1 Economy of Nepal

In 2015, a new Constitution of Nepal came into effect after years of drafting and deliberation. Among its many significant outcomes, the new document set in place a federal structure for the government of Nepal. Shortly thereafter in 2017, the country successfully carried out elections at the federal, provincial, and local levels marking Nepal's transition to a federal republic. This success brought new levels of optimism, political stability, inclusion, good governance, and promise of sustainable growth.

Indeed, even before the implementation of its new Constitution, Nepal enjoyed modest economic growth following the formal conclusion of the ten-year civil war in 2006. Between 2009 and 2019, the economy grew at an average annual rate of 4.9 percent (World Bank, 2022). In 2015, a devastating 7.8 earthquake interrupted this growth, causing significant loss to GDP. The economy gradually recovered following reconstruction efforts heavily supported by international aid. Directly prior to the beginning of the COVID-19 pandemic, Nepal's growth rate remained above six percent for three consecutive years for the first time in the last six decades (ILO, 2021). With the onset of restrictive measures and global economic downturn from the pandemic, Nepal's economy contracted by 2.1 percent in 2020 before rebounding the following year at 2.3 percent in 2021 (ADB, 2022). It is expected to continue to rebound with growth rates of 3.9 percent and 5.0 percent forecasted for 2022 and 2023, respectively.

The pandemic's first wave in Nepal in March 2020 led to immediate disruptions in the economy. With tourism as one of the country's most important industries, the pandemic caused significant losses in revenues and foreign exchange earnings. While the economic shock was felt across the general population, the employment effects were felt particularly strongly among the country's youth.

Overall, the agriculture sector represents a mainstay of the Nepali economy. While approximately

66 percent of the population is engaged by the sector, it contributes just one-third of the nation's GDP (FAO). This owes partly to the fact that subsistence farming dominates and is characterized by low levels of productivity and production.

Among non-agriculture sectors, service has undergone gradual growth while industry has suffered. In the 2020/2021 fiscal year, the service sector contributed to 61.1 percent to national GDP, while industry contributed 13.1 percent. Government policies and initiatives aim to increase the GDP contribution of these non-agriculture sectors over the next 25 year period. The rapidly growing service sector, fueled largely by transport, storage, communications, and wholesale/retail trade sub-sectors, has become strongly sought after by the country's youth (ILO, 2021).

Outside of the different economic sectors, Nepal is also heavily dependent on remittances. These regularly account for around a quarter of GDP. The inflow of remittances contributes significantly to financing development activities, private consumption, and investment. For instance, in 2015 remittances represented the single largest source of development finance, ahead of Foreign Direct Investment (FDI), Overseas Development Assistance (ODA), and government tax and non-tax revenues (ILO, 2021). These are fueled by the historical trend of Nepali youth migrating abroad for work, first as Gurkha soldiers in the UK and Indian armies, and more recently as labourers, primarily to Malaysia and the Gulf countries.

As is often the case in small and low-income economies, Nepal faces a high dependence on imported goods and thus historically holds a negative trade balance. With import growth outpacing a lackluster export performance, the deficit has increased over the years. This stems in part from its landlocked geography, lack of significant resources for economic development, and inadequate transportation channels. The economy is largely dependent on imports of essential goods, such as fuel, construction materials, metals, and most consumer goods (Mansuri, 2021). This

significant and growing trade and balance of payment deficit has also impacted the country's financial stability.

Trade may be further impacted in 2026, when Nepal is expected to graduate from least developed country status. Among the effects of this change, Nepal will lose preferential tariffs, which will have particularly discernible effects in the apparel, synthetic textile fabric and carpet sectors (ITC, 2022).

Additionally, Nepal's labour market is characterized by high levels of informality where informal employment is the norm rather than exception. From a total working population of approximately 7,086,194 workers, 84.6 percent (around 6,000,000) are engaged in informal employment circumstances (ILO, 2021). Youth in particular are the most exposed to the lack of formal employment, putting them at disproportional risk of precarious working conditions, low wages, and lack of access to social security and paid leave.

## 2.2 Micro, Small, and Medium-Sized Enterprises in Nepal

Micro, small, and medium-sized enterprises (MSMEs) are a key pillar of Nepal's economy. Altogether, they contribute 22 percent of GDP and employ around 2.8 million people, or approximately 13.5 percent of the country's workforce (ADB, 2021). While the overall trend is a growth in the number of MSMEs, this is not evenly distributed across Nepal's economic sectors. Namely, the manufacturing sector has seen a steady decline of MSMEs while the number operating in the tourism, agriculture, forestry and fishery sectors has increased from 2010 to 2019.

### Micro, Small, and Medium-Sized Enterprises Definitions

MSMEs are defined based on the number of workers employed.

- ▶ Micro-enterprises have fewer than 9 employees,
- ▶ Small-enterprises have 10-49 employees,
- ▶ Medium-enterprises employ 50-99, and
- ▶ Large enterprises have 100 or more employees.

Despite their growth in recent years, Nepal's MSMEs face numerous challenges that hinder their growth potential and ability to create decent jobs. MSMEs are often held back by low capital base, poor access to technology, lack of qualified workforce, and insufficient knowledge of business and marketing opportunities. Productivity, measured by annual sales per entity, is also significantly lower than larger economic operations. Based on this metric, productivity is 4.7 times lower in medium firms compared to large enterprises, and 37 times and 239 times lower for small and micro enterprises, respectively (ADB, 2021).

As reflected in Nepal's trade deficit, market access is another significant hurdle for Nepal's MSMEs. Many also face difficulties accessing finance due to high interest rates, large collateral requirements, lack of information, and inadequate institutional capacity (Kharel, 2020). And once an enterprise is established, many will also forgo the official business registration process with local authorities owing to the cumbersome and costly process.

These challenges are reflected in the World Bank's Ease of Doing Business index, where Nepal ranked 94th out of 190 in the most recent edition in 2019, albeit an improvement from its previous ranking at 110<sup>th</sup>. This improvement, Nepal's best since the Doing Business report began, came largely thanks to improvements in the availability of credit information and in the ease of cross-border trade (Ghimire, 2019). This included robust expansion of the Credit Information Bureau's capacities. Meanwhile, according to the report factors that continue to hinder Nepal's business environment include increased property registration fees, requirements for in-person follow-ups for employee registration, increased tax slab, and greater difficulties obtaining electricity.

## 2.3 Target Group Analysis: Youth in Nepal

Nepal is a country of youth. Various estimates suggest the country's youth account for approximately 40 percent of the total population (ILO, 2015). This large and dynamic youth population therefore has the potential to shift the economy from one of "exporting labour" to job creation and robust entrepreneurial activity at home. The

Nepali government's definition of "youth" encompasses its population between the ages of 16 and 40 (GoN, 2015b). Recognizing their key role in the future development of Nepal, the government has identified the country's youth as a core priority group across its economic and education policies and initiatives.

In November 2021, the country carried out its 2021 Census Report. Preliminary results show Nepal's population grew to nearly 29.2 million, a 10.18 percent increase from the 2011 census (Shrestha, 2022). Additional key findings indicate that the number of young Nepalis leaving the country for work and study opportunities continues to grow, as well as the population in urban centers, including both Kathmandu and Pokhara. Based on 2011 Census results (full 2021 results not yet available at time of writing), the young population is made up of 45.8 percent men and 54.5 percent women.

Regarding education, important gains have been made in various indicators over the last decade. For instance, figures from 2016 show a net enrolment rate of 96.6 percent in primary education (ILO, 2018). Overall literacy rates among youth have also shown remarkable progress. Nationwide, nearly 81 percent of the 15-29 year-olds can read and write, albeit with a gender discrepancy of 88 percent for boys and 75 percent for girls (ILO, 2015).

For urban areas such as Kathmandu and Pokhara, these levels are even higher, with 92 percent of youth in the 15-29 range literate. In general, Nepali's youth enjoy higher levels of education than their aged counterparts.

The ILO's School-to-Work Transition Survey (SWTS) from 2014 confirms the improved access, quality, and views towards education among Nepali youth. The survey found that 80 percent of young respondents reached a higher level of education than their fathers, while 90 percent have achieved levels higher than their mothers (ILO, 2015). This is evidenced in part by the fact that 13 percent of surveyed youth had received a university degree, a relatively high value for low-income countries. Importantly, this trend seems to be accelerating, with the 2011 census indicating that the number of students in higher education doubled between 2008 and 2011. However, one worrying trend that emerged from the findings was the decreased popularity of vocational training relative to university education. This doubtless has effects on the entrepreneurship ecosystem, which relies on a diverse and highly-skilled workforce. Overall, the survey found that completing one's education plays an important role in staying in the labour force.

The differences in education between youth and non-youth in Nepal has also impacted the

### Young Women in Nepal

Deeper analysis reveals clear differences between young men and young women in terms of employment status. The SWTS found that young women have lower employment rates and labour force participation, at 33.4 percent and 43 percent, respectively. Meanwhile, young men have an employment rate of 42.8 percent and 51.7 percent participation rate (ILO, 2015). Similar differences are also seen with unemployment rates, with 22 percent for young women and 17.1 percent for young men. When it comes to female ownership of formal and informal establishments, the 2018 National Economic Census revealed women account for 29.8 percent of establishment owners, or 247,880 out of 923,356 (GoN, 2018).

Regarding their employment by sector, the Nepal Labour Force Survey suggests that women are relatively evenly distributed across the formal non-agriculture sectors, informal agriculture sector, and informal non-agriculture (Central Bureau of Statistics, 2019). A disproportionate burden of unpaid household work also falls on the women of Nepal, limiting their prospects for remunerated jobs. These prospects are further inhibited by familial restrictions commonly faced by women, whereby family members may disapprove or pressure women to pursue "safer" or more conventional jobs.

employment sectors where young Nepalis are seeking jobs. For instance, despite it being the primary employer of youth, fewer younger people work in agriculture compared to adults (45 percent versus 73.9 percent). Instead, youth are more present in services and industry compared to their adult counterparts. The Kathmandu Valley is the main economic center of Nepal, where people are engaged in sectors like handicrafts, carpets, garments, finance, and tourism, as well as health care and education. In Pokhara, a significant portion of the population base their livelihoods on tourism. Across Nepal, 54.5 percent of all MSMEs are owned by young people (Prasain, 2021a).

Among the 15-29 age group, 19.2 percent of youth are unemployed, a stark contrast to the national employment rate of 2.7 percent (Prasain, 2021a). This translates to poor prospects for many of the 500,000 youth who enter the job market each year and is a core factor behind Nepal's significant loss of human capital through migration

Because these figures come from a mix of surveys and official government data, they offer a relatively accurate picture into the state of Nepal's youth. Overall, the country's economy is characterized heavily by informality which may affect the

ability to obtain accurate and comprehensive data from official sources. According to the 2017/2018 Nepal Labour Force Survey, youth aged 15-24 face the highest rate of informal employment at 94.4 percent, with 25-34 year old youth recorded at 85.2 (Central Bureau of Statistics, 2019). Within this demographic, certain vulnerable groups are even more disproportionately represented in informal employment, included unschooled, women and workers from the Dalit community.

Nepal's youth face many unique challenges that hamper their access to fair and sustainable livelihoods. However, they also hold significant potential as contributors and beneficiaries of a budding entrepreneurship ecosystem. In addition to greater access and appreciation of higher-education, they also benefit from factors like ubiquitous smartphone use and improved access to internet around the country. Moreover, a study from the central bank of Nepal (Nepal Rastra Bank) found that 67.3 percent of Nepali youth have access to bank accounts (AFI, 2022). While this value may not represent the reality in practice, it nevertheless helps show the promising changes taking place in Nepali society that point towards greater development and decent jobs for all.

## ▶ 3. Entrepreneurship Ecosystem

A traditional approach to entrepreneurship development often focuses on providing direct financial and non-financial support to budding MSMEs. While this tactic provides essential funds and training, among other benefits, to entrepreneurs, in many cases the MSMEs involved may struggle to maintain success beyond the development project cycle. To address this, the ILO developed the Inclusive Entrepreneurship Ecosystems Approach. This work takes a systemic approach to support the development of inclusive entrepreneurship ecosystems that foster entrepreneurs' abilities and opportunities to create sustainable businesses. Building on Daniel Isenberg's 2011 entrepreneurship ecosystem model, the approach emphasizes six core components that together form a holistic support system for entrepreneurs. In line with its mandate and expertise, the ILO also includes two cross-cutting dimensions: Inclusiveness and Pathways to Decent Work. These ensure that the support system is inclusive of all entrepreneurs.

### 3.1 Ecosystem Components

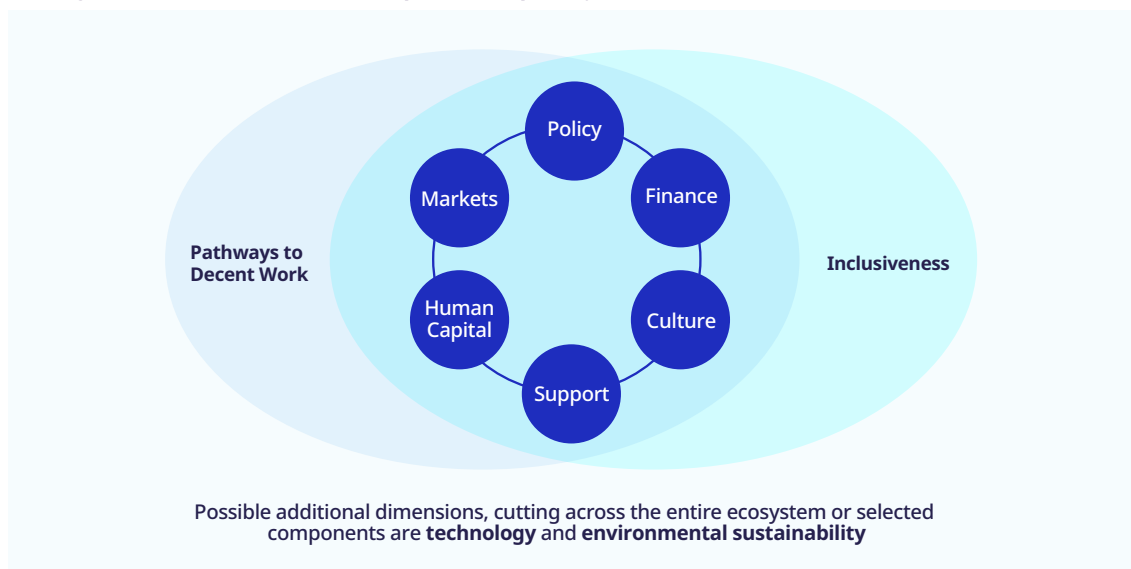
#### Policy

Legislation and policies that foster business creation are key. These include easy and transparent business registration procedures, fair taxation policies, and policies that actively promote entrepreneurship. While the legal text is important, the implementation has the greatest impact on entrepreneurship and business creation. Subsequently, a policy environment that combines top-down and bottom-up approaches and provides an integrated set of effective regulations are important to promoting entrepreneurship.

#### Finance

Access to financial resources is crucial for entrepreneurs seeking to start and grow a business, and the availability of a diversity of financial products and services is an important component of entrepreneurship ecosystems. Financial services should

▶ Figure 1 The ILO's Inclusive Entrepreneurship Ecosystem Framework.



be accessible and appropriate to entrepreneurs at different stages of enterprise development. For some entrepreneurs, loans may be most appropriate. For others, seed and angel investors might be instrumental, and in some contexts, further financial institutions like microfinance and financial cooperatives may play a key role.

### Support

This component refers to the variety of support services available to entrepreneurs. This includes the availability of demand-driven and accessible non-financial business development services (BDS) like business management training, capacity building, mentoring, and coaching, as well as operational services like accounting and legal advice, IT and design support, and sector-specific support (e.g., veterinary and agricultural extension services).

### Human capital

Human capital refers to the availability of high-skilled and motivated labour, which is central to entrepreneurs' ability to build sustainable businesses. Key components that contribute to human capital include existing high-growth enterprises that can up-skill the labour force (e.g., entrepreneurs with previous relevant work experience), as well as demand oriented educational, technical, and vocational training institutions and universities. Up-skilling programmes and labour demand- and supply-matching services may also play an important role.

### Markets

The availability of and access to markets is crucial for any business. In the entrepreneurship ecosystem framework, this component refers specifically to the availability of customers who are interested in purchasing innovative products and services. Where local demand is low, strong entrepreneurship ecosystems are often characterized by accessibility to regional or international markets for local entrepreneurs.

### Culture

This component describes the legitimacy of entrepreneurship in the wider society of a given context, for instance whether entrepreneurship is considered a viable career path and whether entrepreneurs have a positive reputation. A positive entrepreneurial culture is reflected in whether and how entrepreneurial success stories are disseminated in the local population and how entrepreneurship ranks as a career choice, particularly among young women and men.

### Cross-Cutting Dimensions

**Pathways to decent work:** Entrepreneurship constitutes an important pathway to decent work. New businesses drive job creation, and a fundamental role of the ILO's inclusive entrepreneurship ecosystem framework is to ensure that the jobs created are quality jobs, i.e., characterized by decent working conditions that also offer the entrepreneurs themselves a decent working life. To achieve this, considerations regarding quality job creation through entrepreneurship need to be embedded in the entrepreneurship ecosystem. Since ecosystems vary by context, there is no one size fits all in terms of how an inclusive entrepreneurship ecosystem can be promoted.

**Inclusiveness:** Entrepreneurship ecosystems not only differ by context but may also present different experiences and opportunities between population groups. For instance, while financial and business development services may exist in a given context, access to them is rarely equal among all entrepreneurs. Furthermore, informal norms and values (the Culture component of the ecosystem framework) may impede business creation among marginalized groups, such as women, youth, migrants, or other populations. Often, differences in access to the entrepreneurship ecosystem are implicit. Therefore, promoting an inclusive ecosystem that works for all entrepreneurs requires a clear understanding of the target group(s) and sensitivity to structural and taken-for-granted dynamics in how different target group(s) experience the entrepreneurship ecosystem.

In addition, further dimensions may be relevant depending on the specific local context. These can be added to the framework similar to the two



core dimensions above. Two important additional dimensions to consider are technology and environmental sustainability:

**Technology:** This plays an increasingly central role for entrepreneurs and MSMEs around the world and is therefore another important component for any entrepreneurship ecosystem. However, despite the opportunities for new businesses and innovative business models that emerge from the wider availability of smartphones, laptops, digital payment methods and other innovations, entrepreneurs and small businesses tend to lag in the adoption of modern technology. Across all dimensions, it will therefore be important to consider the opportunities created through technological advancements in terms of strengthening the overall support ecosystem. This could, for example, take the form of digital payment solutions under the “finance” component, or “e-Government” online business registration procedures under the “policy” component. Finally, the potential of technology to facilitate interaction and exchange between individual components should also be taken into account.

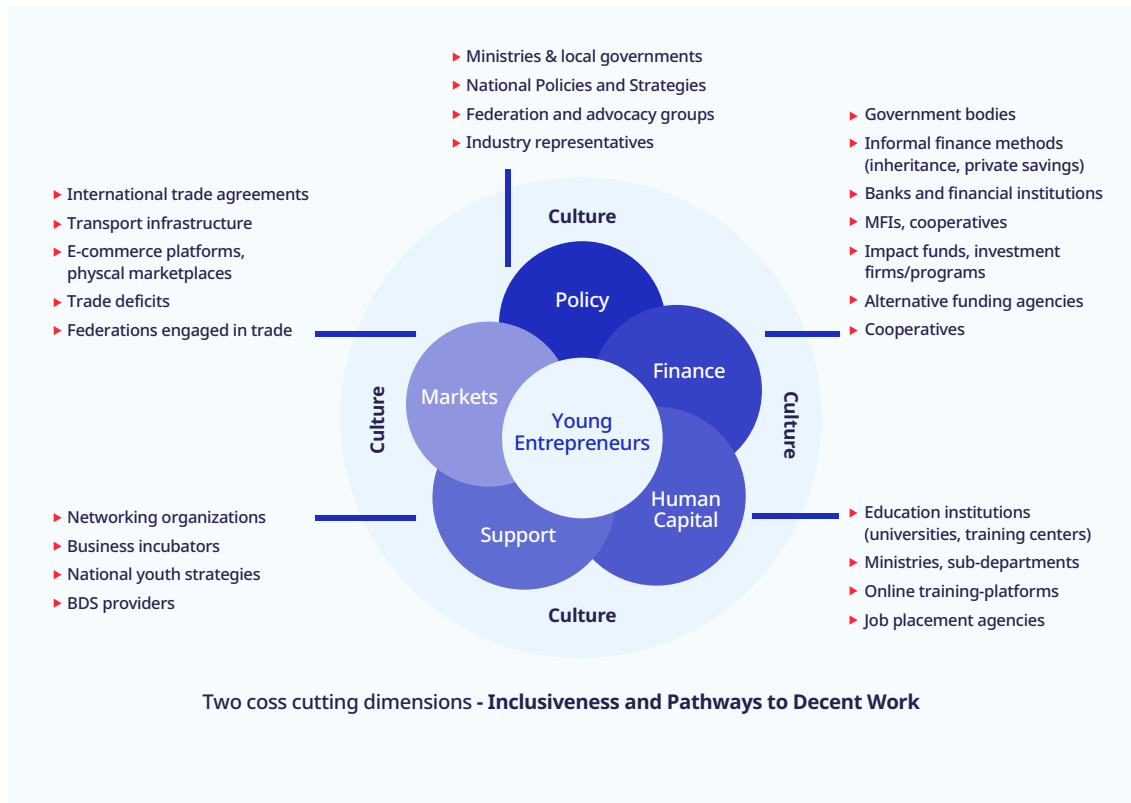
**Environmental Sustainability:** This dimension should be a core concern to all entrepreneurship ecosystems. Ecosystems can help promote green business creation, as well as help to embed environmental considerations among start-ups and entrepreneurs more widely. Furthermore, environmental considerations are important for the individual ecosystem components. For example, under this dimension the sustainability of service provision (e.g., under the Supports and Finance components) could be considered, as could a closer look at whether and how regulations facilitate environmentally sustainable enterprise creation (under the Policy component).

## 3.2 Ecosystem Map

The following mapping provides an overview of the entrepreneurship ecosystem in both Kathmandu and Pokhara. As Nepal’s two largest cities, each share a highly comparable ecosystem. This stems largely from Nepal’s centralized nature and general similarities between large urban centers. The two cities largely differentiate themselves in the number of ecosystem actors, with Kathmandu possessing more from nearly every pillar. Nevertheless, many actors that are based in Kathmandu also have chapters or implement activities in Pokhara. More details regarding the differences between the two cities, such as in culture and attitude, is provided in the following pillar-by-pillar analysis.

The mapping shows a relatively healthy representation of key ecosystem actors and characteristics. Nepali youth have been identified as a priority group which is reflected in various mandates and strategies focusing on entrepreneurship. The mapping did, however, identify significant challenges and bottlenecks within the ecosystem that hinder its development and participation of youth.

Throughout the desk and in-country research, culture (entrepreneurial and in the general sense) was constantly present and cited in discussions of challenges of the entrepreneurship ecosystems. To reflect this, the mapping illustrates culture as the backdrop for all other pillars, as it was found to play a key role in decisions and the functioning or non-functioning elements of each pillar. This was the case in both Kathmandu and Pokhara, although the prevailing culture in the latter was found to hamper the entrepreneurship ecosystem more severely for all young entrepreneurs but especially young women.

► **Figure 2: Mapping of the Entrepreneurship Ecosystem with young entrepreneurs at the center**

### 3.3 Policy

Entrepreneurship ecosystems lack a central controlling force. Nevertheless, the role of government and policy plays an essential role in creating an environment conducive to entrepreneurial growth. The policy pillar in Nepal, both Kathmandu and Pokhara, is composed of organizations responsible for policy making, including various ministries, local government bodies, and organizations established through public sector coordination.

Kathmandu and Pokhara are affected similarly by the strengths and challenges within the policy pillar as most relevant policies come from national legislature. Certain differences do exist however, such as the availability of certain government agencies which may only have offices in Kathmandu, creating additional expenses for entrepreneurs from Pokhara and other regions who must travel for in-person processes.

### Key Actors

At the federal level, the following ministries are the primary actors involved in creating and promoting policies related to youth entrepreneurship: Ministry of Industry, Commerce and Supplies; Ministry of Finance; Ministry of Youth and Sports; Ministry of Labour, Employment and Social Security; Ministry of Education, Science and Technology. Further non-governmental actors include a variety of enterprise federations and organizations, including the Federation of Nepal Cottage and Small Industries (FNCSI) and Federation of Nepalese Chamber of Commerce and Industries (FNCCI). The Federation of Women Entrepreneurs Associations of Nepal (FWEAN), the largest network of women entrepreneurs across Nepal, is also highly invested in promoting entrepreneurship among women and has strong influence on policymaking and programs for women entrepreneurs.

► Table 1: Key Policy Pillar Actors

Actor	Actor Type	Geographic Scope
Ministry of Youth and Sports	Government/Policy	Kathmandu, but provincial ministry exists in Pokhara
Ministry of Labour, Employment and Social Security	Government/Policy	A labour and employment office under the Ministry exists in Pokhara
Ministry of Education, Science and Technology	Vocational Education/Training	Kathmandu, but provincial ministry exists in Pokhara
Council for Technical Education and Vocational Training	Vocational Education/Training	Kathmandu, but has a provincial office in Pokhara
National Skills Testing Board	Vocational Education/Training	Kathmandu
The Ministry of Finance	Government/Policy	Kathmandu, but provincial ministry exists in Pokhara
Micro-Enterprise Development Programme for Poverty Alleviation, Ministry of Industry	Government/ Program	Kathmandu and Pokhara
Federation of Nepalese Chamber of Commerce and Industries (FNCCI)	Policy Advocacy, Private Sector Promotion	Kathmandu and Pokhara (Nepal-wide)
Federation of Women Entrepreneurs Associations of Nepal (FWEAN)	Policy Advocacy, Network	Kathmandu
Confederation of Nepalese Industries (CNI)	Policy Advocacy, Industry Representative	Kathmandu
Ministry of Industry, Commerce, and Supplies (MoICS)	Government/Policy	Kathmandu, but provincial ministry exists in Pokhara
Nepalese Young Entrepreneurs Forum (NYEF)	Advocacy, Young entrepreneurs representatives	Kathmandu and Pokhara (11 chapters around Nepal)
Confederation of Nepalese Industries Young Entrepreneurs Forum (CNIYEF)	Advocacy, Young entrepreneurs representatives	Kathmandu
National Planning Commission	Government/Policy	Kathmandu, but provincial unit exists in Pokhara
Federation of Nepal Cottage and Small Industries (FNCSI)	Policy Advocacy, Industry Representative	Kathmandu, but provincial unit exists in Pokhara
Central Bureau of Statistics	Government/Policy	Kathmandu and Pokhara (Nepal-wide)
Pokhara Tourism Council (PTC)	Policy Advocacy, Industry Representative	Pokhara
Pokhara Chamber of Commerce and Industry (PCCI)	Policy Advocacy, Industry Representative	Pokhara

## Pillar Strengths

Nepal's public sector has demonstrated a commitment to the creation of enabling conditions that develop and scale-up entrepreneurship through the adoption of clear strategies and action plans, as well as some recent legislative reforms. Regarding the overall approach to MSMEs and enterprise development, the government's policies are largely guided by the Industrial Promotion Policy (IPP) 2011; 5-year periodic plans, annual budgets, and sector programs from line ministries (ADB, 2021). Moreover, the central bank provides support through monetary policy and periodic directives and circulars.

In recent times, FNCCI in collaboration with ILO and Ministry of Industry and Commerce have worked to formulate the Startup Policy. In response to the COVID-19 pandemic and the negative effects of restrictive measures and global supply chain disruptions, the Nepali government and central bank have taken several measures to aid entrepreneurs and MSMEs. These include relaxing regulations to boost liquidity, allowing debt restructuring, expanding refinancing, and providing subsidized loans to banks and financial institutions willing to on-lend at concessional rates with priority to MSMEs (ADB, 2021).

Recognizing the large impact informality has on individuals, businesses, and the economy in general, the Nepali government has developed various policy responses to support the transition to the formal economy. One example is the **National Employment Policy** of 2015. In addition to including sections on developing MSMEs, with policies such as the provision of entrepreneurial training and business support services, the document lists creating employment opportunities for youth as one of its main objectives (GoN, 2015a). This included calls for an action plan to target youth employment with special provisions for developing women entrepreneurship, as well as policies for training and skill development, the creation of youth employment promotion centers, and more.

Another relatively successful government imitative has been the **Micro Enterprise Development Program** (MEDEP), which was later phased out and internalized into the **Micro Enterprise Development for Poverty Alleviation** (MEDPA)

in 2018. The program, operated nation-wide, aims to create systems, structures and a strong enabling environment for sustainable development of micro enterprise sector. The implementation of these programs produced significant results, with over 88,000 micro entrepreneurs created between 2010 and 2018 (ADB, 2021). Among these, approximately 67 percent were youth.

The Government of Nepal also pays special focus to youth in the **National Youth Policy** (2015). Among the policies, the document calls for entrepreneurship and vocational training for youth, business incubation programs, youth employment programs at the local level, special programs for youth returning from foreign employment, and more. The **National Agricultural Policy** seeks to draw youth to the agriculture sector by including calls for training of unemployed educated youth in the establishment and operation of agricultural enterprises (ILO, 2016).

In the last decade, the Government of Nepal has taken various steps to ease the market entry and regulations for starting businesses. Reforms in the country's business registration procedures have been improved through the introduction of an online registration service, help desks to train business owners, and an enabling legal directive to ease the overall speed and efficiency of the registration process (ILO, 2018). In 2014, the process was further improved through legislation that reduced the administrative processing time. Additional reforms since 2015 have improved the construction permit process, access to credit, cross-border trading, and contract enforcement (World Bank, 2020). However, despite the improvements, some of these processes remain points of difficulties for entrepreneurs.

## Pillar Challenges

Entrepreneurs in Nepal face variety of hurdles for starting, operating, and closing their businesses that stem largely from a lack of clarity and efficiency of the rules and regulations and the prevalence of informality. Young entrepreneurs are especially impacted by these challenges because their operations commonly lack the size and capacity (human and financial) to navigate through the burdensome and confusing processes.

Based on the last Doing Business reports from the World Bank (2020), the Government of Nepal enacted a number of reforms that improved certain processes and helped the country climb 16 spots in the ranking from 2019 to 2020, reaching 94<sup>th</sup> out of 190 countries. Nevertheless, the legal system in Nepal remains cumbersome, with significant government bureaucracy, challenging regulation, and an inefficient taxation process. Nepal thus ranks 135<sup>th</sup> when it comes to starting a business.

A 2017 labour act made the already inefficient tax paying process more difficult. This occurred namely through the introduction of a labor gratuity and a change in the medical insurance and accident insurance paid by employers that places a heavier administrative burden on companies that already face considerable bureaucracy (World Bank, 2018). As a result, companies in Nepal face considerably higher number of tax payments per year and number of hours spent to comply with requirements in comparison with global averages.

Business registration also remains suboptimal despite recent government reforms, or in some cases *because of* the reforms. For instance, the latest Doing Business report cites new requirements of in-person follow-up for employee registration for social security as making registration more difficult. Going fully electronic has not yet been possible due to the lack of implementation of digital signature and electronic transactions (Shrestha, 2018). Furthermore, Nepali entrepreneurs must also deal with high incorporation fees; excessive bureaucracy and corruption; centralized regulation, with certain government agencies lacking offices outside of Kathmandu (and thus affecting Pokhara's entrepreneurs who must incur additional costs for travel to Kathmandu); and complicated post-registration practices, such as multiple income tax systems. Such difficulties are important contributors for the amount of MSMEs in the informal economy.

As observed above, the Government Nepal has made various efforts to enact reforms that ease the entrepreneurship environment, including with specific targeting of youth. Nevertheless, literature on Nepal's entrepreneurship enabling environment suggests there is often a gap between government policies or intentions and their implementation or realization. For instance, laws and policies pertaining to responsible business

conduct and environmental and social standards exist, but enforcement is weak (ILO, 2018). Responsible business conduct and corporate social responsibility policies also do not appear to factor into government procurement decisions. Similarly, monitoring and evaluation of youth-focused programs is lackluster and there remains only minimal interactions between policymakers and their young constituents.

Furthermore, Rijal, et al (2021) suggest many policies related to doing business are vague at their inception but become better defined and broader as the number of businesses affected increases. The authors also cite entrepreneurs who mention a need for clearer policies and guidelines. The ADB SMEs Monitor report (2021) lists challenges faced by MSMEs in Nepal, which includes an inadequate identification of target groups (which could thus have an effect of youth-focused programs). The failure to implement youth-focused entrepreneur initiatives was further highlighted in a report from Nepal's Auditor General in 2022. Although the Government of Nepal unveils youth programs promoting entrepreneurship nearly annually, none have been implemented (Pandey, 2022). This also includes delays in establishing promised business incubation centers.

Informal rules also have a strong effect on young women entrepreneurs' opportunities and participation within the ecosystem. Such rules affect a young women's ability to access inheritance and family assets and often limits which types of jobs or enterprises are available to them (for more information, see sections 3.4 on Finance and 3.8 on Culture).

### 3.4 Finance

The five major sectors of Nepal's finance system include banking, insurance, capital market, non-bank finance, and cooperatives. Despite the fact that banking holds nearly 89 percent of total assets, entrepreneurs and MSMEs finance their capital needs primarily from family wealth and inheritance (33.1 percent) and private savings (25.8 percent) (ADB, 2021). In fact, only 16 percent of MSMEs source their initial financing from banks and financial institutions, while 8 percent rely on informal finance. In general, the ecosystem mapping for both Kathmandu and Pokhara suggests that although government initiatives and other

opportunities for obtaining financing exist, in practice, especially for youth, true access remains a significant hurdle for entrepreneurial endeavors.

### Key Actors

Financial services in Kathmandu and Pokhara are provided by formal actors, such as banks, micro-finance institutions (MFIs), and cooperatives, as well as informal actors including money lenders and un-registered savings groups (ILO, 2018). Loans and credits are primarily provided by banks and financial institutions, while non-governmental organizations (NGOs) may provide seed money, functional and financial literacy trainings, and other similar services (Acharya et al, 2018).

The last seven years have also seen a significant expansion of banks and financial institutions across the country. This came following a government decision to expand banking services countrywide to enhance access to formal financial services for households and businesses. As of June 2021, there were branches of different financial institutions in 700 of 753 municipalities (ADB, 2021).

As the country's two largest cities, Kathmandu and Pokhara have significant presence of Nepal's financial institutions. Both cities, although Pokhara to a lesser degree, have emerged as growing entrepreneur centers and thus also include investment groups that provide start up and growth capital to enterprises of various sizes.

### Pillar Strengths

In Nepal, the promotion of financial inclusion is high on the national agenda. The government and central bank have undertaken several measures to address entrepreneurs' inadequate access to finance, including in top-level strategic documents like the central bank's four-year Strategic Plan. Over the years, numerous incentives have been offered to encourage lending to groups and sectors that have the most difficulty accessing credit. This includes various loan schemes with interest subsidies. Among the most prolific is the Women Entrepreneur Loan, which provides up to NRs1.5 million and proved helpful during the first wave of the COVID-19 pandemic (ADB, 2021). For micro and small enterprises, the central bank also prevents

banks and financial institutions from levying service charges and requires that they complete the loan processing within seven days of receipt of the application.

Numerous programs and funds have been established to ease access to financial services for young Nepali men and women. This includes the **Youth and Self-Employment Fund (YSEF)**, through which banks, other financial institutions, or cooperatives provide easy commercial loans to individuals and groups of enterprising youth. Access to the loans occurs if the borrower holds a skill certificate or has traditional skills in areas such as commercial farming, agriculture and forestry, MSMEs, and homestays (tourism) (ADB, 2021). As of 2021, nearly 80,000 youth had benefited from the Fund.

Another popular and relevant fund is the **Women Entrepreneurship Development Fund (WEDF)**, which was initially established as part of the Industrial Promotion Policy 2011. The fund targets women entrepreneurs of all ages by providing collateral-free interest-subsidized commercial loans. To obtain a loan, a borrower must receive recommendations from business associations (ADB, 2021). Other major funds made available by the government include The Challenge Fund, the Economic Rehabilitation Fund, and the Micro, Cottage, and Small Industries Development Fund. Although these do not specifically target youth, they provide potential access to finance which youth could seize.

Access to finance for young Nepalis is also facilitated through various micro-finance programs. These are often targeted at vulnerable groups and small entrepreneurs to aid in savings, credit, remittances, and micro-insurance with the aim of promoting self-employment and other income-generating activities. Such MFIs are prevalent not only in large cities like Kathmandu and Pokhara, but also target remote areas across the country. Moreover, in many cases these institutions do not require collateral, easing access for young men and women.

In 2020, the government also launched the National Relief Program (NRP) in response to the economic impacts of the COVID-19 pandemic. The implementation of this program was further supported by the Asian Development Bank's COVID-19

► **Table 2: Key Finance Pillar Actors**

Actor	Actor Type	Geographic Scope
Dolma Impact Fund	Finance (impact investment group)	Kathmandu based
Business Oxygen	Finance & Support (equity and technical assistance)	Kathmandu based but has invested in companies in Pokhara
One to Watch	Finance & Business Support	Kathmandu based but has given financial relief to companies in Pokhara during COVID-19 pandemic, online training
True North Associates	Finance & Business Support	Kathmandu based
SAFAL Partners	Finance & Business Support	Kathmandu based
Sahaj Challenge Fund	Finance & Business Support	Head office in Kathmandu and works in Province 1
Team Ventures	Finance	Kathmandu based
Machpuchhere Bank	BFI	Kathmandu and initially based in Pokhara
Nabil Bank	BFI	Kathmandu and Pokhara
NMB Bank	BFI	Kathmandu and Pokhara
Banker's Association	Network of commercial banks in Nepal	Kathmandu
National Cooperative Federation (NCF)	Network of cooperatives in Nepal	Kathmandu
Women Entrepreneurship Development Fund (WEDF)	Finance	Kathmandu
Youth and Self-Employment Fund (YSEF)	Finance	Kathmandu

Active Response and Expenditure Support (CARES) program. A primary aim is to save viable MSMEs through interest subsidies on loans. The scheme explicitly targeted vulnerable groups, including young men and women, among others (ADB, 2022b).

Regarding financial literacy, the central bank organizes various initiatives for students and facilitates further financial awareness programs through various NGOs. These promote topics such as the importance of saving, understanding the banking system, preventing and reducing bank fraud, and understanding clean note policies and financial digitalization (AFI, 2022). To further disseminate financial education, the central bank also

publishes booklets on financial awareness and audio-visual materials on its official website.

In the digital sphere, Nepal has seen significant growth in the use of technologies and online banking. With the spread of smartphones and low-cost internet, mobile banking has become the most popular electronic banking service, with over 13 million registered users in 2021 (ADB, 2021). Other popular services and products include mobile wallets (e.g., e-sewa and Khalti), ticket purchases, utility bill payments, and online fund transfers. These are especially prevalent in urban areas, with an estimated 4 million digital-wallet users country wide (Shah, 2021). These digital payment platforms have experienced significant growth

in past years, including a 94 percent year-on-year jump in business in the first quarter of 2021 (Prasain, 2021b). Meanwhile, the growing presence of digital payment platforms such as Connect IPS has facilitated the transfer of funds for SMEs. In general, young entrepreneurs have been more accepting of new digital payment technologies, especially those with online-based businesses.

### Pillar Challenges

Despite the widespread existence of formal banking in Nepal's urban areas, financing for entrepreneurs remains heavily reliant on informal means including in Kathmandu and Pokhara. This inherently puts more vulnerable groups at a disadvantage for obtaining capital, including young entrepreneurs but especially women and marginalized communities. Indeed, lack of access to financial capital is regularly cited as leading challenge for Nepali youth (ILO, 2016).

The general lack of financial inclusion in the country stems from a variety of causes. Nepal's mountainous geography and physical distance between populated centers also creates inadequate reach for financial services. However, for developed urban centers like Kathmandu and Pokhara, this is not a limiting factor. More relevant for youth in Kathmandu and Pokhara is the inadequate implementation and communication of policies and strategies related to financial literacy, insurance, access to finance, financial customer protection, and financial inclusion (AFI, 2022). For instance, the government of Nepal has announced a broad range of programs and initiatives aimed at enhancing access to finance, including among youth and women specifically. However, in reality many of these efforts fail to reach their target demographics. This owes to a variety of factors, including a lack of central authority to take the lead in implementation and poor communication of the new programs and the processes for attaining them. This results in low levels of financial education and literacy, poor monitoring and evaluation of financial inclusion activities, and a more widespread use of informal financing methods, including shadow banking practices.

Beyond implementation shortfalls, there is also often a general lack of awareness for available financing opportunities. This is further compounded

by an insufficient and poor quality of some financial services. These factors contribute to a large information asymmetry between lenders and borrowers. Many MSMEs and entrepreneurs, especially in the informal sector, are poorly informed about loan assessment procedures and often lack sufficient documentation, business records, and proper business plans (ADB, 2021). As a result, banks and financial institutions will often not lend to such MSMEs or informal sector actors, unless forced to by central bank regulations. With all these factors, financial institutions are reported to reach just about 20 percent of all households that need credit (ADB, 2021). MFIs have played an important role in addressing this gap in access to finance by providing credit in overlooked sectors or regions with less stringent requirements.

In general, the poor access and utilization of financial services is particularly true for (young) women entrepreneurs, who often have lesser access to financial resources compared to male counterparts (Acharya et al, 2018). This owes in part to the fact that Nepali women are not entitled to property rights which affects their ability to hold tangible assets that are otherwise often used as collateral for obtaining funds. Although the 2015 Constitution does prescribe equal rights to both sons and daughters on property inheritance matters, this is not the case in practice due to a pervasive patriarchal system. Many women are also simply unaware of the government initiatives to provide concession loans to women entrepreneurs (NBA, 2022).

Additionally, although digital banking services have witnessed significant growth, important challenges remain that hinder their wider use within the ecosystem. Namely, MSMEs and their customers often cite the services' high costs, low maximum transaction amounts, security, and low customer service levels as primary reasons dampening their use.

### 3.5 Support

The support system in Kathmandu and Pokhara's entrepreneurship ecosystems comprise of a blend of public and private actors. These offer traditional business development and technical skills support, as well as coaching, mentoring, and fora for networking and exchanging ideas.



## Key Actors

Owing to Nepal's centralized nature, the majority of the country's business support institutions or located or based primarily in Kathmandu. However, several organizations also have chapters and organize regular events in cities across Nepal, including Pokhara. Key public institutions include the major universities of both cities, namely Pokhara University and Kathmandu University, as well as various industry-related federations. Most notable among these are the Federation of Nepal Cottage and Small Industries (FNCSI) and the Federation of Nepalese Chamber of Commerce and Industries (FNCCI), both with chapters in Kathmandu and Pokhara. Private organizations have also emerged in recent years as part of the growing start-up and entrepreneurship ecosystem in Nepal, though as indicated, these are primarily concentrated in Kathmandu. (See Table: Key Support Pillar Actors)

## Pillar Strengths

As Nepal's nascent entrepreneurship ecosystem gradually develops, awareness of the need for support services and actors able to address this are slowly rising. Numerous actors have emerged and now play an active role in supporting entrepreneurs, specifically youth, in Kathmandu and Pokhara. For instance, business incubators are now staple of the ecosystems in both cities. These are organizations that help new companies and individual entrepreneurs to develop their business through the provision of a variety of support services.

FNCCI has worked for youth entrepreneurship education for students in colleges, it has also given training to journalists on youth entrepreneurship education. Further it has published a SME guidebook targeting youth entrepreneurs. In Kathmandu, the FNCCI and US Embassy collaborated to create the Innovation Hub, a business incubation center that offers workspaces and a specialized library with books and computer resources (ADB, 2021). The Hub also supports different sectors around the country through its satellite centers or projects. The Kathmandu University School of Management also runs the Business Incubation Centre, which provides working spaces, individual mentoring and coaching, networking assistance, and advice on

legal and financial matters. In Pokhara, Urja Lab, an innovation hub and ICT company offers a variety of services, including co-working spaces, "start-up supportive" events and programs, and various training and skill development services (Khatri, 2021). Another organization, Nepal Go Association offers an Innovation Bootcamp in Pokhara. This five-day event offers an intense schedule of training on entrepreneurship, innovation, management, business design, and planning (NepGo).

Thanks to growing acceptance and opportunities, thousands of aspiring youth pitch their business ideas every year in different events. These include boot camps and events that incorporate various stakeholders in the startup scene, such as Nepal Startup Summit, Next Growth Conclave and Connect In (Gautam, 2020). Such events bring new faces into the growing ecosystems and create significant networking opportunities.

For young women entrepreneurs, positive trends have emerged in access to woman-specific support programs. According to findings from the ILO, one survey showed over half of women respondents (53.9 percent) benefited from at least one opportunity to participate and display their products at women's trade fairs and exhibitions at regional, national or international levels (ILO, 2018). Moreover, 43.1 percent had participated in training programs for business skills and 25.3 percent received business mentoring. While there remains significant room for improvement, these figures nevertheless represent a positive trend towards greater inclusion and participation, especially against the backdrop of a culture that still largely views entrepreneurship as a male dominated field.

## Pillar Challenges

Despite the growing number of support and networking organizations and fora, young entrepreneurs have poor access to business development services in Nepal. While the trend is typically better in Kathmandu and to a lesser extent in Pokhara, poor access remains a barrier for acquiring relevant business skills and growing a business. Especially regarding initiatives promised by the government, many succumb to failure or poor implementation.

► Table 3: Key Finance Pillar Actors

Actor	Actor Type	Geographic Scope
NEXT Venture Core	Business Support	Kathmandu
Nepal Communitere/ Impact Hub	Business Support	Kathmandu based, but has run programs in Pokhara
Nepal Entrepreneurs Hub	Business Support	Kathmandu, with chapters and regularly organized events in Pokhara
Clock B	Business Support	Kathmandu based, but has run programs in Pokhara
Antarprerana	Business Support	Kathmandu
Glocal Private Limited	Business Support	Kathmandu
Biruwa Advisors	Business Support	Kathmandu
Entrepreneurs For Nepal (E4N)	Business Support	Facebook Group
Nepal Innovation Lab (NLab)	Business Support	Kathmandu
Idea Studio	Business Support	Works with people across Nepal, including Pokhara
Industrial Enterprise Development Institute (IEDH)	Business Support/Training	HQ in Kathmandu with branch office in Pokhara
Urja Lab	Business Support	Based in Pokhara
Business Incubation Centre at King's College	Support Services	Kathmandu
Kathmandu University School of Management Business Incubation Center	Support Services/Training	Kathmandu
Kathmandu Model College	Educational Institute	Based in Kathmandu
Startups Nepal	Support Services/Training	Based in Kathmandu
Youth Entrepreneurship and Tourism for Social Development (YESTD)	Support Services	Kathmandu
Nepal Go Association (NepGo)	Support Services/Training	Pokhara
Nepal Entrepreneurs Society	Support Services	Kathmandu
U30 Entrepreneurs Club	Support Services	Pokhara
Nepalese Young Entrepreneurs' Forum (NYEF)	Networking	Has chapters in several districts, including Pokhara
Federation of Women Entrepreneurs' Associations of Nepal (FWEAN)	Women's network	Kathmandu based, but has members in Pokhara
Federation of Business and Professional Women Nepal (BPW)	Women's network	Has several chapters across Nepal, including Pokhara
Association of Youth Organizations Nepal	Vocational Education/ Training	Kathmandu
Agri-Business Incubation Program	Support Services	Kathmandu
Management Association of Nepal (MAN)	Support Services	Kathmandu
Skill Lab	Support Services	Kathmandu
Utopia	Support Services	Kathmandu

This poor access stems in part from a lack of awareness of opportunities. Young entrepreneurs who are members of entrepreneurship networks, such as NYEF, will most often be aware of which business development and support services are available and who provides them. For youth who are not members of such networks, there would be interest for such services but this is stymied by not knowing where or from whom.

This constraint of poor access also pertains to entrepreneurship training. The country has a lack of high-quality business schools, and universities offer limited courses on practical entrepreneurial skills or training, if any. Additional actors offering entrepreneurship training or business development services are scarce, particularly in Pokhara.

Quality of support services is also an issue, due partially to inadequate resources (human and financial) and services provided not matching the demands of entrepreneurs. For existing training and support services, general perceptions tend to be low. For instance, a survey from ILO (ILO, 2018) found half of respondents consider such services in Nepal to be “poor” (35 percent) or “very poor” (15 percent). Only 5.8 percent found the services “good”, and just 2.5 percent evaluated them as “very good”. Overviews of support services have also found that most business development services (BDS) in Nepal focus on skill development, while only a few agencies assist MSMEs in the marketing of their products and service. Research also suggests a need for sector-specific incubation and support services to cater to specific groups and skills required (Koirala, 2016).

In a study of entrepreneurship development in Kathmandu, the UNDP (2020) identified a number of problems hindering local incubation centers and business trainers. Primary challenges included a lack of professional skilled trainers to deliver programs (90 percent surveyed) and challenges in selecting the right participants for the training (70 percent). Additionally, over half do not provide post-incubation/training services or follow-ups after completion of the programs.

Even with the positive trends, women entrepreneurs, especially youth, still face disadvantages because men typically dominate formal and informal networks as well as business development services. As a result, women entrepreneurs miss

out on exposure to services and support. Women-focused organizations do exist, though ones targeting the general population often have significantly more male members, especially in Pokhara.

### 3.6 Human Capital

Poverty has strongly hampered access to education in Nepal both historically and in the present day (ILO, 2018). This is reflected in the entrepreneurship ecosystem, where human capital challenges are regularly cited as a core issue. As a result, the Government of Nepal’s approach to youth employment has placed heavy emphasis on education, training, and entrepreneurial development.

#### Key Actors

At the national level, several Ministries and bodies are charged with topics related to entrepreneurship and human capital development. The Ministry of Education oversees policies related to education, while the Ministry of Youth and Sports promotes youth training programs focused on entering into the workforce. The Vocational and Skill Development Training Centre, under the Ministry of Labour and Employment, and the Office of Cottage and Small Industries, under the Ministry of Industries, both provide entrepreneurship training.

Technical and vocational education training (TVET) is delivered through public and private institutions. TVET is overseen by the Council for Technical Education and Vocational Training (CTEVT), which has been supported through capacity building by a number of international development partners in recent years. While training and education institutions are found in most urban centers, the majority are found in Kathmandu. Employment service centers may also be emerging actors, although their role and presence were observed in the literature review but not during field research.

► **Table 4: Key Human Capital Pillar Actors**

Actor	Actor Type	Geographic Scope
Pokhara University	Education/Support	Pokhara
Kathmandu University	Education/Support	Kathmandu
Nepal Innovation Technology and Entrepreneurship Center	Skills training	Pokhara
Vocations and Skill Development Training Centre (part of Ministry of Labour)	Skills training	Based in Kathmandu but has programs in Pokhara
Department of Cottage and Small Industries (DCSI) (part of Ministry of Industries)	Skills training/ Support	Based in Kathmandu and has a separate Pokhara office
Pokhara Job Link Pvt. Ltd	e-support for jobs placement	Pokhara
Training Center Nepal	Skills training	Kathmandu
Council For Technical Education and Vocational Training	Skills training	Kathmandu and Pokhara
Mentor Lab	Skills training	Kathmandu
JobsNepal	e-support for jobs placement	Nation-wide
Mero Jobs	e-support for jobs placement	Based in Kathmandu
Rojgari Services Private Limited	e-support for jobs placement	Based in Kathmandu
Women's Skills Development Organization (WSDO)	Support Services/Training	Based in Pokhara
Pokhara Research Center	Support Services/Training	Based in Pokhara
PUM	Support Services/Training	Kathmandu-based but supports in Pokhara as well
Higher Institutions and Secondary Schools' Association Nepal (HISSAN)	Education/Support	Kathmandu
Nepal Public Campus Association	Education/Support	Kathmandu
Joint Trade Union Co-ordination Centre	Training/ Support/ Advocacy	Kathmandu, all over Nepal including Pokhara
Responsible Business Initiatives (RBI)	Advocacy	Kathmandu
LA Grandee International College	Education/Support	Pokhara

See also: Table 3 Key Support Pillar Actors

### Pillar Strengths

Improving training and education is a political priority for the Government of Nepal, with references to such policies appearing across various key documents. Youth in particular have been singled out as a key priority group for education and training policies. The National Employment Policy of 2015 includes provisions on enhancing capacity of national and local-level training centers run by government, NGOs, and private actors, as well as for promoting and integrating vocational education into the formal education system (GoN, 2015a). Throughout the policy document, provisions frequently target youth and other vulnerable groups. Similarly, the National Youth Policy of 2015 includes various policies and program proposals focused on areas including self-employment and entrepreneurship training, emphasizing the application of IT in education, and enhancing capacity of youth employment programs at the local level (GoN, 2015b). Additionally, calls have also been made to reform the country's National Vocational Qualifications system (ILO, 2016).

Although significant progress is yet to be realized, the change in government structure in 2015/16 presents opportunities for addressing certain human capital challenges. For instance, the decentralization of TVET services to the provincial level creates potential to establish more market-led and inclusive TVET systems tied to local labour markets.

Nepal has also made important gains in human capital development in recent years. According to the World Bank Human Capital Index, a Nepal had made steady progress in building human capital of children until the COVID-19 pandemic, which caused setbacks in lower income countries around the world. The report credits improvement in school enrolment and the institutionalization of measurements of student learning as key factors behind Nepal's progress (World Bank, 2020b).

### Pillar Challenges

The availability of high-skilled labour is regularly cited as a core challenge in entrepreneurship ecosystems across the country, with Kathmandu and Pokhara being no exceptions. This is recognized by the Nepali government in its 2015

National Employment Policy, citing "weak education standard and inadequate skill development" as a major challenge in the national labour market (GoN, 2015a). Similarly, the National Youth Policy cites "lack of qualitative, timely and employment-oriented education, least access to vocational skills and techniques" as a core challenge faced by Nepali youth (GoN, 2015b). This failure to provide quality education and to link training with industries has created a mismatch between the supply and demand of labour in the market and a deficiency of adequate entrepreneurial skills, especially among youth.

As with challenges of other ecosystem pillars, this stems in part due to the failure to implement announced strategies and policies to improve human capital development in Nepal. Additionally, the country faces a general lack of entrepreneurship-oriented programs, from both public and private actors. The university system typically relies on outdated courses that fail to capitalize on convergences between the demand of industry and the human capital produced by the education system, which creates spill-over effects in employment and job creation (Prasain, 2021a). Insufficient resources, both human and financial, also hamper the delivery and planning of TVET, including a shortage of qualified and trained instructors (ILO, 2018).

Young entrepreneurs in the workplace also benefit from low levels of training and development. For instance, the Extent of Staff Training indicator in the World Economic Forum's Global Information Technology Report is based on expert opinions from business leaders on "the general approach of companies in your country to human resources". A score of 1 means companies invest little in training and employee development while a 7 (top score) indicates they invest heavily to attract, train, and retain employees. Nepal ranks 125<sup>th</sup> out of 139 countries with a score of 3.3 (ILO, 2018).

Another critical challenge of the human capital development facing Kathmandu, Pokhara, and all other regions of Nepal is the flight of young and skilled Nepali workers, or "brain drain". In the fiscal year 2021-22, the number of Nepalis leaving for foreign employment reached the highest level in five years after temporarily dropping due to the COVID-19 pandemic (Pandey, 2022). Based on official figures, over 1,700 young Nepalis leave

the country daily to work abroad. Out of approximately 500,000 youths who enter the labour market every year, nearly 400,000 of them leave for foreign employment. Stagflation and slowed economic growth, unemployment, lack of economic opportunities, and returning political uncertainty make up the primary factors causing the mass departure of youth.

### 3.7 Market

Nepal is one of South Asia's fastest urbanizing countries, with both Kathmandu and Pokhara's population growing rapidly each year. The country's urban areas play a critical role in the national economy, contributing nearly 60 percent of GDP in 2013 (ADB, 2013). The Kathmandu Valley is the nation's economic hub, accounting for 30 percent of national GDP and 50 percent of the total urban population.

As Nepal's second largest city, Pokhara also possesses strong economic potential and a large market for entrepreneurs. Services and manufacturing makeup significant portions of both cities' economies, with the tourist sector playing a particularly important role in Pokhara.

#### Key Actors

Many actors that provide business support to the entrepreneurship ecosystem in Kathmandu and Pokhara include market access and information in their mandates. Numerous government ministries are also involved in the process of establishing trade agreements which ease access to international markets. Moreover, in recent years e-commerce has surged in Nepal. This has not only modernized the process of doing business and making payments, but it has also created significant opportunities for Nepali youth to reach primarily domestic consumers with their products, for example through a variety of e-commerce platforms that have emerged. (see Table 5)

#### Pillar Strengths

Kathmandu and Pokhara's economic importance mean large markets of potential consumers for entrepreneurs. For instance, the per capita income

of a Kathmandu resident is nearly three times larger than the national average. Although urban poverty is on the rise across the country, the rate remains relatively low in Pokhara at 1.3 percent, compared to 11.5 in Kathmandu (Timsina, 2020).

E-commerce (and other business activity online) is in its infancy but rapidly growing in Nepal. Most online activity is based in Kathmandu and number of other large urban areas, including Pokhara. These urban areas have seen significant growth in the quantity of credit/debit card transfers, transfers from e-banking websites, and digital wallets, especially since the start of the pandemic (ITA, 2021). Consumer-oriented services in these areas have also flourished, with many food- and grocery-delivery services and online shopping portals emerging on the market. Digital marketing remains underutilized, though with the large portion of Nepalis who now have smartphones and are connected to social media platforms, opportunities in this field are growing.

Part of the success of the burgeoning e-commerce market owes to government reforms and initiatives that have addressed key bottlenecks, including a national e-commerce strategy (UNCTAD, 2021). By building public trust in digital payments, allowing consumers to pay utilities and other public services online, and enacting more stringent central bank regulations to allow payment methods such as QR code and digital wallets, the Government of Nepal helped spur massive growth in the use of digital payments. Such changes are instrumental for growing the entrepreneurship ecosystem.

On the international scale, Nepal is a member of various trade associations and organizations. These include South Asian Association for Regional Cooperation, the South Asian Free Trade Area, the World Trade Organization (WTO) and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation. Although Nepal's dependence on imports generally poses difficulties for MSMEs and the Nepali economy, it does provide potential opportunities for young entrepreneurs to capitalize on import-substitution. In addition to resources and commodities, Nepal depends on imports for many general and household consumer goods, offering potential gaps for Nepali entrepreneurs to fill.

► **Table 5: Key Market Pillar Actors**

Actor	Actor Type	Geographic Scope
Sahaj - Nepal Agricultural Market Development Programme	Market Development	covered over 50 districts of Nepal
Cooperative Market Development Program	Market Development	Chitwan, Dhading, Kavrepalanchowk Lalitpur, Makwanpur and Nuwakot
daraz.com, sastodeal.com, thulo.com, gyapu.com, thamel.com, kinmel.com, meroshopping.com, urbangirl.com, hamrobazar.com	e-commerce platforms	Nation-wide
Kalimati Vegetable and Fruits Market Development Committee	Public market	Based in Kathmandu
Sabah Nepal	Market linkage	Kathmandu based, presence in Gandaki province but not in Pokhara
Dorje's Farmers' Market	Market	Pokhara
WEAN Multipurpose Cooperative Ltd.	Market	Kathmandu
Nepalese Marketing Association	Marketing	Kathmandu with presence across Nepal
Association of Craft Producers	Market linkage/ Advocacy	Kathmandu and Pokhara
Federation of Handicraft Associations of Nepal (FHAN)	Market linkage/ Advocacy	Kathmandu and Pokhara
Nepal Herbs and Herbal Products Association (NEHHPA)	Market linkage/ Advocacy	Kathmandu and Pokhara
Tourism Entrepreneurs Women Association Nepal (TEWAN)	Market linkage/ Advocacy	Pokhara
Trekking Agencies Associations of Nepal	Market linkage/ Advocacy	Kathmandu and Pokhara
Nepal Association of Tour and Travel Agents	Market linkage/ Advocacy	Kathmandu and Pokhara

Domestically, a strong consumer base already exists. In recent years, consumption has swelled, fueled largely by remittances which regularly make up over a quarter of the country's GDP. In fact, in the last decade the proportion of disposable income has increased by an average of 13 percent annually (Ghimire, 2016). However, no domestic industries have managed to capitalize on this growing consumer market, and as a result Nepalis continue to rely on imports for goods like construction materials, household goods and clothing.

### Pillar Challenges

Overall, market access is an important challenge for MSMEs domestically and abroad. This is reflected in Nepal's trade deficit, with Nepali enterprises failing to get their products to international markets and the domestic market dominated by imports rather than Nepali products and services. Key factors behind this include low volumes of domestic production, poor compliance with international quality standards, lack of value chain development for export-focused products, high transaction costs for cross-border

trade, bureaucratic obstacles that hamper export growth, and an inability to take advantage of preferential market access schemes (ILO, 2018). As a result, only a small number of MSMEs cater to international markets.

Many of the factors hampering access to international markets also affect MSMEs ability to reach domestic consumers. For instance, low economies of scale and products that do not match the demands of the market, caused in part by poor marketing skills and lack of quality marketing agents or networks (Rijal, 2021). Additionally, poor access and availability of market information, including on trade agreements to which Nepal is party, further limits domestic and international market access. Domestically, Nepali MSMEs must also compete with foreign producers due to the country's high dependence on imports, including for basic household goods. This poses difficulties for Nepali firms that face negative perceptions of their product quality and inadequate protections and support from policies.

Due to its landlocked geography, the majority of trade and economic relations are with China and India. Lack of sea access and poor infrastructure across the mountainous country further impede trade and market access. Electricity shortages affect productivity and price competitiveness, as some industries may turn to diesel power plants which increases overall expenses. This is further compounded by inadequate storage and transport facilities and unreliable road networks (Ghimire, 2016). For instance, the poor quality of the Kathmandu-Pokhara highway and the Pokhara-Lumbini roadway inhibit investment and access to larger markets for firms in these cities. Regarding investment, corruption, bureaucracy, and a weak regulatory environment discourage greater levels of foreign direct investment (FDI) (ILO, 2018).

For young entrepreneurs, many of these challenges are further exacerbated because of their lack of greater integration into the ecosystem and lack of financial capital. This is particularly true for young women who often lack access to marketing networks, market information, and appropriate business education (Acharya, 2018). Lower rates of women also access the quickly growing e-commerce market, in part due to their under-representation in IT and digital marketing fields (UNCTAD, 2021).

### 3.8 Culture

The entrepreneurial culture in Kathmandu and Pokhara has gradually shifted to create a more open and attractive business environment. Government initiatives to develop entrepreneurship, academic and training institutions offering more relevant opportunities, and general views towards entrepreneurship, particularly among youth, are among the factors pushing the culture to a more conducive direction. However, traditional and gender-discriminatory views and attitudes are still prevalent in both cities, which dampen the overall ecosystem, especially with regard to inclusiveness.

#### Key Actors

A number of the membership-based groups active in other pillars also contribute to the proliferation and strengthening of Nepal's – and by extension Kathmandu and Pokhara's – entrepreneurship culture. Various institutions, including from the Nepali government, foreign embassies, and international organizations also help to spread a positive culture through various initiatives. Additional actors, such as TV networks and media outlets help to facilitate such initiatives.



► Table 6: Key Culture Pillar Actors

Actor	Actor Type	Geographic Scope
New Business Age (P) Ltd.	Media	Based in Kathmandu
U.S. Embassy's Book Bus	Embassy	Based in Kathmandu but the bus goes around Nepal including Pokhara
American Spaces programming, Public Affairs Section, U.S. Embassy	Embassy	America Spaces are present in both Kathmandu and Pokhara
Rotary Clubs	Social organization	Kathmandu and Pokhara
Rotaract Clubs	Social organization	Kathmandu and Pokhara
Lions Club	Social organization	Kathmandu and Pokhara
Leo Club	Social organization	Kathmandu and Pokhara
JCI Nepal	Social organization	Kathmandu and Pokhara
ZONTA	Social organization	Kathmandu and Pokhara
Global Shapers- Kathmandu Hub	Social organization	Kathmandu
Daayitwa	Campaign/Enterprise development	Kathmandu-based but has run programs in Pokhara

### Pillar Strengths

Recognizing the value of the entrepreneurship ecosystem in a country where MSMEs play a valuable role in the economy, the Government of Nepal encourages a strong entrepreneurial culture through a variety of measures. Beyond policies, this also includes setting up incubators and business idea competitions and facilitating grants. A significant portion of these efforts also specifically target youth.

Non-governmental and grassroots initiatives are also active in promoting entrepreneurship among youth, although the majority are based in Kathmandu. These include groups like the Nepal Entrepreneurs Hub and the Young Nepalese Entrepreneurs Forum. Idea Studio, a platform for promoting entrepreneurship through innovation, showcases the best business ideas on a nationally televised reality show (McCausland, 2019). Media outlets also occasionally cover successful business stories, especially successful start-ups and online or delivery services that emerged and quickly grew during the pandemic.

Universities and academic institutions also play a growing role in increasing entrepreneurship in the country. Providing entrepreneurship development courses, short trainings, and other extracurricular activities help equip students with necessary entrepreneurship skills and normalize it as a legitimate career path to following their education. Such approaches appear to be relevant and well-received by Nepali youth. One ILO survey found nearly 60 percent of youth have a “very positive” or “positive” attitude towards entrepreneurship (ILO, 2018).

### Pillar Challenges

For over a decade, culture and attitude towards entrepreneurship has slowly shifted to a more positive light. However, the culture remains heavily influenced by risk-aversion and traditional views, including towards the role of women in business. When it comes to livelihoods, especially among youth, there remains a strong societal pressure to pursue “conventional” job routes that are associated with higher levels of security and certainty. In a survey on the challenges of starting

an enterprise in Nepal, nearly 75 percent of entrepreneurs interviewed indicated that their families opposed their interest in pursuing entrepreneurial ventures in favor of more conventional jobs (Rijal, 2021). Respondents also mentioned a societal mindset of failure as a bad thing, which inherently discourages entrepreneurship where failure and risk are often apart of the business process.

Such a culture also affects the credibility of entrepreneur, who may be seen as “casual workers”. Beyond discouraging entrepreneurship, these factors also reduce the financial and motivational support entrepreneurs receive from their friends and families. This hinders the development of enterprises as many are reliant upon informal financing methods such as family wealth and inheritance (from which women are *de facto* excluded) to get their businesses off the ground.

Regarding young women entrepreneurs, traditional gender roles in the country play a further role in discouraging or inhibiting their entry into the ecosystem. In general, traditional practices such as the dowry system, early marriage, preference of sons, stigmatization widows, seclusion of women, family violence all disadvantage women to different extents across Nepal (CARE, 2015). Nepal’s post-conflict government has legislated for more gender equality, for example enshrining women and girls’ rights in the Comprehensive Peace Accord.

Nevertheless, entrepreneurship in Nepal remains a male-dominated preserve with women’s participation in meaningful business endeavors limited by these socio-cultural factors. This is especially true for rural communities, although such cultural elements and attitudes also remain prevalent in urban centers. The ecosystem in Kathmandu is

relatively progressive with wider acceptance of women as entrepreneurs and business partners. In Pokhara, traditional gender roles are still prevalent, where women may not be taken seriously or encouraged to enter the entrepreneurship ecosystem.

Finally, additional socio-political factors may also affect the general entrepreneurship culture in Nepal. Generally speaking, countries with higher political stability and levels of trust have higher entrepreneurship rates. Nepal long struggled with political stability, though after the government and Constitution change in 2015/16, the country began enjoying new levels of political stability. This had immediate positive effects on the business environment. However, in recent years, especially since the beginning of the COVID-19 pandemic, political uncertainty has returned to Nepal, for instance with the president dissolving parliament twice in a six-month period in 2021.

In a similar vein, Nepali citizens report low levels of trust for public institutions such as police, civil servants, and bureaucrats (Gupta, 2021). The younger generation is particularly affected by this, with a rise in corruption, slow economic growth, poor accountability and transparency, a culture of nepotism, and un-met promises by politicians, all making up key reasons why their trust in politicians and the government is declining (Bhatta, 2020). In the 2021 Corruption Perceptions Index from Transparency International, Nepal ranked 117 out of 180. While not directly related to entrepreneurship, these factors stymie entrepreneurial spirit and lower confidence in being able to establish successful and formal economic activities.

## ▶ 4. Priority Area Analysis and Recommendations

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Following the mapping of Kathmandu and Pokhara's entrepreneurship ecosystems, the ILO methodology proposes a selection process to identify priority pillars for deeper analysis. In consultation with ILO headquarters in Geneva, the ILO Country Office for Nepal, and members from the Nepali government and the Nepalese Young Entrepreneurs' Forum (NYEF), a scoring system for each pillar was implemented according to the following criteria:

- ▶ **Criteria 1:** How is the target group (TG) excluded from the dynamics of the pillar: 10 = very excluded; 0 = not excluded at all
- ▶ **Criteria 2:** How is the pillar uncondusive to Decent Work: 10 = very un-condusive; 0 = very condusive
- ▶ **Criteria 3:** Overall main constraints in the pillar (affecting all actors in the ecosystem, not focused on the TG): 10 = many relevant constraints; 0 = not relevant constraints
- ▶ **Criteria 4:** Overall positive developments in the pillar (affecting all actors in the ecosystem, not focused on the TG): 10 = many relevant positive developments; 0 = not relevant positive developments
- ▶ **Criteria 5:** What is a potential project's capacity to address identified constraints: 10 = high capacity of the project; 0 = low capacity of the project

The selection process aims to identify the pillars with a healthy balance between the overall constraints and the capacity to influence change. As a result, selected pillars are not necessarily those with the most constraints, but rather those with the highest final score when adding up the five criteria. Scores from Nepal-based respondents were then weighted more heavily.

Based on this methodology, the following pillars were selected: the Finance and Human Capital pillars in Kathmandu, and the Market and Culture pillars in Pokhara.

Upon selection of priority areas in Kathmandu and Pokhara, in-country research was undertaken to further expand on the mapping findings. This included in-depth interviews and focus group discussions with young entrepreneurs and key ecosystem actors. The findings helped to either validate or reframe the primary constraints identified in the mapping, and then to analyze them at a deeper level to gain insights into the root causes of why these constraints persist. Based on these findings, recommendations were then devised including suggestions of specific actors with adequate capacity and incentive to play a role in potential interventions.

As demonstrated in the ecosystem map (section 3.2), elements of Nepal's entrepreneurial culture were found to be present in each of the ecosystem pillars. Cultural attitudes were regularly cited as a deep-rooted cause behind many of the constraints. This manifested itself largely as a tendency of actors to work in isolation and resist making the first move to address ecosystem challenges. In each of the pillars, findings emerged that while collaborations do exist, they are most often irregular and not institutionalized. An underappreciation for entrepreneurship in general was also regularly cited, for instance as a reason why the education system does not better prepare Nepali youth for becoming entrepreneurs.

### 4.1 Kathmandu – Finance

Throughout the literature, finance is regularly cited as a key challenge for young entrepreneurs. As indicated in the ecosystem mapping, some of the most prominent challenges relate to the high reliance on informal finance; inadequate implementation and enforcement of government programs, funds, and initiatives; ineffective systems, including poor awareness of opportunities; and cumbersome and onerous processes for obtaining loans from banks. These findings were largely reinforced throughout the field research by actors across the ecosystem. Through deeper analysis, the most pressing finance-related challenges in Kathmandu can be summarized by the following:

### Challenge 1 – Access to Finance (Services and Capital)

When asked what they felt were the biggest barriers for young entrepreneurs, nearly every respondent regardless of role in the ecosystem indicated some aspect of financial access. This affects not only early stages of entrepreneurship, such as starting their business endeavors, but also limits or even prevents a young entrepreneur's ability to scale up his or her operations. As also noted in the literature, collateral requirements by banks was regularly cited as the key limiting factor hindering youths' ability to access loans and financing.

Compounding on this is the fact that young entrepreneurs have minimal alternatives for financing options. Interviews validated the initial findings that borrowing from friends and family made up the primary source of financial capital for most. This presents certain advantages, since it requires no documents or lengthy processes, and often comes with low or no interest rates. However, the method is also often negatively influenced by the prevailing culture towards entrepreneurship, with at least one interviewee claiming that parents and family are often reluctant to provide funds for young entrepreneurs' business ideas because they don't believe in the economic prospects. It also most often only involves relatively small amounts of capital and is thus insufficient if business requirements are high or for scaling up operations.

While there are a myriad of factors contributing to poor financial access, several key root causes emerged during research. Chiefly is the aforementioned collateral requirements. Nepali youth rarely have adequate assets to meet the collateral requirements for sufficiently sized loans, as lending is based on the size and value of collateral provided. This stems from the fact that land and property are most often registered in the parents' name<sup>1</sup>, in addition to discriminatory inheritance practices. Although the recent 2015 Constitution declares men and women equal in their rights of

inheritance, in reality it is still sons who are most often the de-facto inheritors. In a similar vein, young women entrepreneurs face additional barriers as it was often cited in interviews that they receive less confidence from their families. This results in them being less likely to receive money or assets needed to take a loan or start a business because they are perceived as less capable of starting and running profitable businesses. This same bias is also present in banks, which were reported to be more hesitant to lend to women, even showing willingness to pay penalties for not meeting gender-based loaning requirements.

Another commonly cited factor was a lack of mutual trust between banks and young entrepreneurs. From the banks' side, youth are often seen as financial risks and not profitable to invest in because their businesses are often small and not expected to last. Meanwhile, among young entrepreneurs, banks are often viewed as strictly profit-oriented and only "for big businesses and [as] the last resort" for young borrowers.<sup>2</sup> Connected to this is the commonly cited issue of a lack of technical understanding of banking and loan processes.

This stems in large part from education, training, and support systems that seldom focus on imbibing technical financial knowledge and skills. This not only contributes to youth's hesitance to engage with banks, but also hinders them from working with alternative finance sources, such as venture capital, private equity funds, or angel investors. These concepts are also relatively new in Nepal and are thus far primarily concentrated in Kathmandu and in the IT sector which also contributes to the majority of young entrepreneurs being unaware of how to access these means. Despite this, the common consensus throughout the research emerged that youth have the capacity to learn these skills but are primarily missing the support systems to do so.

The use of cooperatives as an alternative financing option was also found to be strongly underutilized

1 The property is generally registered in the man's name (father or husband). If he passes away, the property rights are passed to the wife's name. If both die it get passed on to their son although after the 2015 constitution the rights should go to both sons and daughters, although this is not always reflected in practice.

2 Key informant interview 05 August 2022, Kathmandu finance pillar actor

due to a variety of factors. In general, interviews with young entrepreneurs and entrepreneur associations most commonly revealed higher costs, including service charges and interest rates, as one of the primary reasons why youth will avoid joining cooperatives. In addition to this is also a cultural perception held by many youth that cooperatives are from and for the older generations. As one actor reported, you prefer going to parents or friends for loans rather than cooperatives, as depositing the small amounts of savings does not seem to be an attractive option. Finally, trust also emerged as a contributing factor, although the related challenges varied between interviewees. On one hand, cooperatives were reported to be seen as well integrated into the communities themselves and are therefore seen as more trustworthy and sympathetic towards (young) entrepreneurs. On the other hand, they were also perceived as less established and formally run than banks. As a result, one actor suggests that young entrepreneurs are less willing to “risk” their money by joining a cooperative.<sup>3</sup>

From the cooperatives’ perspective, young entrepreneurs remain an untapped target group

with potential for strengthening cooperatives’ operations. At present, there is no youth-specific program or strategy being implemented by Nepali cooperatives. The National Cooperative Federation (NCF) of Nepal has, however, organized a youth forum with over 250 participants in 2022, although its participation was not limited to any particular age range. The event focused largely on policymaking and advocacy, including a pledge to establish a youth sub-committee in every institution within the NCF to increase the participation and presence in leadership among youth. On the policy level, cooperatives are not considered financial sector actors and their economic contributions are not included in the national GDP figures. Reversing this could bolster their role as an alternative financing source and a generally beneficial actor in the ecosystem.

Overall, the result of this constraint reinforces the reliance on informal financing means and sets financing as a primary barrier to scaling up and formalizing youth’s entrepreneurial activities.

► **Table 7: Summary of Challenge 1 - Finance Pillar**

Challenge	Root Causes	Impact	Interventions
Access to finance (services and capital)	<ul style="list-style-type: none"> <li>► Collateral requirements</li> <li>► Low mutual trust between banks and youth</li> <li>► Reliance/preference for informal finance methods</li> <li>► Lack of technical skills/awareness of alternative sources</li> <li>► Cooperatives perceived as too costly<sup>4</sup>, only for older generations (plus further mixed views on reliability).</li> </ul>	<ul style="list-style-type: none"> <li>► Continued reliance on informal (i.e., smaller scale) means, which also often do not offer equal opportunities to young men and women.</li> <li>► Insufficient finance as a primary inhibitor for starting and growing businesses</li> </ul>	Recommendations 1, 2, 3, 4 and 5

<sup>3</sup> Key informant interview 05 August 2022, Kathmandu ecosystem actor.

<sup>4</sup> Up until 2021 the interest rates on loan in cooperatives typically ranged between 14-16% while banks were 9-10%. More recently, banks have also started charging as high as 14% interest on loans.

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## Challenge 2 – Inadequate Financial Literacy among Youth

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Included in the ecosystem-wide lack of entrepreneurial skills and knowledge is the dearth of financial skills and know-how among young entrepreneurs. This was mentioned by actors across the ecosystem as a key inhibiting factor to using more formal means of finance. This constraint ranges from an inadequate knowledge and experience with requirements and processes for applying for loans, to a general lack of awareness of alternative sources. For instance, one senior bank official reported that many young entrepreneurs who visit his bank will want to know everything about their options and processes from scratch. While this reflects a strong interest in learning among youth, for the banks it represents additional time and work needed. Young entrepreneurs also often have minimal knowledge regarding the required documents and procedures, from balance sheets to business plans.<sup>5</sup> Consequently, in addition to hindering greater access to finance, this also often stands as a barrier to growth for enterprises in Kathmandu.

A number of root causes behind this challenge emerged throughout the research. The most commonly cited cause among the actors relates to Nepal's education system, which according to interviewees often overlooks teaching hard skills and knowledge related to financial literacy and business management in general. It was repeatedly found that there was a disconnect between what is being taught in university and school curricula and what skills are demanded in the labour market (discussed in more detail in section 4.2 on Human Capital). As one senior university official stated:

*“Our work is not to teach how to do a particular task. We can't teach students how to take out a loan or things like this. These things, they will learn on the job.”<sup>6</sup>*

However, many respondents lamented the lack of practical skills taught in education institutions. Compounding on this was the often cited lack of mentorship and support structures. This combination meant that entrepreneurs themselves often struggled to make use of available finance sources. This was echoed by banking actors, who identified financial literacy as the major barrier faced by youth.

Numerous institutions and actors have made efforts to address this constraint. Collaborations and unilateral efforts from banks, government bodies, and institutions like the Federation of Nepalese Chambers of Commerce and Industry (FNCCI) have produced courses, training programs, and knowledge products focused on enhancing financial literacy. While these efforts resulted in positive effects, more widespread changes were hindered by lack of reaching the targeted groups, i.e., young entrepreneurs.

The primary impact of this inadequate level of financial literacy is a stark under-utilization of banks and alternative financing sources. As a result, enterprises operated by youth will often remain small in scale.

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5 Key informant interview 04 August 2022, Kathmandu finance pillar actor.

6 Key informant interview 04 August 2022, Kathmandu ecosystem actor.

► **Table 8: Summary of Challenge 2 - Finance Pillar**

Challenge	Root Causes	Impact	Interventions
Financial literacy	<ul style="list-style-type: none"> <li>► Education system not teaching hard skills and practical knowledge (e.g., bank loan process)</li> <li>► Poor mentorship culture and insufficient support structures to teach skills</li> <li>► Existing trainings/ knowledge products not adequately reaching youth</li> </ul>	<ul style="list-style-type: none"> <li>► Education system not teaching hard skills and practical knowledge (e.g., bank loan process)</li> <li>► Poor mentorship culture and insufficient support structures to teach skills</li> <li>► Existing trainings/ knowledge products not adequately reaching youth</li> </ul>	Recommendations 3 and 4

### Challenge 3 – Low Awareness and Evaluation of the Effectiveness of Government Funding Programs

As indicated in the ecosystem mapping, the government has announced and introduced a number of programs and initiatives specifically targeting the country's young and women entrepreneurs (e.g., Youth and Self-Employment Fund, Women Entrepreneurship Development Fund). Indeed, many of these initiatives have been in operation for multiple years and include figures on their impact and beneficiaries. However, in interviews with actors from across the ecosystem it was found that despite their reported size, awareness of them remains limited, especially among youth.

For instance, research suggests that there is a severe dearth of practical information regarding the access and availability of such programs. As one ecosystem actor described the issue of uncertainty as:

“Who is exactly is the department that is issuing. Is it the department of finance or it's the department of industry? Is it the ministry that's issuing? Is it the local government that's issuing? I mean it's really confusing. It's just like it comes out in the newspaper with very limited information. And whenever someone tries to research about them, there's no official information anywhere. The only way to understand that is to actually go to those offices and sometimes even they are not helpful because the ground

*level employees of the entry level employees are actually not aware about them or do not want to talk about it.”<sup>7</sup>*

This sentiment was echoed across the research, with actors consistently suggesting there lacks any central or reliable source of official information. Official communications on specific instructions and eligibility, for example, are difficult to find, often requiring in-person visits to numerous institutions and often receiving contradictory responses. As one respondent framed it, when the government communicates its youth-targeted program, it rarely does it in the avenues where youth are most present. Broadly speaking, this refers to the digital space, such as maintaining a central and updated internet page for the programs, as well as awareness-raising activities on social media platforms.

Respondents indicated multiple potential causes behind this. Chief among them is the lack of centralized figure to communicate and operate the programs. No single or group of actors has taken charge to effectively communicate or disseminate news related to these funds or programs. One official interviewed also indicated an important lack of implementing capacity within the ministry where he worked, citing lack of investment in human resources. Another official from a different government body also suggested a lack of harmonization and coordination between different government agencies stemming from unequal standards between them.

7 Key informant interview 05 August 2022, Kathmandu ecosystem actor

As a result, many entrepreneurs are unaware of what government funds are available to them and how they might access them, or even how to find out this information, severely reducing the efficacy of these well-intentioned programs.

Additionally, little to know evaluation efforts are made for programs, such as analyzing how well the initiatives reached their target groups and how effective they were.

► **Table 9: Summary of Challenge 3 - Finance Pillar**

Challenge	Root Causes	Impact	Interventions
Low Awareness and Evaluation of the Effectiveness of Government Funding Programs	<ul style="list-style-type: none"> <li>► Poor coordination among government actors involved in implementation and evaluation of programs</li> <li>► No centralization or actor taking the lead to provide reliable/official information (i.e., no "one-stop-shop" for all information regarding the funds)</li> </ul>	<ul style="list-style-type: none"> <li>► Low awareness of youth- and women-focused funds</li> <li>► No changes in programs made to better reach TG or address challenges</li> <li>► Unclear processes and information regarding eligibility and processes means many youth will simply ignore the option</li> </ul>	Recommendations 1 and 2

### Kathmandu Finance Pillar Recommendations

#### 1. *Raise awareness of public finance funds and programs in youth-focused spaces*

With various programs targeting young and women entrepreneurs already in existence, interventions could leverage this by aiming to expand their reach. Facilitating linkages between government bodies responsible for such programs, such as the Ministry of Finance (MoF), Ministry of Industry, Commerce, and Supplies (MoICS), or the National Planning Commission (NPC), local government, National Youth Council and ecosystem actors representing the private sector and youth, such as the FNCCI and NYEF. The project could use the Youth and Self-Employment Fund (YSEF) as a starting point to pilot the intervention. This could also be expanded to include the Women Entrepreneurship Development Fund (WEDF). There needs to be a joint effort from the government together with the private sector, civil society and media.

Focus could be placed on creating relevant knowledge products (tutorials on where and how to access) about public funds and programs that target youth spaces, namely social

media platforms such as Facebook, Instagram, TikTok, and YouTube. This could also involve influencers and well-known local entrepreneurs. Podcasts are another potential avenue that was mentioned in interviews as something youth are particularly interested in. For instance, the FNCCI and NYEF have both already produced booklets on business registration. Efforts could seek to build on this by expanding the reach and products offered. A mechanism needs to be formed to disseminate information about long-term loans and provision of equity to youth entrepreneurs.

#### 2. *Improve the implementation of government entrepreneurship funds through monitoring and evaluation*

While field research revealed a lack of awareness as the most common challenge among young entrepreneurs, interviews with government actors also cited a lack of evaluation of these programs as cause for their suboptimal effectiveness. Similar to recommendation 1, the project could identify specific funds such as YSEF and operate accordingly. In addition, identification of problems faced by youth entrepreneurs should be the priority before forming any funds and programs that are focused on youth. There needs to be a discussion among



different stakeholders (government, financial, and educational institutes), about the problems that the youth entrepreneurs face.

To this end, the project could work with implementing and relevant government bodies, such as the Youth and Small Entrepreneurs Self Employment Fund Secretariat at the Ministry of Youth and Sports and the Central Bureau of Statistics to conduct an evaluation of the effectiveness of the program and a needs assessment of youth in Nepal. Further collaboration with FWEAN could ensure young women entrepreneur voices are represented, as well as FNCSI, NYEF, and CNIYEF. Because the fund operates at the local level, local government must also be involved in the evaluation.

### 3. *Enhance skill- and knowledge building capacities of Cooperatives and promote the involvement of youth*

Due to the deep rooted issues and negative perceptions of cooperatives by many youth, their perspectives as a potential provider of financial capital are limited by the scope of potential interventions. However, they can play a valuable role in enhancing financial literacy. This intervention could therefore take a bi-directional approach, where efforts are made to raise awareness of cooperatives as a feasible option for skills support among youth, while also working with cooperatives to strengthen the role of youth within and their capacities to develop skills.

One reason behind the current under-utilization of cooperative among youth are misconceptions and biases. This could be addressed through information campaigns and more youth-oriented events and dialogues, such as the one organized by the National Cooperative Federation (NCF) and with collaboration with youth organizations such as NYEF or the Association of Youth Organizations Nepal. As cooperatives are reported to be well integrated into their communities, the intervention could also leverage this to reach out directly to groups and individuals. Support could also be provided in the development of cooperative bylaws, such as the recently announced plan to create youth sub-committees. Additionally, work could be done with cooperatives to

provide initial trainings and skills that could then be reproduced to its members, including various business and financial skills.

### 4. *Facilitate linkages between education actors and banks and financial institutions (BFIs), and government*

The aim of such an intervention would be to connect the two types of actors so that youth and students could learn highly relevant skills from well qualified actors. This could include preparing youth not just to take loans but also how to pay back as well, since this was regularly cited as a source of bank's hesitations for working with them.

Such interventions could involve the Banker's Association, which already possesses the necessary expertise and pool of mentors, and local schools and colleges to develop joint trainings or skill development programs. To address the cultural barrier many youth have towards working with banks, interventions could involve local incubation centers and co-working spaces, such as Antarprerana, Utopia, Idea Studios, Agri-Business Incubation Program, King's Incubator, or Skill Lab to provide BFIs a forum to reach youth and present themselves as a viable option for finance. The project could additionally approach the Management Association of Nepal (MAN), which has a pool of management professionals including from banks, corporate houses, hotels, and international NGOs who can provide expertise related to business development services.

Two-way dialogues between policymakers and youth could also be facilitated to address gaps in knowledge regarding the taxation systems. For instance, collaborations between actors such as the Ministry of Finance or local tax offices and government and the Nepalese Young Entrepreneurs Forum (NYEF) to promote awareness on topics such as keeping accounts, invoices, and tax brackets.

Finally, to enhance knowledge on alternative financing sources, the intervention could link education institutions with the financial entities themselves, such as private equity firms or actors like Business Oxygen (BO2). This can help expose students and youth not just to the

specific financing options that may be available to them, but also help to raise awareness on the skills and information young entrepreneurs need to know to benefit from such access, including maintaining adequate levels of transparency in their finances.

#### 5. *Promote Advocacy Efforts between Youth and BFIs*

Findings suggest that there is also a need for banks to be more youth-friendly in order to generate more interactions between the two groups. This could be achieved through advocacy-focused activities, on one hand, such an intervention would create an avenue for youth voices to demonstrate the potential and value of their business. This would contribute to sensitizing banks to make them more youth-friendly while also allowing them to demonstrate themselves as viable financing options and not only as an option for big businesses. Such activities would help to address the constraint of low mutual trust between banks and young entrepreneurs. Actors that could play a role in this intervention could include NYEF, FNCCI, the Ministry of Finance, Confederation of Nepalese Industries (CNI), CNIYEF, FNCSI and the Bankers Association. Additional activities could work with the youth organizations such as NYEF to build their capacities in advocacy and engaging in dialogues with ecosystem actors (i.e., banks).

### 4.1 Kathmandu – Human Capital

Kathmandu's ecosystem actors and entrepreneurs confirmed many of the human capital pillar constraints identified during the mapping exercise. The research revealed that for hiring labour, beyond personal networks, many young entrepreneurs utilize online resources. This includes Facebook, where the 'Group' function is used to

post vacancies and find applicants, as well as job platforms such as LinkedIn and MeroJobs, a Nepal-based company. However, youth enterprises were found to be strongly hindered by a struggle to find and retain highly qualified labour. More precisely, the core constraints and their root causes were found to be as follows:

#### **Challenge 1 – Lack of Adequately Skilled Labour within an Affordable Salary Scale**

One of the most commonly cited challenges faced by young entrepreneurs was the difficulties in finding the right labour for their businesses. Several respondents noted that the issue was not the quantity of labour but the quality. Just as noted in the finance pillar analysis, the education system often does not equip youth with the right knowledge and skills, not just for starting a business but also for working on the side of employees.

On the employee side, it is a lack of hard- and market relevant skills, such as computer competencies, caused by limited exposure to work environments and lack of knowledge of basic requirements. This stems largely from poor linkages between the labour market and academic institutions, with minimal efforts made to research and connect the current market demands for jobs and skills with the curricula provided. There is also a complete lack of training centers focused on providing market relevant skills training, instead offering training for skills commonly needed by labour migrants. From the university system, one respondent placed responsibility for the difficulties finding qualified labour on companies for not being clear enough with the desired profile of potential workers. Meanwhile, private sector actors would commonly say they would receive applications from university or MBA level graduates who were still lacking basic business skills such as Excel.

► **Table 10: Summary of Challenge 1 - Human Capital Pillar**

Constraints	Root Causes	Impact	Interventions
Lack of adequately skilled labour	<ul style="list-style-type: none"> <li>► Education system focused on certain job placements and not on understanding specific skills in demand (i.e., students get very limited practical exposure)</li> <li>► Poor linkages between academic and private institutions</li> </ul>	<ul style="list-style-type: none"> <li>► Youth businesses must spend significant resources searching (time and money) for adequately qualified labour</li> <li>► Youth compromise and hire labour at higher salary which adds financial vulnerability to the entrepreneur.</li> </ul>	Recommendation 2

### **Challenge 2 – Lack of HR Management Skills among Young Entrepreneurs**

In a similar vein, the research suggests that young entrepreneurs are also lacking valuable skills to find, retain, and develop their workers. Most notable is the inadequate level of business management skills, which includes hard skills like digital marketing and devising business plans, as well as soft skills including leadership and management abilities, communication, and a general “entrepreneurial mindset”. The latter was described by actors across the ecosystem as a willingness to take risks and the ability to see failure as an inevitable and not something to fear. In general, this lack of HR capacities was linked to a variety of challenges in the human capital pillar. As a result, young entrepreneurs struggle when managing

teams above 5-10 people and providing incentives to attract and retain high quality workers.

Root causes were found to be similar to the lack of highly skilled labour causes, namely the disconnect between the education system and the market. Additionally, a lack of mentorship within the ecosystem was also consistently named as a key cause. Field research confirmed mapping findings that this stems largely from a lack of highly qualified mentors. There is also a hesitancy for well qualified entrepreneurs to take on mentorship roles due to the level of time commitment with little to no compensation received. Additionally, the concept on mentorship itself was found to be highly nascent with limited understanding of what it means in practice to be a mentor.

► **Table 11: Summary of Challenge 2 - Human Capital Pillar**

Constraints	Root Causes	Impact	Interventions
Lack of HR Management Skills among Young Entrepreneurs	<ul style="list-style-type: none"> <li>► Lack of mentorship culture (still emerging concept in Nepal, unclear what it entails, costly/time consuming for would-be mentors)</li> <li>► Education system not teaching entrepreneurial skills (hard and soft)</li> </ul>	<ul style="list-style-type: none"> <li>► Young entrepreneurs lack leadership and management skills that help to attract, retain, and develop high quality workers.</li> </ul>	Recommendation 3

### Challenge 3 – High Employee Turnover

When enterprises manage to find sufficiently skilled human capital, the next challenge is its retention. Interviews with entrepreneurs themselves as well as job seeking platforms revealed a variety of causes. Mismatched expectations between employer and employee are a significant cause for engaging and retaining human capital. Chief among these is pay, where employees expect a higher amount than what an employer is willing or able to offer. This stems in part to misconceptions of the reality of life in a SME or start up, where they may often be expected to operate similarly to the large and international companies in terms of compensation, career advancement, and work environment. Nepali jobs are also commonly compared to similar positions abroad, where workers can receive significantly higher salaries for similar jobs.

Another significant finding that emerged through the research was the insufficient application of labour laws and Decent Work principles. In multiple cases throughout, interviewees directly mentioned the Decent Work agenda by name and the absence of its principles, such as social security, adequate earnings, and decent working time. Other times, respondents characterized the problem as the non-application of Nepal's existing labour laws. The biggest cause behind this was suggested to be unawareness of employers' legal requirements to employees as it pertains to topics like minimum wage, time off, bonuses, and more, together with poor enforcement by the government.

Beyond lack of awareness, adhering to labour laws poses a high financial liability for the entrepreneur, especially for the abundance of businesses in the informal sector. In other words, many entrepreneurs do not prioritize providing decent working conditions, as they are unaware of the benefits such an environment could provide or they are simply prioritizing their resources to keeping the business running. This creates an unattractive working environment which results in workers often leaving to new opportunities anytime they are available.

These constraints were noted to be particularly prevalent among youth-led enterprises. Causes for this included their relatively lower levels of experience and exposure to leadership and managing a business and the fact that their operations are often smaller with less resources available for increased salaries and other forms of benefits or compensation.

The culture and attitude towards start-ups, which are strongly associated with entrepreneurship in Nepal, is another factor that discourages workers from staying in youth-run enterprises. In general, entrepreneurship is seen as unstable and unreliable. When workers realize compensation rates are lower than they expected, and there is not the same type of clear path for progression in their careers, they will often switch to more "conventional" jobs, sometimes following pressure from friends and family.

► Table 12: Summary of Challenge 3 - Human Capital Pillar

Constraints	Root Causes	Impact	Interventions
High employee turnover	<ul style="list-style-type: none"> <li>► Mismatched expectations between employer/employee regarding pay, work culture</li> <li>► Poor application of labour laws due to unawareness, informality, the associated costs, and poor understanding of the benefits.</li> <li>► Entrepreneurship/start-ups seen as unreliable and unsafe</li> </ul>	<ul style="list-style-type: none"> <li>► Young entrepreneurs bear the loss of investing in human resource with adds further financial liabilities.</li> <li>► Young entrepreneurs spend resources training workers, who they then fear will quickly move to new opportunities</li> </ul>	Recommendations 1 and 3

#### Challenge 4 – Large and Growing Rate of Youth Moving Abroad for Work and Studies

In the overall economic context of Nepal, migrant workers make valuable contributions to the national economy, including significant remittance flows which fuel the growing levels of disposable incomes and provide new opportunities for families in the country. However, in the specific context of Nepal and Kathmandu’s entrepreneurship ecosystems, the considerable loss of highly qualified youth<sup>8</sup> who leave to study or work abroad was consistently noted as a major challenge for developing the ecosystem domestically. Indeed, throughout the field research, every respondent made at least one reference to labour migration as a challenge for the strengthening of the entrepreneurship ecosystem.

This is felt particularly strongly among young entrepreneurs for a variety of reasons. In contrast to older entrepreneurs who generally have larger and more established businesses, youth have less funds available to attract and retain workers who might otherwise leave. Youth also have smaller professional networks and less access to capital

for engaging headhunters, thereby facing greater difficulty finding adequate workers from a reduced labour pool. Additionally, the research suggested that some workers will be more likely to regard youth-led enterprises as a “training ground” where they can leave after only a few months. This contrasts large or more established organizations where corporate rules and regulations are set and enforced to address such challenges.

Among the multitude of reasons given, the ones most common and relevant for the entrepreneurship ecosystem are the low salaries in youth enterprises when compared to foreign opportunities and a pervasive culture that places emphasis and prestige on going abroad to work or study. Many workers are also reportedly skeptical of working in youth-run enterprises, often concerned that the business could abruptly fail. This results in a smaller pool of skilled and ambitious workers for Kathmandu firms to engage, as well as difficulties in retaining highly qualified staff who may leave for better opportunities abroad at any time.

► Table 13: Summary of Challenge 4 - Human Capital Pillar

Constraints	Root Causes	Impact	Interventions
Large and growing rate of youth moving abroad for work and studies	<ul style="list-style-type: none"> <li>► Low/uncompetitive salaries in Nepal compared to similar opportunities abroad</li> <li>► Strong culture placing emphasis and prestige on going abroad (or having children go abroad) to study or work</li> <li>► Insecurity of working in local youth businesses, and lack of clear career progression/prospects</li> <li>► Distrust between employers/employees</li> </ul>	<ul style="list-style-type: none"> <li>► Lack of high qualified workers/entrepreneurs in the ecosystem</li> <li>► Difficulties in employee retention</li> </ul>	Recommendations 1, 2 and 3

8 Women leave at much smaller rates for foreign employment than men

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## Kathmandu Human Capital Pillar Recommendations

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### 1. Initiative to raise awareness of national labour laws and Decent Work principles

A positive work culture, where values like empathy are emphasized in addition to more tangible factors such as regular working hours and time off can help to retain qualified workers. This can also include focus on inclusivity, making work environments more welcoming to women.

Considering the Ministry of Labour, Employment and Social Security (MOLESS) strives for good labour relations and social justice, the project could collaborate to help fulfil this mission. This could be done through activities that include sensitizing workshops for young entrepreneurs and MSMEs on labour laws and the incentives and benefits of their application, or developing knowledge products on labour law and Decent Work principles.

The FNCCI is another actor that could help MOLESS carry out its vision thanks to its network and connections with young entrepreneurs and its existing expertise and capacity to produce knowledge products or workshops. For instance, members of the FNCCI adhere to a Code of Conduct, which in its current state provides generalized information. The project could help adapt this to include a clause or section on Decent Work to popularize the concept. The project can also emphasize on the importance of Human Resource policies and practices. Other products or initiatives developed with showcase industries or enterprises that follow labour law and Decent Work principles and the positive impacts of this on their businesses. Additional actors could include NYEF, the Federation of Woman Entrepreneurs' Associations of Nepal (FWEAN), the Confederation of Nepalese Industries (CNI), the Joint Trade Union Co-ordination Centre, or the Responsible Business Initiatives (RBI), as each of these maintain close ties with both entrepreneurs and government bodies.

### 2. Promote linkages between the private sector and academic institutions

Field research consistently demonstrated a need for a common platform or forum where these two sectors could come together for regular dialogue. The project could therefore work with universities and colleges or other academic institutions, such as the Higher Institutions and Secondary Schools' Association Nepal (HISSAN), Nepal Public Campus Association, to support their capacity to host symposiums annually or bi-annually. To link this with private sector actors and demands, the project could recruit the support of FNCCI, CNI, NYEF, the Confederation of Nepalese Industries Young Entrepreneurs' Forum (CNIYEF). Such actors could identify business owners from a variety of industries to present their entrepreneurial journeys and discuss the profiles and skills sought after in the market.

Such linkages and events would serve as an opportunity to present role models for young entrepreneurs and boost their moral and willingness to talk with actors throughout the ecosystem. They would also spread awareness on recent trends and developments in Nepal's economy, including bringing market information related to human resource demands.

### 3. Strengthen capacity of incubator and training organizations to develop mentors within the ecosystem

Incubator organizations is a relatively new concept for Nepal, and as a result Kathmandu only has a limited number which are often not fully functional. One potential intervention to address this could be through popularizing the concept among government entities. Visits or exchanges with foreign incubation centers, for instance in India could help demonstrate how incubators are run and their impact on the ecosystem. Nepal's MoIC could collaborate with India's Ministry of Commerce and Industry, for example with the organization of exchange visits made up of delegations of private sector actors and education institutions with interested in developing incubation centers.

Working with the existing incubators, such as Anterprerana, Utopia, Entrepreneurs for Nepal, King's College, or Idea studio, the intervention could also foster the mentorship culture through activities such as developing guidelines for mentorship and providing incentives for highly qualified individuals to take on such roles. This could be achieved by establishing a mentor community or network that connects mentors with each other, as well as an avenue to provide training to mentors as well. Such a forum could also be used to connect mentors with mentees to ease and popularize the concept. By also ensuring the inclusion of women mentors, this would provide role models and challenge persisting stereotypes towards women within the ecosystem. Overall, this intervention would help to develop entrepreneurs' skills, including in business and HR management capacities, and thereby improve the attractiveness of Nepal-based enterprises.

### 4.3 Pokhara – Markets

Pokhara's market sector is heavily characterized by the tourism sector. As Nepal's second most popular destination and a major attraction point for foreign and domestic visitors, the local entrepreneurship ecosystem is inextricably linked with tourist activities. This will be further cemented in 2023 with the expected opening of Pokhara International Airport. While tourism has played an important role in contributing to Pokhara's economic growth, the COVID-19 pandemic had a significant impact on local businesses, and the local economy faces an oversaturation of identical businesses and lacks innovation. Apart from tourism, Pokhara's economy includes businesses focused on fast-moving consumer goods, retail clothing, and IT, namely software development and the outsourcing of freelancers. The following were identified as the core constraints for the city's markets:

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#### Challenge 1 – Lack of Market Information and Data

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Interviews and discussions with local entrepreneurs and ecosystem actors revealed that young entrepreneurs in Pokhara have little to no access to market information such as trends and demand. Moreover, many young business owners,

especially young women, are unaware of the value of obtaining and utilizing such data or are simply uninterested. In an economy dominated by the tourism sector, where there are significant overlap hotels, transport providers, and recreational activities, insights such as trending hotel packages and activity types could have positive impacts across the market.

Pokhara draws tourists from all over the world, with patterns emerging based on nationality how tourists primarily get their information for activities and hotels in Pokhara. Typical mediums to reach clients as revealed by the study include personal contacts, email, digital marketing, WhatsApp and social media, and participating in product exhibitions. However, such outreach is done chiefly based on the entrepreneurs' capacity and willingness as opposed to evidence-based market research.

The issue is further exacerbated by the fact that there are minimal actors currently operating that can specialize in the collection and dissemination of such information. One cause of this is a lack of general entrepreneurial skills needed to collect and utilize market data. As in Kathmandu's human capital pillar, this was regularly attributed to the education system not equipping youth with skills suited for business or entrepreneurship. Furthermore, several respondents explained this is due to the fact that there is no demand for market information strong enough to incentivize market actors to fill this role. This low to non-existent demand owes to the fact that many youth are unaware of marketing benefits and because they prefer to allocate their resources to other aspects of their businesses. Another reoccurring finding was the fact that many young entrepreneurs are content with the current state of their business and don't see an urgency or reason to expand. This owes in part to the fact that many young entrepreneurs are engaged in family businesses which are well established and can provide for all their needs (see section 4.4 on culture in Pokhara).

As a result of the insufficient supply and demand of market information, Pokhara's market is full of copycat businesses. In these case, young entrepreneurs copy business models seen in Kathmandu without taking into consideration the local context and trends. Cafes and coffee shops are the most

prevalent of these copycat businesses, with minimal or no effort made to differentiate them or to consider demand (or lack thereof), followed by restaurants and handicrafts. Another example cited in an interview was an attempt to start an online delivery service that had shown considerable success in Kathmandu. However, it ultimately failed because in contrast to Kathmandu, customers in Pokhara typically have more time, face less traffic,

and therefore preferred going to the stores themselves where they could choose and collect their goods in person. These businesses therefore often either stay small or fail regularly. They also negatively impact the overall market, as the large quantity of identical businesses means their revenues and shares of the market will shrink while costs remain the same.

► Table 14: Summary of Challenge 1 - Market Pillar

Constraints	Root Causes	Impact	Interventions
Lack of market information and data	<ul style="list-style-type: none"> <li>► Youth unaware of value/benefits of using informed market data due to lack of entrepreneurial skills and mindset</li> <li>► Lack of actors able/willing to provide market data because of low demand and skills</li> </ul>	<ul style="list-style-type: none"> <li>► Proliferation of copy-cat businesses</li> <li>► Youth businesses stay small and fail often</li> </ul>	Recommendation 1 and 2

**Challenge 2 – Overemphasis on “surface level” tourism sector activities**

Linked to constraint 1 is the fact that the overall economy is heavily (or over-) reliant on the “surface level activities” of the tourism sector. “Surface level” here refers to the most visible and prolific businesses of the value chain, namely hotels, restaurants, and tourist agencies. This further contributes to the oversaturation of copycat businesses. For example, Pokhara’s Phewa lakeside is dominated by hotels, many of which are small and operated out of the owner’s private homes. Similarly, across the city streets are lined with

cafes, restaurants, and souvenir shops all offering identical products and services.

As with the first constraint, this is due in part to the lack of market and entrepreneurial knowledge needed to expand or shift business models to alternate activities. Since the tourism sector is seen as the heart of all economic activity in Pokhara, many young entrepreneurs mistakenly see it as an opportunity for guaranteed business. This results in an economy vulnerable to travel shocks, such as with the COVID-19 pandemic, and less attention and resources given to developing other sectors or economic activities.

► Table 15: Summary of Challenge 2 - Market Pillar

Constraints	Root Causes	Impact	Interventions
Overemphasis on “surface level” tourism sector activities	<ul style="list-style-type: none"> <li>► Lack of entrepreneurial mindset/ knowledge needed to expand markets or explore new business models</li> <li>► Tourism is regarded as the heart of all Pokhara economic activity</li> <li>► Culture of sticking to what’s “comfortable” or familiar</li> </ul>	<ul style="list-style-type: none"> <li>► Proliferation of copy-cat businesses</li> <li>► Hesitation towards innovation/change</li> <li>► High quantity of low-quality businesses</li> </ul>	Recommendation 3 and 5



### Challenge 3 – Underutilization of marketing techniques

Field research suggests that few businesses in Pokhara have the capacity to scale up their operations and increase their share of the market, whether domestic or international. As described above, businesses in Pokhara that do not fail will often remain small in size. This is caused by a variety of factors, most of which are comparable to the challenges faced by youth in Kathmandu.

One reason is a lack of financial means and the means to obtain it. Like in Kathmandu, most young entrepreneurs depend on savings or money from families, with alternative sources used to an even lesser extent than in the capital. Pokhara's young entrepreneurs are mainly given money by their fathers (who will also often prioritize sons over daughters when awarding money). In most cases, this is in the form of a gift rather than a loan, where there is no expectation to pay back. Similar to Kathmandu, youth are also reported to be lacking in the necessary entrepreneurial skills and mindset to grow business operations, which is also caused by a lack of business-focused education and mentors and training opportunities, as well as the relaxed attitudes towards business observed in Pokhara.

However, more unique to Pokhara's ecosystem is an underutilization of marketing. Few enterprises dedicate the time and resources to marketing their products or services to the public. This was heard in discussions with ecosystem actors, but can also

be observed throughout the city, for instance with advertising space left empty or outdated at bus stops or businesses signs left fading and illegible.

Likewise, it was also reported that local businesses underutilize the digital space for marketing purposes, although this trend is changing for the better. Especially as the COVID-19 pandemic forced many entrepreneurs to transition to more online activities, awareness of the potential to expand market reach in the digital sphere is growing. As one young entrepreneur noted:

*"I'll pay 10 lakhs for a front-page advertisement; I'll get three calls. However, if I take Facebook, if I spend Rs. 5000 while using social media, I can generate thousands of inquiries. Pokhara is ready but it might take some time to be involved in [digital marketing]."*

Nevertheless, utilization of digital means remains limited. Likely causes of this include lack of business skills and awareness of the value of advertising as an investment. One young entrepreneur also described his difficulties in finding reliable and well-trained workers for digital marketing. The lack of market information identified in constraint 1 may also play a role, as young entrepreneurs are unaware of what services or products to advertise and where or to whom. Finally, there is a lack of local actors capable of addressing the issue, with minimal local companies offering services related to marketing, advertising, or relevant training.

► **Table 16: Summary of Challenge 3 - Market Pillar**

Constraints	Root Causes	Impact	Interventions
Underutilization of marketing techniques	<ul style="list-style-type: none"> <li>► Poor access to finance, with fewer options and reliance on informal means which heavily favors sons/men.</li> <li>► Lack of business skills/entrepreneurial mindset/awareness of opportunities from disconnected education system and lack of support structures (as well as demand for them).</li> <li>► Reliance on imports creates occasional difficulties accessing inputs</li> </ul>	<ul style="list-style-type: none"> <li>► Businesses will stay small, often with just family members and a few employees.</li> <li>► Difficulties meeting large orders/demands, especially in foreign markets</li> </ul>	Recommendations 1, 2, 5

### Challenge 4 - Dependency on imports

Difficulties with inputs is another challenge more unique to Pokhara's market. As discussed in the ecosystem mapping, Nepal's economy is highly dependent on imported goods. This applies to everything from household goods to inputs for most products. A widescale closure of industries over the past decades has been a key contributor to this dependency. These closed due to a variety of factors, including the civil war, internal disputes, problems with trade unions, and bankruptcy. Moreover, imported products are often preferred because of negative perceptions of Nepali products, for example that they are of low quality and not adhere to safety standards.

In Pokhara, interviews with local entrepreneurs revealed access to reliable sources of inputs constituted a barrier to scaling up business size. Instead,

materials often cannot be found in bulk, or arrive behind schedule or in poor quality. As a result, certain enterprises face difficulties fulfilling larger orders. With inputs also arriving in varying quality and condition, clients of the enterprises will sometimes reject the products, forcing the businesses to discard them or offer them at discounted prices. This is particularly relevant to orders for international buyers with specific requirements for quality and order periods.

Many enterprises are also importing basic goods which could be produced locally, such as cheeses, spices, toiletries, and small textiles or furniture. One cause of this is the association of Pokhara with tourism preventing many entrepreneurs thinking beyond the visible and "surface-level" value chain activities of the tourism sector, such as hotels and restaurants.

► **Table 17: Summary of Challenge 4 - Market Pillar**

Constraints	Root Causes	Impact	Interventions
Dependency on imports	<ul style="list-style-type: none"> <li>► Nepal's overall trade deficit</li> <li>► Unawareness and under-developed state of local producers and value chains</li> </ul>	<ul style="list-style-type: none"> <li>► Some businesses face unreliable supply of inputs, affecting their ability to meet orders.</li> <li>► Different value chains/ levels of the tourism sector are neglected</li> </ul>	Recommendation 4

### Pokhara Market Pillar Recommendations

1. *Demonstrate the value of market information and strengthen the capacity of local actors to conduct market research*

In interviews with entrepreneurs, most gave the impression of simply never having considered using market information or data, nor were they aware of the importance of it for business formation and growth. An intervention could therefore be devised to demonstrate the value of market information and how it can be used to develop Pokhara's market. Agencies like the Pokhara Chamber of Commerce and Industry (PCCI), NYEF, Pokhara Tourism Council (PTC), and the Nepal Tourism Board (NTB) could

fill the role of gathering local young entrepreneurs and hosting events or trainings with this focus. These actors could also be potentially involved with the collection and dissemination of market information themselves, with findings distributed across digital and physical media.

2. *Strengthen the marketing skills of young entrepreneurs*

To complement recommendation 1 and the underutilization of marketing techniques, an additional intervention can be proposed to strengthen the marketing skills of young entrepreneurs. Although there is a scarcity of local actors currently operating in Pokhara that could fill this role, in December 2021 a new initiative was launched to form the Nepalese

Marketing Association (NMA). While they have not yet implemented such trainings to enhance marketing skills, they do have both the capacity and incentive to do so. The project could therefore assist to develop a pilot training program with NMA and facilitate cooperation with both PCCI and NYEF to raise awareness and provide young entrepreneurs to take part in the training.

### 3. *Support the development of different levels of the tourism value chain to strengthen businesses providing local inputs*

Activities within this intervention could focus on developing different and neglected stages of the tourism value chain, such as providers of locally produced furniture, fruits and vegetables, toiletries, or utensils to hotels, cafes, and restaurants. Due to the broad scope of activities and businesses included in the tourism sector, this would produce positive spill-over effects across Pokhara's economy. The intervention could also focus on expanding businesses and entrepreneurial activities beyond the Phewa lakeside to Pokhara's two additional and as-of-yet still economically underexplored lakes, Begnas and Rupa. A more thorough tourism industry mapping could also be conducted to determine the current tourism related businesses and their operational requirements and suppliers. This could help to identify entry points for further value chain development interventions.

To achieve this, local producers and distributors must be helped to better understand the local demand for products used in various stages of the tourism value chain, for instance the type and quantity of products such as soaps in hotels, or boating excursions that could take place in Pokhara's other two lakes. The project could therefore assist organizations including as NYEF, U30, PTC, NTB, the Trekking Agencies Associations of Nepal, or Nepal Association of Tour and Travel Agents, in collecting and disseminating this type of information to the local producers and distributors.

### 4. *Foster international trade and markets*

Pokhara's tourist, which come from all types of countries and backgrounds, can be leveraged

by local businesses to showcase and promote their local products and services to reach more international markets. Potential for this will grow further once the city's international airport opens (expected 2023), especially as the areas around the airport are yet to be developed and utilized for commercial purposes. Fairs and exhibitions of local businesses and goods can be organized with support from the local government and associations related to handicrafts, yarn, carpet, tea, metal and leather works, herbs and spices. To project can collaborate with the Export Council of Nepal and PCCI to bring together local businesses and liaise with NYEF to help manage the platforms or events to showcase local and Nepali products to (international) tourists.

### 5. *Enhance scope and capacities of business incubators*

Pokhara's support structures are extremely limited in number and generally in the nascent stages of development and use within the ecosystem. Often times, many of the existing organizations lack the capacity to adequately support young entrepreneurs. This intervention could therefore focus on supporting incubators or entrepreneurial-focused groups already active in the ecosystem to enhance their capacities in helping their constituents and members.

The project could therefore collaborate with PCCI and NYEF strengthen their capacities to support and promote local incubators, such as Urja Lab and U30 Entrepreneurs Club. Pokhara University, as well as other business schools such as LA Grandee International College, could also be potential partners, as each have incentives to develop the business environment in Pokhara, such as by creating or hosting business incubation centers. The project could assist in their development by facilitating linkages between these institutions and organizations from Kathmandu with experience and expertise in business incubation (for instance, Antarprerana, Nepal Communitere/ Impact Hub, Utopia, or King's College).

## 4.4 Pokhara – Culture

Entrepreneurial culture in Pokhara creates a variety of challenges that hinder the ecosystem's inclusivity and growth. Field research typically confirmed findings from the mapping, particularly in regards to the role and opportunities for women as entrepreneurs and workers. Findings also revealed particular mindsets held by many in Pokhara that contrasts the entrepreneurial attitudes in Kathmandu and can be linked to the tendency of businesses to stay small.

### Challenge 1 – Women's Limited Opportunities and Access to the Ecosystem

While Nepal has made important improvements towards gender parity in the last 15 years, women still face unique biases and disadvantages compared to their male counterparts. Indeed, young women are largely economically dependent on first their brothers and fathers before marriage, then husband, father-in-law, and sons after. Field research confirmed this is still a highly prevalent constraint in Pokhara. Women have considerably restricted access to opportunities in most pillars of the ecosystem. When it comes to joining the workforce, (young) women's professional fate is largely decided by their husbands and in-laws. This includes not only whether they may work or not, but also in which sector or job. Women will typically not begin working before marriage either, instead only studying<sup>9</sup> until their (mostly arranged) marriages in their early or mid-20s. Because their work paths are most often decided by their husband or in-laws, women are commonly confined to particular sectors or to working in their husband's enterprise, regardless of personal interest. This results in a low number of women entrepreneurs in the ecosystem who are starting or running their own businesses independently.

Young women who wish to start their own enterprises also face significant barriers. For instance, with access to finance, some respondents

indicated that sons will still take precedence when it comes to receiving funds or land from their families. For women already active in enterprises, their upwards potential is also hindered by their lack of presence in business networks and trainings. This stems largely from the fact that most are working in their husband's company, which means when opportunities for training or networking are available, it is the husband who attends. Interviews suggest this is largely accepted by both sides, as women entrepreneurs often lack a sense of ownership and regard the business as solely their husbands'. This is further exacerbated externally as clients and vendors will also often regard the women as just the wife and not a co-owner/full owner of the business. As a result, their growth and skill development are limited.

It is important to note that several interviewees also mentioned that these attitudes are gradually shifting, with the younger generations placing more importance on the equal treatment of sons and daughters. Additionally, findings also revealed many women are content with the flexibility and comfort provided by working in family businesses, which allows them ample time to carry out child-care and household duties, which they are still expected to complete. Respondents cited better work-life balance that was afforded by working in a family business. It is also preferred because it means having a trusted family member in the business and is a way of keeping money inside the home by not needing to pay unrelated employees.

Additionally, interviews revealed that women are often perceived as more reliable and stable than men. If a woman is married with children, she is seen as much less likely to go abroad or jump between jobs. Indeed, many entrepreneurs interviewed stated they prefer women in their 30s as employees. In the tourism sector as well, women were said to be preferred in front desk positions because they are regarded as more pleasant and warm.

<sup>9</sup> A young woman's study path is also often decided by her father or male family members.

► **Table 18: Summary of Challenge 1 - Culture Pillar**

Constraints	Root Causes	Impact	Interventions
Women's limited access to opportunities and the ecosystem	<ul style="list-style-type: none"> <li>► Patriarchal culture, in which women and girls' professional prospects depend on their husbands/in-laws/male family members.</li> <li>► Increased difficulties access finance because sons will often get priority in land/money from family.</li> <li>► (Family) Businesses are regarded as the husbands', who in turn will be primary beneficiaries of capacity building programs.</li> <li>► Many women prefer working in the family business because of the security/stability/childcare and household duties.</li> </ul>	<ul style="list-style-type: none"> <li>► Very low number of women entrepreneurs</li> <li>► Women lack a sense of ownership, regardless of how large their role is</li> <li>► Women rarely attend trainings/development opportunities</li> </ul>	Recommendations 1 and 2

### **Challenge 2 – Youth are Strongly Risk-Averse**

The lack of entrepreneurial attitude regularly emerged as a key constraint for Pokhara's ecosystem. Among the different elements of this mindset, most referenced was the lack of appetite for taking risks. This contributes to the constraints identified in different ecosystem pillars, such as the abundance of copy-cat business models in the market. Rather than try new or innovative ideas, youth will most often follow ideas seen in Pokhara or Kathmandu. It can also be associated with the tendency for enterprises to remain small. Young women were found to have lower levels of confidence and avoid taking risks out of an elevated fear of failure because of the culture that already views them as less capable in business. This is made worse by their lower marketing, business, and finance skills compared to those of their male counterparts.<sup>10</sup>

A general lack of entrepreneurial culture was found to be another root cause. While this was also observed in Kathmandu, Pokhara appears to be even more adversely affected. In general, the city has significantly fewer actors working to promote entrepreneurship and its corresponding culture. This is exacerbated by the education system, which was regularly referenced as not providing students with the right skills for business and not regarding entrepreneurship as a legitimate career option. Finally, this is also rooted in the reliance on informal financing, namely borrowing or receiving money from family. In many cases, families will be hesitant to give money to ideas they deem as less secure, forcing entrepreneurs to either adopt "safe" business ideas (i.e., copy-cat models) or pursue a different career path altogether.

<sup>10</sup> Focus Group Discussion with women entrepreneurs in Pokhara

► Table 19: Summary of Challenge 2 - Culture Pillar

Constraints	Root Causes	Impact	Interventions
Youth strongly risk-averse	<ul style="list-style-type: none"> <li>► Since youth largely depend on family money, they are less willing to take risks with it.</li> <li>► Women fear failure because of culture which already regards them as less capable in business, contributing to lower levels of confidence.</li> <li>► General lack of entrepreneurial culture (from education system that does not consider entrepreneurship as viable career choice, and close-knit non-competitive atmosphere in Pokhara).</li> </ul>	<ul style="list-style-type: none"> <li>► Reliance on “safe” business models (i.e., copy-cat businesses), which often don’t consider local context.</li> <li>► Youth businesses stay small and fail often.</li> <li>► Entrepreneurship and innovation less attractive than “conventional” job routes.</li> </ul>	Recommendations 2 and 3

**Challenge 3 – Pervasive Contentment**

While not identified in the mapping, field research quickly revealed an attitude of overall satisfaction and contentment that was referenced by a significant number of actors interviewed. This typically applied to general outlooks towards life and professional circumstances.

“...the lifestyle is different here. It is not competitive, and people are not running after money all the time. They are happy with whatever they have.”<sup>11</sup>

When examining why businesses are not growing to expand market size or reach, a common answer from both entrepreneurs and market actors was that the status quo provided adequate comfort and means. Growing business size and scope was often considered not worth the trade off in the associated responsibilities and stresses.

Pokhara’s small and close-knit nature also plays a role, as respondents noted how everyone knows everyone which results in a distinguished lack of competitiveness. Combined with the culture of risk-aversion, this combination contributes to the businesses staying small and other potential market actors, such as those who could provide trainings or market information, struggling to find a demand for such products and services.

“People in Pokhara have a mindset where everything is settled. If you look at people in Kathmandu and Pokhara, people in Kathmandu want to do more and more while people in Pokhara are just good with what they have. They have a different mindset as the environment plays a vital role in it. People of Pokhara have their own pace and are relaxed about their work. There aren’t many entrepreneurs in Pokhara who are with a spirit to start something”<sup>12</sup>

11 Key informant interview 09 August 2022, Pokhara ecosystem actor

12 Key informant interview 08 August 2022, Pokhara ecosystem actor

► **Table 20: Summary of Challenge 3 - Culture Pillar**

Constraints	Root Causes	Impact	Interventions
Pervasive contentment	<ul style="list-style-type: none"> <li>► Environment and culture mean Pokhara moves at a slower and more relaxed pace.</li> <li>► Youth (and the population in general) are content with what they have and possess little drive to grow or expand their businesses (don't see it as worth the trade-offs in increased stress and responsibilities)</li> </ul>	<ul style="list-style-type: none"> <li>► Minimal competitive or "hustle" mindset.</li> <li>► Small demand (and thus supply) of business support services (e.g., trainings, market information collectors/providers).</li> </ul>	Recommendations 1, 2, and 3

### **Pokhara Culture Pillar Recommendations**

Since the culture pillar influences and is influenced by all other pillars, the recommendations for Pokhara's market pillar would also indirectly address the constraints identified above in addition to the more explicitly culture-focused intervention proposals below:

#### 1. *Promote women entrepreneurs and their representation in networks and trainings*

This intervention should focus on increasing the presence of women in professional and business networks and trainings as well as promoting them as role models within the ecosystem. The activities could target young women involved in family businesses who would benefit from skills development and engagement at networking and peer-learning events. ZONTA, a local women's business group, could play a role in this process. The PCCI (including its Women Entrepreneurs Development Committee) could also be involved by collaborating with development agencies to organize events, exchanges, conferences, seminars, and exhibitions where women can have guaranteed spots to participate alongside the young male entrepreneurs. Due to the nature of Pokhara's economy, skills trainings should focus on hospitality, languages, and connecting with international markets. Additionally, the Pokhara Tourism Council can collaborate with Nepal Tourism Board and/or the Tourism Entrepreneurs Women Association Nepal to bring female keynote speakers who can share their entrepreneurial journeys and experiences.

#### 2. *Establish regional competitions, youth fairs, and street festivals with local actors to promote youth entrepreneurship*

To address challenges related to lack of entrepreneurial mindset and willingness to take risk, an intervention could focus on connecting ecosystem actors directly with the youth of Pokhara. Given the city's underdeveloped state of the entrepreneurship ecosystem, actors invited from Kathmandu would provide valuable insights based on their experiences in the more developed and competitive ecosystem in the capital. This could include gender-balanced entrepreneurial role models, alternate finance actors, and incubators to participate in local events coordinated by PCCI, FNCCI, FWEAN, and NYEF. The project could therefore adopt a facilitator's role to help link and support the organization of such events between these organizations, such as FWEAN and NYEF, which otherwise have relatively little interaction despite their shared missions. This could also be combined with market pillar recommendation 4 as a platform to showcase local youth businesses.

#### 3. *Support the scaling-up of local incubators*

Like in Kathmandu but only to a stronger degree, this intervention could focus on introducing and demonstrating the concept of mentorship and business incubation with students and young entrepreneurs. Information on the role of entrepreneurship in the local economy, and exposure and access to success stories and support structures could help to push a behavioural change within Pokhara's ecosystem. Such activities could be run jointly by PCCI, NYEF and Urja Lab.

## ► 5. Conclusion

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This report has provided an understanding of the current state of Kathmandu and Pokhara's respective entrepreneurship ecosystems and a number of key challenges inhibiting their further growth and inclusiveness. Through the ILO's *Inclusive Entrepreneurship Ecosystems Approach*, special focus has been given to the youth of Nepal to better understand the specific challenges they face and the possible solutions to improve the functioning and support provided to young male and female entrepreneurs.

The specific challenges included constraints related to access to finance, skilled human capital, decent working conditions, markets, and a culture that often does not adequately encourage an entrepreneurial mindset nor an equal access to opportunities for young women entrepreneurs. The report therefore sought to provide recommendations for future interventions to address these challenges by leveraging the existing capacities and incentives of local actors to implement solutions that are both self-sustaining and systemic.





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