



Developing a Green, Resilient, and Inclusive Entrepreneurship Policy Framework for Nepal



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List of Abbreviations

ADB	Asian Development Bank
BAFIA	Banks and Financial Institutions Act 2073
BFI	Banks and Financial Institutions
DFI	Development Finance Institutions
DoI	Department of Industry
DCSI	Department of Cottage and Small Industries
EPA	Environmental Protection Act 2019
FDI	Foreign Direct Investment
FITTA	Foreign Investment and Technology Transfer Act 2019
FNCCI	Federation of Nepalese Chamber of Commerce and Industries
GHG	Green House Gas
GoN	Government of Nepal
GRID	Green, Resilience, and Inclusive Development
HNWIs	High-Net-worth Individuals
I/NGOs	International & National Non-Governmental Organisations
ICIMOD	International Centre for Integrated Mountain Development
ICT	Information, Communication & Technology
IEA	Industrial Enterprises Act 2020
IRD	Inland Revenue Department
ITA	Income Tax Act 2002
KIIs	Key Informant Interviews
MEDEP	Micro-Enterprise Development Programme
MEDPA	Micro-Enterprise Development for Poverty Alleviation
MFIs	Microfinance Institutions
MoF	Ministry of Finance
MoICS	Ministry of Industry, Commerce, and Supplies
MSMEs	Micro, Small and Medium Enterprises
NDC	Nationally Determined Contribution
NPC	National Planning Commission
NRB	Nepal Rastra Bank
PE/VC	Private Equity and Venture Capital
PES	Payments for Ecosystem Services
SDGs	Sustainable Development Goals
SIF	Specialised Investment Fund Regulations 2019
SMEs	Small and Medium Enterprises
SNGs	Sub-National Government
STEM	Science, Technology, Engineering and Math
TVET	Technical Education and Vocational Training
UGC	University Grant Commission
UNCTAD	United Nation Conference on Trade and Development
VAT Act	Value Added Tax Act 1996



Ref: No.

Government of Nepal
Ministry of Industry, Commerce and Supplies



**Singha Durbar
Kathmandu, Nepal**

Foreword

The Government of Nepal is committed to promote entrepreneurship as a strategy for economic development. To create conducive environment for entrepreneurship development, the Ministry of Industry, Commerce, and Supplies (MOICS) with inputs from the International Centre for Integrated Mountain Development (ICIMOD) has formulated this entrepreneurship policy framework.

The framework is aligned with the principles of Green, Resilient, and Inclusive Development (GRID). It emphasizes in fostering environmentally sustainable growth, generating inclusive employment opportunities, enhancing the resilience of enterprises and promoting the integration of sustainable value chains. The framework provides short-term, medium-term, and long-term recommendations to tackle the challenges and capitalize on the opportunities within our entrepreneurial ecosystem.

I believe that this policy framework will support our commitment to transform Nepal into a Start-up Nation by 2030. On behalf of MOICS, I appreciate the efforts of ICIMOD in preparing this document.

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Executive Summary

Context

Nepal's economy is highly dependent on micro, small and medium enterprises (MSMEs) that face increasing risks of climate change due to fragile topography and limited adaptive capacity to counter external shocks. With the signing of the Kathmandu Declaration in 2021, Nepal has adopted a Green, Resilient, and Inclusive Development (GRID) approach to address systematic structural deficiencies in the economy. Home to an entrepreneurship ecosystem at a relatively nascent stage, Nepal faces a monumental challenge in promoting and preserving enterprises that are oriented towards greening the economy. Being resilient and producing inclusive outcomes in terms of local problem-solving, technology diffusion and job creation is still a challenge.

The Ministry of Industry, Commerce and Supplies (MoICS), in close collaboration with the International Centre for Integrated Mountain Development (ICIMOD), has realised the need of a policy framework to provide strategic direction for the federal, provincial, and local governments, value chain actors and the players in Nepal's entrepreneurship ecosystem. The policy framework is also expected to assist the private sectors, I/NGOs, and academia working in entrepreneurship development in envisioning green growth, creating more inclusive job opportunities, building the resilience of existing and upcoming enterprises, and promoting competitiveness via promoting sustainable value chain integration.

The policy framework will also serve as a guiding document in mapping the strength of actors of Nepal's entrepreneurship ecosystem such that they can develop a symbiotic relationship to promote innovation, productivity, and effective competition. For these ideals to translate into tangible outcomes it is necessary to take stock of the policies and programmes that have shaped Nepal's entrepreneurship ecosystem.

To this end, this body of work is an outcome of extensive desk research and engagement with stakeholders to portray the entrepreneurship landscape in Nepal and intends to help policymakers at federal, provincial, and local level, ecosystem actors and academicians to gain a bird's-eye view of what impediments vis-a-vis opportunities exist in Nepal for reformative action.

Approach and Methodology

This report is an outcome of a combination of primary and secondary research methods through a comprehensive literature review and multi-stakeholder engagement. Particularly, the study uses two-pronged approaches for developing the outline of a robust entrepreneurship policy framework:

- a. Stock-taking of the existing legislative landscape, policy environment, and interventions carried out to enable enterprises in Nepal, including: Assessing the initiatives, strategies and practices undertaken by the private sector, academia, and development partners.
 - i. Employing the principles of Green, Resilient, and Inclusive Development (GRID) in meeting objectives I and II.

- ii. Identifying regional best practices and assessing them through GRID lens.
 - iii. Developing a skeleton framework for national entrepreneurship policy which will be a guiding document for federal, provincial and local governments, private sector, I/NGOs and academic institutions.
 - iv. Recommending strategic action plans for strengthening the entrepreneurship ecosystem in Nepal.
- b. Multi-stakeholder engagement and desk review, which included following steps:
- i. Key Informant Interviews (KIIs) with experts, academics, industry leaders and other stakeholder consultation to take stock of existing policies and practices, references of best practices, gaps in the legal and policy regime and strategic recommendations.
 - ii. Review of regional best practices in countries from which we can emulate strategic approaches.

This assignment was guided by the Entrepreneurship Policy Framework and Implementation Guidance developed by United Nation Conference on Trade and Development (UNCTAD) so that the proposed outline of policy framework would commensurate with international standards.

Main Findings

Nepal is at risk due to climate change and is developing its policy and institutional framework to address this. Under Article 4, paragraph 19 of the Paris Agreement, Nepal is formulating a long-term low greenhouse gas emission development strategy by 2021, targeting a net-zero carbon emission by 2050. To achieve this goal, the second Nationally Determined Contribution (NDC) sets forth to increase intervention across energy: industrial processes and product use, agriculture, forestry, and other land use, and waste management¹.

To build institutional capacity in deriving the NDC goals, the government consulted domestic institutions and engaged with local communities and indigenous people in a gender-responsive manner. The thematic area of industry, transport, and physical infrastructure has been identified in the NDC along with cross-cutting themes such as Gender Equality and Social Inclusion (GESI), livelihoods, and governance. However, the targets and priorities set by the NDC do not fully reflect priorities of the country's national policies when it comes to GRI-enterprise creation.

The regulatory landscape pertaining to business entry, doing business, tax compliance, and exit is complicated and unharmonised, culminating in a wide ranging impact for entrepreneurs, actors in the support ecosystem, and funding space. A myriad of legislations disciplines this landscape, the Industrial Enterprise Act (IEA) 2020 being the most important. The IEA 2020 has provisioned exemptions and facilities for the greening of enterprises and provisions loans for promoting inclusive enterprise. However, direct incentives for GRI-enterprise creation are lacking. In addition to the existing tax-based exemptions, broad-based support for MSMEs such that innovation leads to greening, and resilience has not been garnered by these policy mixes.

Entrepreneurship education and skills development are not specialised or endorsed at the national level. Spatial inequality in terms of access to higher education further exacerbates mainstreaming of entrepreneurship education. Technical and vocational course modules do not allow room for cross-cutting transfer of soft skills for first-generation entrepreneurs.

Diffusion of novel technology and integration of ICT measures have taken place only in select service-oriented sectors, and the cost of innovation for start-ups is remarkably high. Efforts to preserve local skills and traditional technology have not yielded results.

¹ Government of Nepal (GoN). (2020). Second Nationally Determined Contribution (NDC), 1-22 Retrieved from: [https://climate.mohp.gov.np/attachments/article/167/Second%20Nationally%20Determined%20Contribution%20\(NDC\)%20-%202020.pdf](https://climate.mohp.gov.np/attachments/article/167/Second%20Nationally%20Determined%20Contribution%20(NDC)%20-%202020.pdf)

A collateral-based lending system has created disproportionate winners. As an alternative, blended financial products offer a silver lining. However, appropriate credit infrastructure to support MSME growth is lacking.

Regulatory complexities have widened demand and supply-side barriers in access to finance. Alternative financing and foreign direct investments (FDI) also suffer from regulatory restraints.

The entrepreneurship support ecosystem is crowded but unorganised. A limited number of entrepreneurs have gained from this ecosystem as it lacks symbiotic linkage and common grounding.

Conclusions and Recommendations

SHORT TERM

- Establish legal definitions for 'entrepreneurship', 'start-ups', 'GRI-enterprises' in the policy.
- Develop a step-by-step implementation plan with timelines and assigned responsibilities for simplifying business entry, paying taxes, contract enforcement, exit, and investment environment.
- Monitor and evaluate the one-window system and one-stop service centres to ensure their effectiveness in simplifying business procedures and providing benefits and exemptions to entrepreneurs.
- Launch targeted programmes to establish entrepreneur networks in areas across Nepal, including mentorship programmes that connect young entrepreneurs with established businesses.

MEDIUM TERM

- Develop specific programmes to support local innovation, including funding for research and development of technologies, especially in areas that are at risk of climatic shocks.
- Update the national curriculum (both academic and TVET track) to include entrepreneurship education, with concrete learning outcomes and practical components for students.
- Establish partnerships with development agencies and private sector organisations to support ideation and incubation programmes for entrepreneurs.
- Create a fund for seed capital, focusing on businesses not catered by existing financing options, with clear eligibility criteria and application processes.
- Design and implement government and DFI collaboration programmes (green business incubators, early-stage venture funding, technical assistance) to support nature-based businesses in sectors such as sustainable agriculture, forestry, and ecotourism.

LONG TERM

- Integrate entrepreneurship and soft skills education into primary and secondary school curricula, with a focus on practical, problem-solving activities.
- Update alternative finance regulations to facilitate small-ticket private investment and encourage investment through fund structures through removal of double taxation.
- Require BFIs and microfinance institutions to include environmental risk assessments in their credit evaluations and foster collaboration with DFIs for sustainable investments.
- Incorporate environmental considerations in decision-making by implementing natural capital accounting and Payment for Ecosystem Services (PES) modalities.
- Establish a cross-government priority goal for promoting GRID-oriented entrepreneurship, with assigned responsibilities, measurable targets, and periodic reviews.

1. Introduction

This section presents the background, objectives of the assignment, methodology and explains the specific framework used.

1.1 Background

Nepal is at risk due to climate change. Nepal faces increasing risks of climate change's adverse impacts due to fragile topography, climate-sensitive livelihoods, and limited adaptive capacity². Nepal is already experiencing severe climate-related impact on its national and regional economies as well as serious sectoral impacts³. These impacts have started to translate into impact on livelihoods, mostly impacting women and children.

The Government of Nepal has devised short-and long-term development and climate objectives to address these challenges. The focus is on reducing the impacts of climate change, reducing Green House Gas (GHG) emissions, increasing resilience, and fostering sustainable economic growth. The National Climate Change Policy, 2019 and the NDC, 2020 are major policies that guide Nepal's efforts.

With the signing of the Kathmandu Declaration in 2021, Nepal has adopted a GRID approach to address systematic structural deficiencies in the economy. The GRID approach hinges on a deliberative and proactive model of strategy formation, intended to induce long-term green growth, climate action, and sustainable development for all⁴. For the aspirations and commitments to translate into tangible outcomes, it is necessary to create a conducive environment for GRID sensitive and inspired entrepreneurship in Nepal. An imperative part of the approach would be the development and execution of a holistic entrepreneurship policy that appreciates the importance of green, resilient, and inclusive development.

Nepal's entrepreneurship ecosystem has flourished primarily around MSMEs. MSMEs have been an engine of economic growth and job creation in Nepal. SMEs contribute to 22 percent of value addition in Nepal's Gross Domestic Product⁵. There were 923,356 establishments operating in Nepal in 2018 out of which 69.3 percent were micro-enterprises, 25.2 per cent small enterprises, and 5.5 percent were medium-sized enterprises⁶. The Economic Census 2018 also reported that 394,219 new establishments

² Government of Nepal (GoN). (2020). *Second Nationally Determined Contribution (NDC)*, 1-22 Retrieved from: [https://climate.mohp.gov.np/attachments/article/167/Second%20Nationally%20Determined%20Contribution%20\(NDC\)%20-%202020.pdf](https://climate.mohp.gov.np/attachments/article/167/Second%20Nationally%20Determined%20Contribution%20(NDC)%20-%202020.pdf).

³ Chhetri, P. R. (2016). Access to Climate Finance in Nepal, 1-4Retrived from: <https://prc.org.np/assets/uploads/resource/Jy0pqZeHw6j7eLUBpu9YxMM9eIK5Zlhu.pdf>.

⁴ World Bank. (2021). Green Resilient, and Inclusive Development (GRID), 1-31. Retrieved from: <https://thedocs.worldbank.org/en/doc/9385bfef1c330ed6ed972dd9e70d0fb7-0200022021/original/DC2021-0004-Green-Resilient-final.pdf>

⁵ Ghimire, D. K., Gautam, P., Karki, S. K., Ghimire, J., & Takagi, I. (2022). Small business and livelihood: A study of Pashupatinath UNESCO heritage site of Nepal. *Sustainability*, 15(1), 612

⁶ Central Bureau of Statistics, Nepal. (2018). National Economic Census 2018, Retrieved from: https://nepalindata.com/media/resources/items/12/b4_NEC2018_Final_Results_National_Report_No._1-1_190625.pdf

started business between April 2015 and April 2018, accounting a high ratio: 42.7% of the total 923,356 establishments. It is evident that MSMEs are consequential in Nepal achieving its pledge to move towards carbon offsets, create inclusive and green jobs and attain SDGs.

The entrepreneurship ecosystem in Nepal is nascent yet evolving. Entrepreneurship ecosystems are a combination of social, political, economic, and cultural elements within a region that support the development and growth of innovative start-ups and encourage nascent entrepreneurs and other actors to take the risks of starting, funding, and otherwise assisting high-risk ventures⁷. Nepal is yet to reach a satisfactory level of alignment among these elements so that entrepreneurs can harness their full potential. It is therefore necessary to shape the trajectory of enterprises and key actors within the ecosystem such that their actions are oriented towards a more sustainable and inclusive future.

Traditional interventions aimed at creating conducive conditions for MSMEs and entrepreneurs have largely been one dimensional – geared towards targeting the growth of enterprises – and have missed the mark when it comes to a well-rounded approach in addressing the interrelationship between growth, inclusion, sustainability, and environmental protection agendas. Moreover, MSMEs in Nepal have a low capital base, poor access to technology, and inadequate knowledge and information regarding business opportunities and marketing. Similarly, MSMEs in Nepal also suffer from poor access to finance brought about by high interest rates, large collateral requirements, inconveniences associated with the process, a lack of information, and inadequate institutional capacity, among other things⁸.

A well-functioning entrepreneurship ecosystem would recognise the role of MSMEs in Nepal's economic growth and job creation and ensure i) conducive regulatory environment; ii) access to finance for both setting up and scaling a venture; iii) generate a pool of capable human resources; and iv) necessary support mechanism through auxiliary business services such as incubation, acceleration, mentorship and so on. Supporting the growth of MSMEs helps to boost economic growth, create jobs, foster innovation, promote sustainable industrialisation, and contributes to economic diversification and resilience⁹.

1.2 Nepal's Current Context, Opportunities and Challenges

This section looks into Nepal's current context, opportunities and challenges in terms of entrepreneurship strategy development based on the checklist of key questions provided by UNCTAD.

A stable and predictable policy environment, investment support, and a supportive business development ecosystem are integral in fostering entrepreneurship growth in an economy. Nepal's economy experienced modest growth in recent decades, punctuated by severe shocks and periods of recovery between a turbulent decade of civil war from 1996 to 2006, a massive earthquake in 2015, and a series of political unrest during promulgating the federal constitution. For entrepreneurship growth, however, these shocks and subsequent recoveries meant a tepid growth ensued accumulating a relatively average growth¹⁰. Nepal's economy rebounded post-2016, registering 8 percent growth in 2017, a growth rate of 6 percent in 2018, and 7 percent in 2019, amidst political stability, improved electricity supply, injection of earthquake reconstruction stimulus for the 2015 earthquake, burgeoning remittances, and tourism growth¹¹.

⁷ Spiegel, B., & Harrison, R. (2018). Toward a process theory of entrepreneurial ecosystems. *Strategic Entrepreneurship Journal*, 12(1), 151-168.

⁸ Kharel, P. & Dahal, K. (2020). Small and medium-sized enterprises in Nepal: examining constraints on exporting. ADBI working paper 1166. Tokyo: Asian Development Bank Institute. Available: <https://www.adb.org/publications/sme-nepal-examining-constraintsexporting>

⁹ OECD. (2017). *Small, Medium, Strong. Trends in SME Performance and Business Conditions*, OECD Publishing, Paris, <https://doi.org/10.1787/9789264275683-en>.

¹⁰ Bulmer, E. R, Shrestha, A., & Marshalian, M. (2020). Nepal Jobs Diagnostic. Available at: <https://www.sipotra.it/wp-content/uploads/2020/06/Jobs-Diagnostic-Nepal.pdf>

¹¹ Ezemenari, K. & Joshi, N.K. (2019). Nepal Development Update: Envisioning a Future Data Ecosystem in Federal Nepal. World Bank, Washington D.C.

There is an absence of a dedicated national framework that encompasses a broad vision on entrepreneurship development further exacerbated goal setting and prioritisation. The GoN has made efforts in the past to come up with a start-up policy, but it has not come to fruition. This has led to a lack of clarity in goal setting at the federal and sub-national levels. Moreover, various policies that touch upon the issue of entrepreneurship are not closely coordinated with national policies. Issues related to MSMEs, and youth address the agenda of entrepreneurship, but they are not well reflected and well-coordinated in the various policies.

Scattered efforts in the past have been made to target MSMEs. But the need of the hour is to convert policies and plans into well-targeted interventions, appraised, and adjusted in tandem with a broad vision. Till date, most interventions are unplanned and are usually made through annual budgets. For example, the budget in the last two fiscal years had specific provisions to support MSMEs but it came mostly as a response to support businesses impacted by the Covid-19 pandemic. Moreover, deliberate policy to promote formal entrepreneurship activity among specific groups of the population is not seen. Although there are specific programmes designed for this, a comprehensive policy is still missing.

An important aspect of policies related to entrepreneurship is to encourage the transition to the formal business sector. However, visible and commendable interventions are missing. There is a perceived cost of being formal. Some initiations related to industrial infrastructure such as industrial villages, industrial parks, and special economic zones are notable. However, they have not also been fully successful in the case of Nepal.

Nepal is yet to make a concerted effort in benchmarking the time and cost incurred in incorporating a business, paying taxes, and other relevant business indicators in general. Surveys at the national level are non-existent, and government institutions rely on surveys and studies conducted by national think tanks and international development agencies. For instance, the World Bank's 'Doing Business Survey' was used as a key document in guiding reform agendas for multiple ministries until its recent discontinuation. In addition, agencies and development projects like GIZ and Nepal Urban Resilience Programme have been conducting business climate surveys and indexing of entrepreneurship environments at the local level with a thematic focus on sustainability, inclusion, and resilience building.

The 2018 National Economic Census gave a one-time snapshot of the state of enterprises in Nepal. However, this was a first-of-its-kind census and there is no annual or periodic report on the state of enterprises and entrepreneurship. Furthermore, Nepal has set broad targets related to the economy but specific targets or measurable objectives to increase entrepreneurship activity is missing.

Regular assessments of impact of policy measures are also missing in Nepal. Usually, evaluations of large infrastructure projects are done but no visible support is seen for regular independent policy evaluations. However, lessons learnt from various interventions do seem to be incorporated.

The institutional framework across all three governments in federal Nepal is weak. Several ministries, agencies, and institutions have assumed roles in championing entrepreneurship, albeit with little-to-no coordination. Inter-agency coordination among the Ministry of Finance, National Planning Commission, Ministry of Industries, Commerce, and Supplies, and National Youth Council has not been streamlined in the past. Moreover, entrepreneurship development projects have been undertaken without a proper strength mapping of these ministries and agencies.

It is also important to note that multi-stakeholder forums to promote policy dialogue on entrepreneurship are scant and mostly spearheaded by the private sector. Efforts at the national and sub-national level to this end have been limited to the creation of ad-hoc committees at the ministry and even departmental levels without a strong executive mandate. These efforts are also not usually transparent. These challenges are further exacerbated in absence of a dedicated national framework that encompasses a common consensus on entrepreneurship development. The GoN has made efforts in the past to come up with a start-up policy, but it has not come to fruition. The apex body of the private sector, FNCCI, has set a Start-up and Innovation Committee which is a sort of multi-stakeholder forum that promotes policy dialogue on entrepreneurship.

Given the various challenges in the context of Nepal, there are opportunities to work towards fulfilling these gaps and creating a robust and favourable environment that will help enterprises to thrive for a green, resilient, and inclusive development.

1.3 Guiding Principles: Multi-level Governance and GRID Lens

The policy framework is based on a GRID lens that uses the strategic thrust principles – green, resilient, and inclusive as its main pillars to gauge policy orientation. The outcome section is rehearsed to simulate what a GRID specific policy enactment, in an ideal scenario, would result in. In order to measure these outcomes, a set of verifiable indicators were developed that were detailed in a way to capture dimensions, including, the economy, ecosystem, enterprise and entrepreneurs. However, the focus on the outcomes will be on enterprises. This framework will be used in screening and examining specific provisions to see whether they are GRID-oriented and to what extent they are aligned with the GRID agenda.

Strategic Thrust	Outcomes	Evaluation Indicators
GREEN ¹²	Enterprises contribute in greening of the economy	<ul style="list-style-type: none"> • Policy measures promotes carbon emission curtailment • Policy provides incentives for pollution abatement
	Enterprises become energy efficient	<ul style="list-style-type: none"> • Policy measures encourage clean energy uptake • Policy provides incentives for energy efficiency
	Enterprises make prudent use of natural assets	<ul style="list-style-type: none"> • Policy measures to prevent value erosion of resource stock • Policy provides incentives for upcycling
	Enterprises operate in a green value chain	<ul style="list-style-type: none"> • Policy enables backward and forward linkages to green resources • Policy contributes to greening of the value chain
	Enterprises invest in sustainable Infrastructure	<ul style="list-style-type: none"> • Policy measures to catalyses investment in green infrastructure • Policy incentives innovation that contributes to green growth agenda

¹² The evaluation Indicators for this pillar has been loosely derived from OECD's criteria for Environmental performance review of select Economies. The full paper can be accessed at: <https://www.oecd-ilibrary.org/docserver/d5e5b5d7en.pdf?expires=1642571689&id=id&accname=guest&checksum=CFF413591805DC420CE912FFD8B36787>

Strategic Thrust	Outcomes	Evaluation Indicators
RESILIENT ¹³	Enterprises are less vulnerable to shocks	<ul style="list-style-type: none"> • Policy measures to promote preparedness against climatic shocks • Policy measures to promote preparedness against Economic shocks • Policy measures to promote preparedness against emerging shocks specific to an Industry
	Enterprises have strong institutional system to shield them against historical risks	<ul style="list-style-type: none"> • Policy measures that promote sustainable value chain linkages • Policy that mandates smart governance • Policy that mandates adaptive management practices • Policy that safeguards rights of enterprises
	Enterprises build anticipatory capacity ¹⁴	<ul style="list-style-type: none"> • Policy that prevents extreme market variability • Policy that promotes institutional safety net • Policy that mandates enhancement of institutional risk assessment • Policy that facilitates substitution/diversification of assets
	Enterprises operate in a resilient ecosystem	<ul style="list-style-type: none"> • Policy that safeguards value chain actors from shock • Policy that strengthens local institutions' mandates to devolve public service delivery
INCLUSIVE	Enterprises create inclusive labour market outcomes	<ul style="list-style-type: none"> • Policy that incentivises stable livelihood creation • Policy that incentivises green job creation • Policy that prevents disparities in economic opportunities
	Enterprises operate in a level playing field	<ul style="list-style-type: none"> • Policy that incentivises start-ups from marginalised groups • Policy that incentivises start-ups by underrepresented groups • Policy that removes barrier of entry for enterprises

¹³ The outcome and evaluation indicators for this pillar have been derived from EU's Resilience Marker and the Resilience Alliance's Practitioner's Handbook titled "Assessing Resilience in Social-Ecological Systems"

¹⁴ Bahadur, A. V., Peters, K., Wilkinson, E., Pichon, F., Gray, K., & Tanner, T. (2015). The 3As: tracking resilience across BRACED. Working and discussion papers.

2. Stock-taking

2.1 Nepal's MSME and Entrepreneurship Landscape

The Government of Nepal conducted a comprehensive enumeration of all establishments in Nepal via the first Economic Census in 2018. Considering the exhaustive nature of the economic section, this section derives inferences using the data of the Nepal Economic Census 2018 with a focus on trends specific to micro, small and medium businesses in Nepal. The MSME sector is emerging and has contributed significantly to the economic and social development of the country by promoting entrepreneurship and generating employment opportunities. MSMEs have, over time, contributed to employment generation, market expansion, and economic growth¹⁵.

According to the Economic Census conducted between April and June 2018, the country had 923,356 establishments and employed 3,228,457 individuals. Bagmati Province — including Kathmandu — has the highest share with 30.6 percent of all establishments and the highest share of employment at 1.2 million. Meanwhile, Nepal's largest and least populated province, Karnali Province, is home to the least number of MSMEs, with only 4.6 percent of the national total. According to the size classification parameters set forth by the Industrial Enterprise Act 2020, 95.4 percent of the enterprises are micro-enterprises, 4.2 percent are small, 0.24 percent are medium-sized, and 0.19 percent are large.

In terms of formality, only 50.1 percent of the total establishments in the country were registered.

Indices of informality are relatively pertinent for micro-enterprises in Nepal as 99.5 percent of them are unregistered. On the contrary, informality among small and medium enterprises is relatively low. Only 0.44 of small and 0.02 percent of medium enterprises were unregistered in Nepal Economic Census 2018.

A sectoral outlook shows that a majority of micro-enterprises (56.2 percent) are engaged in wholesale, retail, and repair services, followed by 14.5 percent in accommodation and food services and 11.2 percent in manufacturing. A common convergence between small and medium-sized enterprises in terms of engagement is the education service sector followed by manufacturing. 39.7 percent of small enterprises and 37.4 percent of medium-sized enterprises are in the education service sector. Likewise, 10 percent of small enterprises and 20.4 percent of medium-sized enterprises are in the manufacturing sector.

2.1.1 NEPAL'S ENTREPRENEURSHIP ECOSYSTEM

Nepal's entrepreneurship ecosystem has flourished with a number of players entering the space and being involved in a wide range of activities across the spectrum of entrepreneurship activities. While Nepal is yet to define and categorise start-ups, the entrepreneurship ecosystem has benefited from some legislative reforms, piqued interest from development partners and investors, and spillovers from growth in private sector activities. The momentum has gained further from the interventions of non-governmental agencies, bilateral and international agencies.

¹⁵ United Nations, Economic and Social Commission for Asia and the Pacific (UNESCAP). (2020). Micro, Small and Medium-sized Enterprises' Access to Finance in Nepal, MMSME Financing Series No. 3. Retrieved from: <https://www.unescap.org/resources/micro-small-and-medium-sized-enterprises-access-finance-Nepal>.

The activities of the players in Nepal's entrepreneurship ecosystem have aggregated in urban centres, with a few notable exceptions. As a result of this, activities that lend impetus to the critical function of this ecosystem – business incubation, acceleration and support services, networking, and funding promotion are skewed. Nonetheless, marked growth in actors entering the ecosystem at various stages exhibits an innate sense of potential waiting to be explored.

Incubation and accelerator space: Nepal has seen a number of incubation and accelerator programmes run by private sector actors and development agencies. A scoping of the *modus operandi* of initiatives run within this space reveals that incubation and accelerator programmes are of limited duration, typically lasting between three to six months—with a cohort of participants and often a subscription fee is levied. Stakeholders consulted suggested that the time frame of incubation and accelerator programmes are often insufficient in handholding entrepreneurs. However, experts on the supply side suggest that the cost associated with conceptualising and sustaining such a programme is a major hurdle for actors in the space, especially for the private sector that has an obvious bottom-line to maintain.

Antarprerana, a private company, has been working with development partners, local chambers, local high-net-worth individuals among others to cater to start-ups by providing incubation services. Incubators run by large domestic corporations/banks have also made leeway into the social impact sector. A notable entry in this segment was Chaudhary Foundation's Social Business Incubators in association with the Lions Club International Federation that targets validation stage start-ups with social and environmental objectives. Nabil Bank too has made an entry with its incubation initiative.

A recent trend of educational institutions joining the incubation space can be considered a refreshing change as it opens up avenues in academia-entrepreneurship partnership development. However, an apparent lack of public institutions exploring similar linkages has deprived the ecosystem of making use of an extensive reach to support start-ups, promote skilling and handhold enterprises at the sub-national and local levels.

Likewise, the accelerator space was previously backed by foreign investment and HNWIs. However, of late, the space has gained from local private investment. The M&S Venture Corp runs a mentor-driven accelerator programme in exchange for equity in the business. On the other hand, initiatives like One to Watch-Enterprise, a pioneer in this space, have teamed up with foreign HNWIs to target growth stage start-ups.

Scaling and funding space: Local and international institutions operating through fund-like structures, alternative finance providers - private equity and venture capital companies occupy this space in Nepal. This space has also seen the emergence of HNWIs and angel investors. Despite the alternative financing landscape facing wide ranging implications due to bureaucratic hurdles, the space has experienced success with an agile approach to finding avenues and start-ups to invest. Prototype debt instruments and equity seed round investments, though limited, are beginning to protrude through existing barriers. Development agencies have been experimenting with challenging funds and credit guarantee schemes, with occasional involvement of the government.

This sector has been plagued with an unclear and inefficient policy environment and rigidity in the legal structure. Despite this, Business oxygen (Bo2), Dolma Impact Fund, One to Watch, True North Associate are few offshore funds capturing a significant headroom in Nepal. The emergence of onshore funds like Aadhyanta and Avasar Equity is adding to the momentum in alternative asset class financing in Nepal.

Networking and promotion: Actors in this space have been hosting several one-off-networking events and boot camps and providing co-working spaces to promote connectedness and bring avenues of collaboration. Entrepreneurs for Nepal, Startup Nepal, Nepal Entrepreneurs Hub, and Nepal Young Entrepreneurs Forum (NYEF) are some actors organising networking events, forums, and collaborative workshops in the ecosystem.

2.2 Review of Key Legislations

This section captures a broad review of the regulatory framework related to entrepreneurship landscape, including relevant periodic plans, policies and programmes undertaken by the government, private sector and development agencies.

2.2.1 NATIONAL GOALS AND PRIORITY OBJECTIVES

Nepal's 15th Five-Year Plan (2020–2024) has endorsed the adoption of a national strategy for increasing production and creating employment through the promotion of self-employment and entrepreneurship. The plan has acknowledged existing challenges that impede entrepreneurship growth in Nepal. In setting agendas towards building a GRID-oriented economy and entrepreneurship landscape, the plan has formulated 10 national goals and 76 indicators for long-term economic development vision. Enablers that have outlined in the plan that can taper into actionable strategies towards attainment of a GRID enabled entrepreneurship system and vis-a-vis a GRID-oriented economic transformation can be broadly categorised as:

- **Promotion of green economy:** All local governments are to maintain greenery in at least 10 percent of the land under their jurisdiction to curb greenhouse emissions such that the carbon level is below 30 micrograms per cubic metre in the next 25 years. This is expected to be supplemented by a transition from mineral fuel to renewable energy usage and by a planned settlement of plant-based industries in special areas and corridors to tackle waste management.
- **Building resilience of enterprises:** The government has set out to achieve a formality rate of 90% for enterprises in Nepal by 2024. Recall from section 2.1 that indices for informality in firm registration stood at 49.1 percent in Nepal and are high, especially among micro industries. In the course of achieving this target, businesses will come into the formal folds of legal and regulatory frameworks, thus opening up opportunities for the governments at all tiers in making informed interventions in enterprise development, financing, curating support systems, and keeping track of the landscape. At an enterprise level, this can culminate into the adoption of appropriate technologies, better access to public services, and the opportunity to enrol in social protection.
- **Promoting inclusive growth:** The 15th Five-Year Plan aims to achieve economic empowerment and social transformation by prioritising economically poor and socially excluded women, Dalits, indigenous groups, single women, and women living with disabilities, Badi, Kamalari, Kamaiya, and Chepang. This will be attained via livelihood enhancement programmes, reducing the gender gap in technical education, concessional loans, and providing access to finance facilities for women entrepreneurs. At the end of the plan period, the Gender Development Index is expected to have increased from 0.897 to 0.963. Federal, provincial, and local levels will have formulated and implemented gender-friendly policies and acts.

Nepal's 15th Five-Year plan has set forth a four-pronged strategic path to develop an entrepreneurship culture among the youths through professional education, link entrepreneurs with new technologies and value chain linkages between skills-focused and professional training programmes. It is expected that the share of trained technicians and professionals in the working-age will increase by 50 percent. The stipulated outcome expects to add 60 thousand jobs annually including in self-employment, through the establishment of 15 thousand micro, cottage, and small industries every year. The Plan has set the following priorities:

Reforms in policies, laws, procedures, and institutional arrangements, at all three levels of government to attract young entrepreneurs in domestic industries. The Government has envisioned regulatory reforms to support enterprises based on traditional and local knowledge by innovating finance instruments and creating challenge funds with a joint investment from different levels of government and mobilising credit via existing formal banking networks. The working policies under this strategic thrust area also set out to protect intellectual property rights to promote technology based

innovative start-ups and establish a network of business development centres. In addition, an action plan for this component sets out to improve coordination among targeted programmes, including special funds, the National Youth Council, Bhagwat Sarbajit Skill Development Programme, and Prime Minister's Employment Programme.

To identify, develop, and mobilise local resources and skills in partnership with the private sector, co-operatives, and non-government organisations. The government has envisioned engaging returnee migrant workers in enterprise creation by providing support in terms of technology, technical expertise, and finance. The working policies set out to enable these goals by bringing together the provincial and local-level governments in an integrated support mechanism to engage target groups to start micro-entrepreneurship activities. Similarly, enhancing the institutional capacity of training institutes, vocational and technical education providers is another aspect under this area that has been focused on so that professional and technical workforce are capacitated. The Plan has also placed importance on imparting practical and vocational education by endorsing curricula at the school level and encouraging institutions involved in higher education to develop entrepreneurship among their students.

To promote youth entrepreneurship in such a way that traditional knowledge and skills are combined with new technologies and applied in industries and businesses. This strategic thrust has placed due consideration to fostering entrepreneurship among women, people with disabilities, and youth groups via targeted programmes that enable innovation, use of ICT, and business experiments.

To ensure access to finance and create an investment-friendly environment for entrepreneurship development in the micro, cottage, and small industries. This strategic area sets out to harmonise federal, provincial, and local-level policies in collaboration with BFIs to improve access to finance for young new entrepreneurs and via group loans. Also, under a directed lending scheme BFIs and MFIs are expected to be incentivised to disburse loans to the micro, cottage, small, and medium enterprises.

2.2.2 PLANS AND PROGRAMMES OF SUB-NATIONAL GOVERNMENTS

With Nepal's transition into a federal structure, the provincial governments have an opportunity to act as 'laboratories' for experimenting with innovative policies, plans and programmes. They have an opportunity to devise more regional and tailored solutions to problems and foster entrepreneurship for a green, resilient, and inclusive development.

Province 1: Province 1 has endorsed provincial level legislation, regulation, and work plan to promote vocational and skill-based curriculum and to make the skilling platform inclusive in collaboration with the local governments and private sector. To facilitate and foster investment, it has introduced the Public, Private, Cooperative partnership and Investment Authority Act 2076 B.S (2019 A.D). In comparison to other provinces, Province 1 was unique in bringing this about. Other legislations include the Manmohan Technical University (MTU) Act, and Province Industrial Enterprises Act, 2077 B.S (2020 A.D). In addition, the provincial government has sought to foster inter-ministry collaboration to provision necessary acts in building support mechanisms for quality assurance, branding, packaging, and marketing, and conceptualising a single-window policy for registration and licensing.

Madhesh Province: The Madhesh Province has enacted the Provincial Industry Management Act, 2020 to stimulate enterprise development at the sub-national level. Madhesh Province has also authenticated an act to establish a state-level policy committee headed by the Chief Minister.

Bagmati Province: Bagmati Province has enacted a provincial Industry Enterprises Act in 2020 with provisions for full exemptions of registration fees for micro-scale enterprises and special incentives for women entrepreneurs and entrepreneurs with disability. Bagmati has also been proactive in promoting alternative energy among businesses and engaging returnee migrants in enterprise creation via the Start-up Idea Call programme and concessional loan of up to NPR 1.5 million- in collaboration with private sector actors.

Gandaki Province: Gandaki Province enacted a provincial Industrial Enterprises Act 2019 and has prioritised export-oriented businesses, manufacturers of pollutant deterrent appliances, construction business, agribusiness, and poultry products.

Nepal's Constitution has provided local governments with the authority to define their own agenda for growth and to allocate budget according to their own priorities. Their jurisdiction covers a broad range of areas, including local market management, environmental protection and biodiversity, roads, irrigation, energy, disaster management and agriculture, among others. This hints towards the role that local governments can play in fostering an enabling environment for enterprises to work towards GRID.

To assess the intention of municipalities towards GRID, the case of three municipalities where Nepal Urban Resilience Programme works was assessed. In particular, inclusive local economic development documents prepared by the municipalities with technical assistance from NURP were reviewed.

Butwal Sub-metropolitan City's development plans suggest a commitment to environmental protection, inclusivity, and good governance. This is reflected in its strategy to promote environmentally friendly industries, boost inclusivity while engaging the private sector through public-private partnerships and public-private dialogues. The city has emphasised use of electric vehicles and promotion of alternative energy programme.

Pokhara Metropolitan City's development plans focus on sectors of tourism, agriculture, industry, and trade as well as cross-cutting issues such as ICT and youth. The city's three-year plan heavily focuses on climate-resilient and green growth. Planned interventions include setting up a dedicated municipality division to promote alternative energy and formulation of the municipality's green energy policy.

Janakpur Sub-metropolitan City's development plans focus on balanced growth in urban and peri-urban areas. Strategies include making the city more resilient and environmentally friendly with interventions that promote culture and urban green agriculture enterprises.

2.2.3 REGULATORY ENVIRONMENT

Nepal has lagged in terms of regulatory environment. The current mix of regulatory policies has also failed in supporting a sound balance in market-based and price-based instruments. Achieving a sound balance between market-based and price-based instruments is feasible if existing price-based punitive measures that are in place to curb negative externalities are matched with innovative quantity-based action. For instance, the Environmental Protection Act 2019 provides plenty of room in setting quantitative targets for pollution control by aggregating targets at national or regional level and allocating them to individual firms, such that compliance by firms will achieve the aggregate target. Illustrative cases of creating an incentive structure through such quantity-based actions are also aplenty. For example, France imposed a general tax on industrial pollution and redirected a share of tax revenues for environmental improvement, spending part of the revenue as capital subsidies for adopting recommended pollution control technologies.

Similarly, existing provisions offer significant nods of harmonisation. Existing acts and regulations when it comes to promoting a mix of market-based instruments and price-based controls have plenty of potential in setting clear standards to increase the uptake of technology in pollution abatement, air quality maintenance, public procurement, and recycling to mandate a change in business practices. Nepal's federal structure has also opened up possibilities for synchronising regulatory control mechanisms at the provincial and local levels to promote broad-based support and innovation for MSMEs that can lead to greening and resilience.

Incorporating a Business in Nepal

Companies Act 2006 governs the registration of companies. Provisions include compulsory electronic filing, time-bound approval, protection of business name and trademark, among others.

Private Firm Registration Act 1958 codifies the registration of an unlimited liability vehicle-Sole trader (single ownership company) and partnership. Sole trader/partnership businesses can register at either the local-level offices or the provincial level offices depending on the proposed capital of the firm. For a commerce-oriented business, registration is carried out at the Department of Commerce. But for a business that comes under the category of industry, registration will be done either at the local-level or provincial offices conditional on the capital size. There seems to be a lack of clarity on the roles in the federal structure as some provincial governments have actively been formulating required policies while others have been lagging.

Bagmati Province recently endorsed the **Trade and Business Act 2076 B.S. (2020)** to govern the incorporation of unlimited liability vehicles. Provincial governments that are yet to endorse a separate piece of a codified instrument to dictate terms for unlimited liability vehicles will have to adhere to the federal act.

The Industrial Enterprises Act (IEA) 2020 is a prominent piece of legislation that aims to nurture a production-oriented economy by creating a conducive environment for channelling investment (both foreign and domestic), employment creation, and prudent use of natural and human capital. The act classifies industries based on (a) the size of investment on the fixed assets, and (b) the nature/sector of business.

From a GRID lens, the IEA 2020 has provisioned special incentives-largely in the form of income tax exemptions, deduction of expenses and exemption on registration fees/charges for manufacturing industries, micro and small industries, industries involved in exports or employing a prescribed threshold of Nepali citizens, industries owned by a female/marginalised, and industries operating in areas categorised under the act as least-developed, less-developed, and under-developed. A summary of GRID specific incentives are as follows:

Incentives oriented to promote greening of an enterprise:

- Deduction of expenses up to 50% of total adjusted taxable income for expenses incurred by an enterprise in systems/equipment preventing or controlling pollution or causing minimum effects on the environment by recycling or reusing waste.
- Deduction of income tax of all expenses invested in machinery or equipment contributes to reducing consumption of energy by enhancing energy efficiency.
- Under the IEA 2020, Industries are permitted to commence activity related to establishment and operation only after completion of applicable environment studies such as Initial Environmental Examination (IEE) and Environmental Impact Assessment (EIA). The Act further mandates to carry out such environmental studies in the events where the industry increases capital, enhances capacity, adds, or changes objectives or shifts /changes the location of the industry.

Incentives oriented to building resilient enterprises include the following:

- 50% exemption on income tax for cottage and small enterprises with fixed capital less than NPR 10 million
- A waiver on industry registration fees/charges for micro-industry
- Exemption on customs duty for import of novel technology by the micro, cottage, and small industries
- Seed grants for co-operatives, micro and cottage, and small industries established in the least-developed areas
- Provision of rehabilitation of sick industries via soft loan conversion, rebate on the interest rate, exemption on customs duty on import of raw material, and concessional loan
- Manufacturing industries established in least-developed, under-developed, and less-developed areas are respectively eligible for 90%, 80%, and 70% exemption on the rate of income tax for up to 10 years

Incentives oriented to promoting inclusive enterprises include the following:

- Manufacturing/IT industries established under the sole ownership of female entrepreneurs are respectively eligible for the following facilities:
 - Special loans to female-owned enterprises involved in export
 - Manufacturing/IT industries with at least 50% women or Dalit/person with disabilities can avail 15% income tax exemption

In the current federal context, the IEA 2020 has mandated sub-national governments with registration, renewal, and regulation of industries that fall under SNG's jurisdiction. This is a significant improvement from a multi-governance standpoint. Previously the Department of Industry (DoI) was the primary government agency for registration and regulation of industries across Nepal.

Paying Taxes in Nepal

Nepal was ranked 175th out of 190 economies in the 'Paying Taxes' category by the now discontinued World Bank's Doing Business Report 2020. The report stipulated that a medium-sized business in Nepal needs to make 46 payments to comply with tax or mandatory contributions, spending more than 377 hours on average with a cost equivalent to 41.8 percent of profits. Nepal lags its regional peers in South Asia in terms of the number of payments and rate of profit dedicated by a medium-size business to comply with taxes and mandatory contributions. On average, Nepal's South-Asian peers require less than 27 payments and 273.5 hours to comply with tax-related provisions. Businesses in Nepal spend significant time complying with corporate income tax (up to 125 hours), social security contributions (up to 122 hours), and VAT payments (up to 133 hours).

Under the current federal structure, all companies are liable to pay taxes to each tier of government. VAT, Income tax, duties, and customs come under the federal purview, whereas company taxes and rental taxes must be paid at the local level, and the provincial government collects motor vehicle taxes, entertainment taxes, and agricultural revenue.

Under the **Value Added Tax (VAT) Act 1996** all businesses are obligated to acquire their tax registration certificate either under the PAN or the VAT category issued by the Inland Revenue Department (IRD). The VAT Act 1996 has made it compulsory for a business with an annual transaction exceeding NPR 5 million to register in VAT. However, the pre-requisites (documents and due process) can be complicated.

Under the **Income Tax Act (ITA) 2002**, resident businesses in Nepal are taxed on their global income. The ITA 2002 also identifies a foreign-permanent establishment owned by a non-resident person within Nepal as a resident business for tax purposes. The ITA 2002 sets a flat rate of 25 percent on income generated by incorporated businesses. Sectors like hydropower are taxed at a concessional rate of 20 percent while the corporate income tax rate for the sectors such as banking is set at 30 percent of taxable income.

Finance and Investment Related Legislations

Foreign Investment and Technology Transfer Act (FITTA) 2019 provides a two-pronged approval route for foreign investment approval. Investments under NPR 6 billion fall under the purview of the Department of Industry, and investments above NPR 6 billion require approval from the Investment Board of Nepal. FITTA also set a cap on minimum foreign investment at NPR 50 million. The FITTA has adopted a negative list approach to regulate investment and requires every foreign investment to get sector-specific approval from relevant authorities and departments. A priori review during the stakeholder engagement pointed out that FITTA compliance requires evaluation and approval on a deal-to-deal basis and has made it cumbersome for offshore funds to operate efficiently in Nepal.

The Government enacted the **Specialised Investment Fund (SIF) Regulations 2019** targeting alternative investment asset Class, including Venture Capital (VC), Private Equity (PE) and Hedge Fund in Nepal. The regulation sets a minimum fund size of NPR 15 million for equity funds, venture capital, or hedge fund. There is also a minimum stake threshold of 2% of the total fund size for fund managers with a paid-up capital of NPR 20 million. The regulation allows such institutional investments i.e., BFI, pension funds, insurance companies-both foreign and domestic from participating in local PE/VC funds. The introduction of SIF regulation was touted as a welcoming change by industry experts. But a restriction for individual foreign investors from participating in local PE/VC funds means that such investment would have to be channelled via the FDI route. The deterrent for individual investors stems from cumbersome FDI approval.

Other Relevant Legislations

The Environmental Protection Act (EPA) 2019 was enacted as umbrella legislation towards environmental preservation and conservation in Nepal. The EPA has mandated the Ministry of Forestry and Environment as an authority to approve the environmental study report that addresses all the issues related to IEE and environmental impact assessment (EIA) for projects and enterprises. The Act has also introduced the concepts of Environment Management Plan for the mitigation of adverse environmental impact in the course of implementation of a construction project. A key feature of the EPA that can have a cross-cutting effect on Nepal's overall sustainability goals is the requirement for Strategic Environmental Analysis before the implementation of any project, programme, or policy.

2.2.4 ENTREPRENEURSHIP EDUCATION, SKILLS DEVELOPMENT AND SUPPORT SERVICES

While business education, more commonly considered management education, in Nepal has a fairly old history spanning at least three decades, entrepreneurship education is relatively recent and still offered only by a handful of academic institutions. Entrepreneurship education is largely subsumed under management education while management in Nepali higher education mostly prepares students to take up clerical jobs predominantly in bureaucracy and banking institutions rather than to undertake entrepreneurship ventures. At present, Nepali higher education has 11 full universities and four autonomous statutory academies that specialise in medical education. Tribhuvan University, Purbanchal University, Pokhara University and Kathmandu University are the largest universities in the country in terms of student size. These universities also offer management and engineering programmes that are the major drivers of entrepreneurship at present.

According to the University Grants Commission's [Report](#) on Higher Education 2018-19, spatial inequality in terms of access to higher education across the seven provinces is considerable; 43% of the higher education campuses – including university campuses, constituent colleges and affiliated colleges – are located in the Bagmati Province while merely 6% and 4% of the campuses are located in Sudurpashchim and Karnali provinces respectively. This statistic alone shows that higher education is a prerogative of the few that can afford to live in the capital for higher education.

The UGC report also states that of the total students enrolled in higher education, 46% are enrolled in management programmes alone. There is clearly a definite push in Nepal towards training students in management. This figure is only likely to grow considering that a growing demand for management graduates will be accompanied with a growth in the private sector. However, educators share concern that despite a large number of students in management education, innovation in business has largely been absent barring a few start-ups concentrated in the Kathmandu Valley that are struggling to stay afloat in a highly competitive business environment.

Gender in Business Education

Similarly, there is an admirable presence of girls in higher education enrolment with almost 56% enrolment ratio in management education. However, a scant presence of women in entrepreneurship casts doubt on the ability of higher education enrolment in leading to a substantial presence of women-led businesses. While reliable data on the share of women-led businesses in Nepal is not available, this is further obfuscated by the fact that a substantial number of businesses are registered in women's name due to regulatory concessions for women-owned enterprises. However, socio-cultural constraints have ensured the policy has been a failure in that most of these enterprises are not led by women but by their male counterparts.

Technical and Vocational Education and Training

Council for Technical Education and Vocational Training (CTEVT) was established in Nepal in 1989 as an outcome of the recognition that vocation training and technical education are the cornerstones of skill development, gainful employment growth and, as a result, economic development. Despite legal and policy provisions such as the CTEVT Act and TVET Policy, 2012, Nepal has not made satisfactory progress in imparting technical and vocational education and training to individuals that enter the labour market every year. The enrolment capacity of various public and private TVET institutions across Nepal was less than 130,000 in 2018, which falls far behind the mark. Every year less than 10% of Nepal's migrant workers leave the country with vocational and technical skills. In an effort to improve their capacity, CTEVT has established provincial offices in all seven provinces.

At present, over 1400 TVET institutions across the country offer over 300 courses that are not market-oriented, which has made vocational and technical training less responsive to evolving market needs. CTEVT provides TSLC (1.5 Years) and Diploma/PLC Courses (3 Years). Both modules accommodate engineering, health, tourism and hospitality, agriculture, management and humanities, and information technology. However, the course structures focus on conventional curriculum be it in STEM or other areas. While both TSCL and Diploma/PLC modules have entrepreneurship development in their course structure, there is not a point of convergence among other courses to enable cross-cutting expertise for aspiring entrepreneurs.

2.2.5 TECHNOLOGY EXCHANGE AND INNOVATION

There is a strong correlation between innovation and idea creation with research and development (Kim and Park, 2017). Developing countries have experienced slower efficiency gains and technology absorption that could undermine their progress on the Sustainable Development Goals (SDGs)¹⁶. An earlier study by the Asian Development Bank (ADB) in 2014 had indicated that developing economies in Asia significantly lag advanced nations on the four knowledge economy pillars: innovation, education and skills, information and communications technology, and the economic incentive and institutional regime. Inadvertently, businesses in South Asia have not been able to maximise technological breakthroughs primarily because of the high costs required in tapping innovation, and due to the concentration of technology and innovation among a few firms in select sectors¹⁷.

To this end, Nepal has come up with a National Science, Technology, and Innovation Policy in 2019. The national policy has vowed to develop knowledge-based entrepreneurship through the mobilisation of qualified human resources in research and development. The policy also envisages the development of innovation and technology in an integrated manner to achieve SDGs. The policy has also taken account of the current federal structure and laid out plans to create an institutional mechanism for effective policy guidance at the federation and provincial level. A culmination of this strategic point will yield a well-connected and nationwide network of research institutions. Areas such as sustainable infrastructure development, environment, climate change, and disaster risk reduction have been prioritised.

¹⁶ Kim, J., & Park, J. (2018). The role of total factor productivity growth in middle-income countries. *Emerging Markets Finance and Trade*, 54(6), 1264-1284. <https://doi.org/10.1080/1540496X.2017.1422244>

¹⁷ Asian Development Bank. (2014). *Innovative Asia: Advancing the Knowledge-Based Economy—The Next Policy Agenda*. Manila.

Of late, the diffusion of novel technology and integration of ICT measures has started to pick pace.

However, the diffusion has largely been centered on curating interoperable solutions in the banking and service industry by a handful of start-ups in the urban centres that enjoy better access to technology, capital, and network infrastructure. The uptake of ICT measures in business process optimisation was high, particularly during the pandemic. Enterprises scrambled to digitise their operation base to counter the shock arising from supply chain disruptions and limitations imposed by mobility restrictions on end-to-end delivery. ICT adoption during the pandemic ranged from payment digitisation to sourcing out end delivery to a third-party logistics provider.

However, technological innovations are disproportionately collated across a few vertices within the service sector – Banking as a service (BaaS), digital finance, logistics, and information technology. A perverse outcome stemming from diffusion trend in Nepal's start-up scene in recent year, as pointed out by several stakeholders during the consultation exercise, has been that innovative start-ups have continued to diffuse innovation only in sectors exhibiting a strong demand impulse. Therefore, unless a strong inter-firm network across the horizontal value chain is established, diffusion will continue to collate, naturally in sectors with the strongest demand signal.

2.2.6 FINANCE AND RELATED INFRASTRUCTURE

Access to finance is an absolute precondition for MSMEs and start-ups to thrive. Sound credit infrastructure enables start-ups to validate proof of concept, incubate ideas, achieve accelerated growth, and negate uncertainties during operation. However, Nepal lacks an appropriate credit infrastructure to support MSME growth, including credit guarantee mechanisms and insurance schemes. Insufficient venture capital financing, stringent collateral requirements, and the “missing middle” problem – in which small enterprises have difficulties accessing larger volumes of credit but are too big to benefit from microloans – are other obstacles for MSMEs to access appropriate financing¹⁸.

The Banks and Financial Institutions Act 2073 (BAFIA) of 2017, Directives for Microfinance Institutions & Unified Directives for BFIs from the Nepal Rastra Bank (NRB), and the monetary policies are the key legislations that guide credit facilitation in Nepal. In addition to this, the NRB has mandated commercial banks to allocate at least 5 percent of their portfolio to deprived sector loans, including wholesale loans to MFIs.

As of mid-April 2021, the total number of branches of regulated BFIs comprising commercial banks, development banks, and finance companies has reached 5,978. The total number of MFIs has reached 4,568. The total number of accounts of business organisations including small and other than small businesses totals 848,464. The number of account-holding business organisations is less compared to the total number of establishments¹⁹.

The NRB has reported that the total number of accounts per 1000 population has reached 998. The male population holds a higher number of accounts relative to the female population. The male population of the metropolitan city has the highest number of accounts per person. Women from rural municipalities have the lowest number of accounts per person. Disproportionate gender ownership of accounts exists across all provinces²⁰.

In terms of Small and Medium Enterprises (SME) financing, the NRB's SME Financing Study Report 2019 finds that 84.8 percent of SME loans have been channelled via commercial banks while the proportion of SME loans via development banks, finance and co-operatives, and microfinance stood at 8.9, 2.5, and

¹⁸ United Nations, Economic and Social Commission for Asia and the Pacific (UNESCAP). (2020). Micro, Small and Medium-sized Enterprises' Access to Finance in Nepal, MMSME Financing Series No. 3. Retrieved from: <https://www.unescap.org/resources/>

¹⁹ Nepal Rastra Bank. (2021). Financial Access in Nepal: Exploring the Feature of Deposit Accounts of A, B, C class BFIs Retrieved from: <https://www.nrb.org.np/contents/uploads/2021/08/Financial-Access-Report-2078.pdf>.

²⁰ United Nations, Economic and Social Commission for Asia and the Pacific (UNESCAP). (2020). Micro, Small and Medium-sized Enterprises' Access to Finance in Nepal, MMSME Financing Series No. 3. Retrieved from: <https://www.unescap.org/resources/>

3.8 percent respectively. Loan size for small enterprises varies between NPR 1 and 5 million (between USD 8,900 and 44,400). Similarly, loan requirement for a medium enterprise range between NPR 5 to 150 million (between USD 44,000 and USD 1.33 million)²¹.

However, several studies have found glaring deficits in supply and demand when it comes to financing for small and medium enterprises. A study conducted by UNESCAP estimates that, on average, 60 percent of MSMEs do not have access to credit, and that need for credit equivalent to USD 3.5 billion is found to be wanting for MSMEs in Nepal. Similarly, these findings have been corroborated by a study conducted by the MSME Finance Forum that estimated a financing gap of USD 3.6 billion for unserved MSMEs in Nepal in 2018²².

The existing gaps in MSME financing allude to a detailed exploration of supply and demand-side constraints that inhibit the optimal allocation of credit for start-ups. Based on desk research and extensive engagement with stakeholders, the following constraints have been identified:

Demand-side constraints

MSMEs in Nepal often find it difficult to comply with the requirements of BFIs when availing loans. Several stakeholders pointed this out as a two-part problem where on one hand small businesses often lack the technical expertise/capacity and in some cases, fail to maintain required financial discipline in record-keeping- renewals, tax clearances, VAT receipts. On the other hand, the requirement set out by BAFIA 2017 puts stringent compliance standards on BFIs to adhere to when processing loans. The 2018 National Economic Census finds that only 47 percent of the MSMEs record their transactions.

A conventional collateral-based lending system makes it more difficult for BFIs to diffuse credit. Inability to pledge appropriate and adequate collateral is an obstacle that MSMEs face to improving their access to loans in Nepal. BFIs and MFIs are inclined to accept collateral that can be readily liquidated. The NRB in its Guideline on Recognition of Interest Income (2019), has tried to address the issue of clarity in the valuation of immovable property. However, businesses in rural areas that are not able to furnish quality collateral are rarely considered creditworthy.

Supply-side constraints

BFIs and MFIs operate under NRB's regulation that dictates the parameters when deeming a collateral creditworthy. While the NRB has clarified the procedures to use a market-based valuation approach for immovable assets, BFIs often use a government valuation approach. Experts consulted during the stock-taking exercise were of the view that resorting to the government-prescribed valuation method alludes to the fair value of immovable assets. Also, another pertinent issue stemming from a collateral-based lending system in Nepal is that it aggravates inaccessibility to finance especially for women and entrepreneurs from marginalised communities.

Similarly, for BFIs (Class-A, B, C), the very nature of loan size sought by SMEs does not make commercial sense. To this end, BFIs still depend on a blanket credit appraisal system that applies to all loan sizes. MSMEs often need small credits, and the processing fees for small-ticket credit are often too expensive (has a greater opportunity cost) for commercial banks in Nepal.

2.2.7 REVIEW OF DRAFT START-UP POLICY

The Ministry of Industry in 2017 initiated preparatory work to formulate umbrella legislation for start-ups. The draft 'Start-up policy' defined start-ups as 'any new entity that creates value in society via disruptive innovation, develops new products and services to meet the present needs of Nepal's dynamic market'. Further, the draft policy had also attempted discerning criteria based on capital and registration life. To

²¹ Nepal Rastra Bank. (2019). SME Financing Report,2019.

²² MSME Finance Forum. (2023). MSME Finance Gap. Retrieved from: <https://www.SMEfinanceforum.org/data-sites/msme-finance-gap>

this end, companies with registered life not exceeding five years, invested capital not exceeding NPR 100 million, and an annual turnover not exceeding NPR 100 million in any preceding fiscal year would be deemed as a start-up. However, several years in the making, the policy is yet to be endorsed.

2.3 Review of Key Programmes and Initiatives

This section reviews key programmes and initiatives that have been implemented by the Government, development partners, private, academic, and social sectors for the development of entrepreneurship in Nepal.

2.3.1 INITIATIVES TAKEN BY THE GOVERNMENT

Micro-Enterprise Development Programme (MEDEP) was a multi-phased, the GoN led initiative supported by various development partners – United Nations Development Programme (UNDP), Department for International Development (DFID), the New Zealand Government (NZAID), and the Australian Government's Agency for International Development (Aus AID) between 1998 and 2018. The initiative worked to improve the economic and social conditions of deprived and marginalised groups (including single women), Dalits, Indigenous/ Janajatis, persons with disabilities, gender minorities as well as people living in remote and inaccessible areas by improving employment opportunities and level of income of the people living below the poverty line by developing micro-enterprises through entrepreneurship development. After 2018 the MEDEP initiative provided instrumental learnings from the MED model to transition into Micro-Enterprise Development for Poverty Alleviation (MEDPA).

Women Entrepreneurship Development Fund (WEDF) programme has been implemented with the MoICS as the lead agency. The major objective is to improve access to finance for women-owned businesses that have been in operation for at least two years. Collateral-free loans up to NPR 500,000 are made available at a six per cent interest rate. Women entrepreneurs apply at the district office of Department of Cottage and Small Industries (DCSI) by submitting their business plans, which are later sent to the DCSI central office in Kathmandu. Approximately NPR 340 million in loans has been made available to 1900 women-owned businesses till 2074/75 B.S. under this initiative.

Micro, Cottage, and Small Industries (MCSI) Development Fund is run by the Department of Industry as the lead agency. The objectives are to stimulate infrastructure development, build local crafts skills and facilitate technology transfer and product marketing. The fund is dedicated to supporting MCSIs that have 70 percent of exports, generate both urban and rural self-employment, and promote agro-industrial growth by adding value to locally sourced raw materials. Enterprises with a minimum fixed capital of NPR 100,000 (USD 900) can register with the cottage and small industry offices in each district.

The **Youth and Small Entrepreneurs Self-Employment Fund** provides collateral-free loans from banks, co-operatives and financial institutions to expand their opportunities for self-employment. The objective of this initiative is to generate self-employment and provide vocational and skills development training to individuals over the age of 18. Loans up to NPR 200,000 (USD 1,770) are disbursed for individual-owned businesses, and up to NPR 5,000,000 (USD 44,400) for groups of a maximum of 25 persons, at a low interest rate under 6 per cent. There is a separate government entity that runs this fund. Applications are directed to the YSEF Secretariat, which works under the Ministry of Co-operatives and Poverty Alleviation.

Through the **Poverty Alleviation Fund (Repealed by the federal budget 2020/21)** loans were distributed via a revolving fund maintained at the community level. The objective of the initiative was to provide impoverished populations with access to finance for income-generating activities.

Through the **Rural-Self Reliance Fund**, credit for on-lending purposes to deprived or marginalised groups through loans to MFIs, co-operatives, and NGOs is provided. The Fund also provides long-term loans to agricultural product sectors such as tea, cardamom, and cold storage through the Agricultural Development Bank and permitted MFIs. The target group of the fund is individuals from rural

households, holding less than 15 ropanies (7,631 square metres) of land in the hills or less than 1 bigha (1,619 square metres) of land in the Terai, Southern Nepal, or families who cannot meet their minimum consumption needs. The lead agency for the fund is the NRB and the objective is to provide lending support for businesses from deprived and marginalised communities.

The **Department of Cottage and Small Industries (DCSI) Business Incubation Programme (BIP)** provides institutional and promotional services for the development and expansion of domestic and small-scale industries. Established in 2049 BS, the committee provided district-related works as well as industry related works in 48 districts of Nepal. DCSI has an in-house BIP that has limited office space for in-house incubates. However, there are rarely any packaged programmes from ideation to implementation phase for entrepreneurs. Even though there was some private sector involvement in BIP to support the implementation, it is now fully operated by DCSI and overseen by the Director. Aside from that, BIP has also worked together with Kathmandu University in order to set up an incubation programme.

Nepal's National Planning Commission has initiated a provision of providing seed funds for Nepali start-ups through the **Start-up Fund**. This has been done through setting up an online portal²³ where start-ups can register and provide their details in order to access seed funds. Similarly, the Ministry of Finance (MoF) has allocated setting up a fund worth of NPR 500 million to groom start-ups and innovators in its annual budget of 2015/16. This trend has continued in 2019/2020 where the government also announced a cash subsidy of up to NPR five million for start-ups. However, the plan has not been materialised so far.

2.3.2 INITIATIVES TAKEN BY DEVELOPMENT PARTNERS

The focus of the **Sakchyam Access to Finance** project was to leverage access and facilitate financial sector development in Nepal for SMEs and for poor people with a focus on the Sudurpaschim and Karnali Province. It was funded by the UK Aid and implemented by Louis Berger in Nepal. The programme aimed at easing access of finance for over 80,000 MSMEs and to increase private investment in productive sectors by £220 million such that 1.59 million people in the target region are benefited.

2.3.3 INITIATIVES TAKEN BY THE PRIVATE SECTOR

FNCCI's Start-up and Innovation Committee is a relatively newly formed committee of the apex body which has a focus on promoting entrepreneurship. Currently, the Committee is calling for applications from interested entrepreneurs for a potential to be matched up with investors from FNCCI for their venture including mentorship support.

Antarprerana's Nava Udhymshala was launched in August 2017 and has continued since fostering partnerships with local governments, local chambers, and academic institutions. Antarprerana has designed an intensive training programme for initiating and running a business with a tailored course for start-ups. The initiative aims to equip idea-stage enterprises with the knowledge, skills, and network required for transforming their ideas into businesses and steps towards sustainable growth. The programme design of the course accommodates about 10 to 20 participants per intake and provides them with a month-long coaching and mentorship engagement. So far 100 plus start-ups have participated in this flagship programme. Antarprerana has also expanded this flagship initiative to Lumbini Province via a consortium approach. Anatarprenrna's Nava Udhymshala- Rupandehi chapter is being implemented in association with four partners – Butwal Chamber of Commerce and Industry (BuCCI), Lumbini Banijya Campus, NYEF: Rupandehi chapter, and Antarprerana and is supported by the Nepal Urban Resilience Programme. In January 2021, a total of 13 start-up fellows from Lumbini Banijya Campus were selected, oriented, and matched with entrepreneurs. Similarly, Anatarprerana also conducts, ToT (Training of Trainers) for mentors and enables mentees/entrepreneurs' engagement.

²³ National Plan Commission, Nepal. (2022). Innovation Startup Capital Program. Accessed from: <https://startup.npc.gov.np/>

The **M&S Next Venture Corp - Next Launchpad** is a mentorship-driven accelerator programme designed for high-potential early-stage businesses. This start-up accelerator programme modality revolves around scaling production by streamlining the participant's business model, improving their management and marketing strategies, and making investment deals. NEXT Launchpad is a four-month-long mentorship-driven programme intended to make participating start-ups investment-ready by roping in the expertise of seasoned mentors and high-net-worth individuals. The accelerator aims to make participating start-ups investment-ready via intensive refinement in their business model and helps them leverage from network and exposure. The accelerator has a selective focus on innovative and impact-oriented start-ups. The participant profile, so far, exhibits a preference for tech-based services across retail, automation, and agriculture. For instance, Danfe Solution, for example, has developed RestroOrder, a full-fledged restaurant management system that helps manage major functions and daily operations of restaurants. Similarly, Home Automation Nepal has been operating in the automation of security systems, surveillance (CCTV), and energy management. Eton technology is a tech-based solution provider in schooling and education. On the other hand, Launchpad has also accommodated agri-based businesses, Margo Nepal, a domestic fruit-based beverage manufacturer. Similarly, Farm to Finger works in creating value chain linkages for indigenous high-value products and promoting community-based farming practices. NPAC, another participant of this cohort, is working to promote the cultivation, procurement, management, and export of the high-value fruit kiwi.

Daayitwa's Rural Enterprise Acceleration Programme (REAP) is an accelerator initiative that aims at intervening at the growth stage of rural MSEs with high growth potential based in rural Nepal. The programme provides one year accelerator support and hinges on leveraging growth via a blend of technical and leadership interventions- including seed funding, training, mentorship, and networking. Since 2014, REAP has been supporting 45 entrepreneurs in 4 districts across 2 provinces – Gulmi and Palpa in Lumbini Province and Makwanpur and Ramechhap in Bagmati Province. The beneficiaries of the programme have demonstrated success in accessing post-incubation funding from commercial banks. However, the programme acknowledges that harnessing impacts-investors, especially from private equity and venture capital (PE/VC) outfits has been a challenge.

One to Watch - Enterprise renewed its previous accelerator programme- 'Rockstart Impact' into 'Enterprise'-post its acquisition by a private investment management firm-True North Associates. The focus of the enterprise accelerator programme is to source and support commercially viable start-up ideas that have social and environmental impact generation motives at the core of their business model. Aspiring enterprises need to pay a fee of USD 2500 to enrol in the 12-week programme that includes experience sharing sessions from seasoned Nepali entrepreneurs, support from local and international mentors, and demonstration sessions across three cities-Kathmandu, Amsterdam, and London. Leveraging on their past experiences, One to Watch has set up a pre-investment support team to develop and organise boot camps, start-up days, and other ecosystem-related activities.

Chaudhary Foundation's Nepal Social Business (CG NSB) has joined hands with Lions Club International Foundation, and Industrial Enterprise Development Institute (IEDI) to launch the Nepal Social Business – a programme curated to foster social enterprises in Nepal. The programme is slated to promote social business across 26 districts with high incidences of poverty by injecting equity investment to create social impact. The dimensions of this intervention range from supporting ideation, funding, training, and capacitating entrepreneurs. CG NSB has set a target to fund 5,000 businesses over five years with a pledge of USD 1 million in the initial phase. Each viable business receives a revolving equity injection of USD 30,000. In addition, CG NSB also carries out incubation clinics and awareness programmes. A Social Impact Committee has been convened to assess the social impact of proposed concepts.

Nabil Bank's School of Social Entrepreneurship carries out a fellowship programme and certification courses in social entrepreneurship for creative social enterprise with the objective of supporting skilling and learning for start-up founders at the local level. A six-month-long fellowship programme and course curriculum have been developed in collaboration with Tribhuvan University to target 20 participants in one intake. The programme is expected to generate 40 fellows in 2 cohorts per year who will at the end

of the course have an investment-ready enterprise. Similarly, Nabil has also partnered with 7 different colleges/universities from every province to run a 3-month Certificate Course for social entrepreneurs for students at the secondary level.

Shark Tank Nepal is a programme in the pipeline and is a first-of-its-kind television reality show-based pitch platform for entrepreneurs in Nepal. The modality of the show will see where entrepreneurs or investors pitch their idea or product to a panel of industry-specific veterans who will then choose to invest in equity or lend funds on interest to prospective entrepreneurs.

2.3.4 INITIATIVES TAKEN BY THE ACADEMIC AND SOCIAL SECTOR

Idea Studio claims to be Nepal's first business incubator platform and was pioneered by Kathmandu University's School of Management (KUSOM) to foster sustainable social impact by creating innovative start-ups. The platform has evolved beyond incubation and provides a scale up platform for start-ups that are ready to enter an accelerator phase via capacity-building, networking, idea hunts.

The ***Yunus Social Business Center*** at King's College facilitates the growth of social enterprises through the research support and knowledge creation on sustainability. Yunus Social Business Center, as a global initiative, has been catering as a research hub for Social Business and provides a host of business support services including mentorship, common workplace, legal support, business, advisory and networking along with linkages with funding actors. King's incubator facilitates the growth of social entrepreneurship and commercial entrepreneurship through academic teaching, training, providing access to seed capital, mentoring, and networking. The centre runs its incubation centre to transform the ideas into concrete business projects and aspires to guide the start-ups or existing organisations towards more challenging and profitable goals.

The ***Himalayan Climate Initiative*** is a youth-driven Nepali non-profit organisation working under social inclusion and climate resilience themes. HCI envisions a zero carbon economic growth trajectory in enterprise development by incubating, supporting, and sustaining social- entrepreneurship initiatives. HCI has been engaging with youth leaders and creating avenues of collaboration between corporate and civil society partners and leverages its strategic connection with multiple government institutions of Nepal. So far, HCI has incubated twelve socially minded start-ups and has set up professionally run ***Social Innovation and Business Incubation Hubs (SIBI Hubs)*** in Kathmandu and Nepalgunj.

Ujyalo Foundation's EmpowHER was conceptualised as a platform to build and support inclusive leadership among women by helping them overcome existing socio-economic barriers that have historically excluded women from assuming critical decision-making in society. In 2016, EmpowHER started its 'Impact Service Idea' initiative in collaboration with the Ujyalo Foundation. Young and aspiring women leaders received a seed fund of NPR 50,000 under this initiative.

2.3.5 COLLABORATIVE EFFORTS AND INITIATIVES

Nepal Agribusiness Incubation Center (NABIC) was established to nurture and accelerate new and existing growth-oriented agribusinesses. NABIC provides holistic business support services at the incubation and acceleration stage. The Project for Agricultural Commercialization and Trade under the Ministry of Agricultural Development/ Government of Nepal (with support from the World Bank and its InfoDev programme) is seed funding NABIC's establishment and operations for an initial period of 18 months. A consortium headed by Practical Action Consulting (PAC), UK – a consulting arm of leading UK-based INGO is present. Practical Action manages and promotes NABIC. NABIC has also brought on board KUSOM as a promoter. NABIC provides a mix of services to assist incubation and growth of agribusinesses, especially those focused on post-harvest activities, processing, and packaging. The service portfolio of NABIC includes advisory and mentoring services, business and management consulting, marketing, facilitation of investments and finance, access to office facilities and management services, technology transfer, information and networking.

Nepal Communitere's I-Cube (Innovate, Iterate, and Incubate) is an incubation programme supported by UK Aid. I-Cube's intervention design is based on a participatory learning experience that inculcates monthly masterclasses, one-on-one strategic business, financial literacy coaching, leadership development, and direct access to finance along with a network of industry experts and technical consultants. Nepal Communitere also provides collaborative spaces to equip entrepreneurs with the means to pioneer innovative solutions, iterate and refine their ideas, and become self-reliant.

2.4 Guiding Principles of Existing Legislations and Programmes

Consensus building in Nepal has remained a complex process due to the variability in political economy and socio-cultural precincts. Alignment of political capital and the mandate and ownership of implementers is a must for any policy regime. Though policy champions and supporters with high political capital play a decisive role in ensuring that reforms are implemented, supporters alone are not sufficient for (or necessary to) success²⁴. The consensus around entrepreneurship development and alignment of the enterprise ecosystem towards a green, sustainable, and inclusive development has not converged to produce tangible gains. Nepal's development achievements reflect a disparity in development outcomes, creation of enterprise creation, skilling of human capital across gender and social groups.

Structural lack in discerning clear mandates, lack of ownership of implementing bodies, lack of objective appraisals of the strength of implementing bodies, and result monitoring of policy implemented impede policy outcomes. Periodic plans and a myriad of programmes have attempted to define a national vision and strategic focus to bolster enterprise creation, support MSMEs, and uplift the greening of the economy. The 15th Five-year Plan has also touched upon adaptation strategy on resilience promotion and inclusion. However, these broader visions seldom permeate the confines of the bureaucratic apparatus. Nepal lacks a clear framework that supplements a national vision, as a lack thereof-duplicity in roles of implementing bodies weaken institutional arrangement offsets intended outcomes, and policy reforms take a back seat.

Programmatic interventions within Nepal's ecosystem to build a pipeline of green, resilient, innovation-oriented, and investment-ready companies have not been effective. The incubation-accelerator-funding space has been dedicated to scalable ideas and sparsely to impact but as the space has been occupied by private sector actors, their bottom-line hinges on investment returns. Efforts from the government to that end have been non-existent, and policies introduced so far have failed to catalyse green, resilient and inclusive enterprises. Green business incubators and other similar venture support programmes (including early-stage venture funding support) via government or multilateral agency interventions have not been experimented with.

Targeting the 'missing middle' has not been sufficient. Business support, funding avenues, and handholding opportunities are polarised towards supporting start-up skew disproportionately. Small businesses often find it difficult to access loans from BFIs and do not qualify for micro loans. Nor do they not need big-ticket investments.

Blanket provisions and programmatic interventions with targeting problems hinder prospects for GRID-oriented enterprises. Start-ups face challenges in cash cycle management, making institutional efforts to comply with onerous policy regimes, and are vulnerable to shocks arising from market uncertainty. However, the current policy environment and support from the government provide little-to-no incentives for start-ups to build adaptive capacity to cope with socio-ecological and economic changes, risks mapping, and anticipatory planning.

²⁴ Pasanen, T., Befani, B., Rai, N., Neupane, S., Jones, H., & Stein, D. (2019). What drives policy change in Nepal? A comparative analysis. ODI Report.

3. Review of Best Practices: Illustrative Cases and Lessons

3.1 Country Cases

3.1.1 INDIA

India has made major strides to provide a boost to the entire entrepreneurship ecosystem by introducing the Start-up Action Plan (SAP) 2016, which addressed various aspects of the start-up ecosystem and provided innovative entrepreneurs with a launch pad and support system. The SAP focuses on three key major areas for empowering potential start-ups: (i) hand holding and simplification; (ii) funding support and incentives; and (iii) incubation and industry-academia partnership²⁵. In its groundwork to enable the objectives set forth by the SAP 2016, the GoI has clearly defined and codified objective criteria to identify a start-up.

Compliance regime based on self-certification has helped India attain remarkable results in ease of doing business. For start-ups, India has simplified regulatory requirements in two areas of compliance—labour and environmental law. For five applicable pieces of labour legislation, start-ups can provide self-certification. In addition, inspection frequency has been relaxed for three years based on self-certification. For environmental law compliance, start-ups in the 'White Category' are allowed "self-certification" in 36 categories with a pollution index score of up to 20.

The SAP has created a "Startup India" hub principled on a hub-and-spoke philosophy to bring together different stakeholders within the start-up ecosystem into one platform. SAP has also come up with the scheme for Startup Intellectual Property Protection (SIPP) with the aim of fast-tracking patent examinations at a lower cost. To this end, the Controller General of Patents, Designs, and Trademarks (CGPDTM) has been tasked as the nodal agency to steer policy outcomes.

The SAP has also geared a Fund of Funds for Start-up's mechanism to enable financial access and facilitation of credit with a corpus of INR 10,000 crores under the management of Small Industries Development Bank of India (SIDBI). The SIDBI identifies experienced professionals (fund managers) in the venture funding ecosystem and works with SEBI registered alternative funds to disseminate funds.

In addition to this India has started a Credit Guarantee Scheme for Start-ups (CGSS) with a corpus contribution of INR 2,000 crores to help start-ups raise collateral-free loans to INR 50 million per case through member lending institutions. Also, various exemptions on taxes and holidays have been introduced to cover start-up according to the new definition. Start-ups incorporated after 1 April 2016 can avail a tax rebate of 100% on their profits for a total period of 3 years within a block of 7 years. India has also promoted environmental disclosure programmes—green rating for integrated habitat assessment. Large firms in India are required to allocate 2 percent of their average net profit for CSR projects. In addition, India has also advanced certification and eco-labelling schemes and has

²⁵ Singh, V. K. (2021). Policy and regulatory changes for a successful startup revolution: Experiences from the startup action plan in India. In *Investment in Startups and Small Business Financing* (pp. 33-67).

committed institutional structure to promote green innovation research, especially for companies in the biotech and manufacturing sectors. In-house research and development activities can avail up to 200 percent in a tax deduction, while incentives for scientific research firms come in the form of a 100 percent reduction in capital and revenue expenditure.

Industry-academia partnerships and incubation has been targeted for existing and especially for first-generation entrepreneurs. India has worked to provide a collaboration platform by organising start-up fests for showcasing innovation and launching the Atal Innovation Mission (AIM) with the Self-Employment and Talent Utilization (SETU) Programme. Likewise, research parks and innovation centres at the National Institutes have complimented innovation-focused start-ups at the university level.

3.1.2 BHUTAN

Bhutan's flagship entrepreneurship policy is entitled **Cottage and Small Industry (CSI)²⁶ Policy 2019**. CSI accounts for roughly 90% of the total number of industries. Furthermore, CSI constitutes one among five pillars of Bhutanese economy: hydropower, agriculture, cottage and small industries, tourism, and mining. The mission of CSI has been linking development of cottage and small industries with poverty alleviation in rural areas. Started in the 1990s, CSI began as an entrepreneurship development programme, and further expanded with special loan schemes. In 2010, the Department of Cottage and Small Industry was established to institutionalise CSI. Bhutan has also made remarkable progress in payments for ecosystem services (PES) in a bid to promote green business approaches for natural capital creation.

CSI Policy is focused on six strategic domains:

Policy and legislative framework focus on integration, digitisation and measurement of CSI contribution to the economy.

Entrepreneurship culture and human capital development focuses on integrating learning culture into education, recognition of entrepreneurs, skill needs assessment of CSI, collaboration, and linkages. There is special mention of promotion of women entrepreneurship in CSIs through provision of preferential business development services.

Business development support and infrastructure envisions the setup of business incubation and start-up centres, Fablabs, designated space in industrial estates/parks, establishment of market infrastructure, emphasis on strengthening co-operatives, farmer groups, clusters and community-based initiatives, and informal sector development.

Enhancing access to finance and incentives recognises the presence of high interest rate and demanding collateral policy of financial institutions and focuses on development of a range of financial tools and intermediaries, including but not limited to alternate credit scoring models, and seed money to TVET and tertiary institutions. The focus is on both equity and debt financing needs and there is an understanding of differing needs at various stages and leveraging financial technology. The plan is to periodically review fiscal and non-fiscal incentives provided and proactively and effectively mobilise donor funds alongside government funds.

Innovation and technology adoption is another strategic domain and it emphasises collaboration between incubation units, entrepreneurship development cells, and tertiary institutions with start-up centres. There is also focus on databases, innovation voucher scheme, and FDI in selected small industry sectors.

Access to market acknowledges the difficulty of the geographical location and focuses on e-commerce and Brand Bhutan to increase market's exposure.

²⁶ Ministry of Economic Affairs Royal Government of Bhutan. (2019). Cottage and Small Industry Policy. Retrieved from: <https://bhutan.eregulations.org/media/Cottage-Small-Industry-Policy-2019.pdf>

CSI has been defined based on investment size and number of people engaged in the sector in Bhutan.

CSI's Flagship Programme was launched in 2019–2023. This allocated around 16 million USD for start-ups and CSIs and further enabled promotion of viable and sustainable start-ups with 20 identified products, 1050 CSIs, and additional 4700 jobs with 642 start-up businesses having concrete business goals. Six domains of the flagship project are given below with major areas of their focus:

Entrepreneurship culture (Skills development): International business idea competition, Vibrant Bhutan New Venture Challenge 2020 (overseas returnees), Business Incubation Management Virtual Workshop (invite to colleges, TVET institutions, co-working space, officials), Start-Up Hackathon Challenge 2020 (fintech, agritech, edutech)

Legal and policy framework: Focus on integration and digitisation of the economy.

Human capital development: Business management training, training on product development, product packaging training, bakery

Market introduction: Product promotion programme to increase market access

Access to market: Infrastructure, including co-operatives, product standardisation and certification, Business Incubation Center (BIC), Fablabs, Common Facility Centre (CFC).

Business development support: CSI technology request database, business advocacy workshops, equipment, technology support to entrepreneurs

These six sectors are under flagship programme and high priority and multi-sector interventions are needed to address national issues in a targeted manner. The programme is operated directly under the Prime Minister's Office Gross National Happiness Commission (GNHC) Secretariat and operated under the programme management unit. Out of the seven objectives mentioned, encouraging more dynamic start-ups by motivating youth and women to consider entrepreneurship can be considered as an exemplary policy exercise for Nepal. This can be taken up as a preferred viable career to facilitate creation of social and sustainable enterprises to address the needs of those that are less advantaged, and eliminate entry and exit barriers. Furthermore, these objectives utilise the paradigm developed by UNCTAD's Entrepreneurship Policy Framework.

3.1.3 MALAYSIA

Malaysia has adopted the **National Entrepreneurship Policy 2030**. Launched in 2018, it engages various stakeholders. 6000 respondents across the country were involved in the process. This is a long-term policy which is both outward looking and international and is linked up with Malaysia's goal of being a developed and prosperous country by 2030. This entails linking prosperity with equity where economic growth is distributed to all segments of society that can benefit from it including the Bumipetra, indigenous communities, households in the low-income bracket and special focus groups - youth, women, and senior citizens.

Malaysia, which is also an economic axis of Asia, is hoping to escape the middle-income trap through a new development model that contributes to equitable growth, sustainability, and inclusiveness. This is built on the learnings from other ASEAN countries including Singapore, Thailand, Vietnam, Indonesia, and developed countries including UK, USA, Canada, Germany. Malaysia ranks, according to World Bank Data from 2019²⁷, first in business-friendly regulation in the list that included a sample of countries of all income brackets (middle, low, and high).

Malaysia is looking to incorporate a **New Development Model** in its trajectory to escape the middle-income trap. This includes a focus on **equitable growth, sustainability, and inclusiveness**. Societal attitudes towards entrepreneurship are generally positive in ASEAN countries according to a Global

²⁷ World Bank. (2023). Ease of Doing Business. Retrieved from: <https://data.worldbank.org/indicator/IC.BUS.EASE.XQ?locations=MY>

Entrepreneurship Monitor (GEM) report in 2014/2015. However, these activities normally last to an early stage. This is indicated by the fact that ASEAN economic region had a positive ratio of TEA to business discontinuance. However, when seen from a GESI angle, ASEAN - 6 region (which includes Australia, China, India, Japan, Korea, and New Zealand) is the best performer in terms of an early-stage entrepreneurship activity. This regional performance is significantly better than the GEM average²⁸.

In order to extend this early-stage entrepreneurship activity to a more institutionalised start-up, it is imperative to shift the economy from traditional knowledge intensive industries to innovative start-ups that capitalise on high skilled talents and foster a regional entrepreneurship ecosystem - which is evident in the findings of the GEM Report. This can be done through introduction of funding to early-stage start-ups or support them from ideation, incubation phase to pilot and launch.

On a policy level, SME Integrate Action Plan Report 2019 found that 60+ entrepreneurship development organisations, 14 government related, 40 policies / action plans / direction plans; and 637,808 participants benefited from the entrepreneurship development programme. These programmes categorised into 8 categories:

- **Funding:** Entrepreneur development funds, credit guarantee corporation, soft loans, venture capital, angel investors, crowdfunding, investment account platform, and peer-to-peer loans
- **Research grants:** commercialisation, demand-driven innovation project by Public-Private Research Network
- **Training and capacity-building:** higher learning institutions, human resources training and intensification, skilling-up and mentorship, and entrepreneur capacity-building programmes
- **Infrastructure / business premises / equipment:** Malaysian Palm Oil Board (MPOB), Robotics Institute, Rural Premises Transformation Programme, PROSPER Property Programme which assists entrepreneurs in obtaining strategic premises for enterprises
- **Technology:** MTDC – commercialisation, technology transfer, incubation, management of government funds related to technology, increasing technology adoption rates in local SMEs.
- **Market access:** In 2018 alone, 50,197 participants involved in 27 programmes under market access
- Social enterprises
- **Internationalisation – MATRADE** (e-Trade), SME Corp Malaysia.

These programmes are the overarching component of NEP 2030 which is an authoritative policy document that aims to establish Malaysia as an outstanding entrepreneurship nation by 2030. This however is ambitious for Malaysia whose global entrepreneurship index rests at 40.1 up from 32.73 from previous year – indicating a change of 22.51%. Aside from its focus on building an entrepreneurship ecosystem at home, Malaysia also aims to develop a market network with the diaspora abroad to support financing through micro loans, angel investors, venture capital, private equity, and alternative funding strategies. While these are short-term objectives that the current policy is pursuing, other policies to provide foundational support could include - change in norms and mindset (which is a rather long-term process in a nascent market like Nepal). However, investment in skills and talents with a focus on technical training and human resource development could be pursued as a long-term strategy to provide foundational support to the desired change in mindset.

Currently there are five objectives that Malaysia has laid out to improve its position in the global entrepreneurship index.

²⁸ Xavier, S. R., Guelich, U., Kew, P., Nawangpalupi, C., & Velasco, A. (2015). Driving ASEAN entrepreneurship: Policy opportunities for inclusiveness and sustainable entrepreneurial growth. Asean Regional Report.

These objectives include:

- Holistic and conducive entrepreneurship ecosystem to support Malaysia's inclusive, balanced, and sustainable socio-economic development agenda
- Entrepreneurship culture and thinking of a productive economy
- Increasing the number of high-quality, viable, resilient, and competitive Malaysian entrepreneurs with a global mindset
- Improving the capabilities of micro, small and medium enterprises, co-operatives etc.
- Focus on making entrepreneurship a preferred career choice

Additionally, the **Ministry of Entrepreneur Development and Cooperative (MEDAC)** has laid out a specific focus on six Strategic Thrusts - 6 to foster an enterprising culture in Malaysia. These are given below with some of the key terms used:

- **Fostering entrepreneurship culture - link with society:**
 - 2 strategies and 10 initiatives in total
 - Building critical mass of entrepreneurs - awareness, role models, and media outreach
 - Implementation of entrepreneurship education and skills – i.e., through education system, curriculum, TVET, and collaboration
- **Optimising regulatory environment and access to funding:**
 - 6 strategies, and 18 initiatives in total
 - Necessity to promote good governance for enabling a regulatory environment for better access to funding
 - Entrepreneurship development organisations – streamline roles, review various programmes for existing and new start-ups
 - Enhance, monitoring, and assessment of outcome and impact - national council on entrepreneurship to evaluate and monitor results
 - Enhance and improve regulatory requirements for businesses and lower administrative overhead
 - Reduce the stigma of bankruptcy for entrepreneurs
 - Improve access to funding and financial inclusion – i.e. through alternative sources of financing, collateral-free loans, role of DFIs, and facilitate access to information
- **Stimulating holistic and integrated entrepreneurship development**
 - 3 strategies and 9 initiatives
 - Support entrepreneurship endeavours of Bumiputera, special focus groups and the disadvantaged – outreach programme; targeted assistance; and incubation spaces in rural areas
 - Co-operatives: intensification of cooperative movement, capabilities of co-operatives, and structural reform of agencies
 - Social entrepreneurship: stronger community building, and inclusive business approach
- **Accelerating economic growth through innovation-driven enterprises**
 - 2 strategies and 6 initiatives
 - Special focus to support high growth and innovation-driven enterprises - industry 4.0, strengthen start-up ecosystem, tech-related start-up, performance based loans and incentives for innovation
 - Facilitation of technology exchange and innovation process through research collaboration, networks in knowledge intensive sectors, and greater university-industry collaboration.

- **Strengthening entrepreneurship capabilities and performance of MSMEs**
 - 4 strategies; and 14 initiatives
 - Vendors' Development Programme
 - Enhance entrepreneurship skills and capabilities of MSMEs
 - Provision of targeted support for market access
 - Strengthening supply chain management of MSMEs
- **Internationalising high growth enterprises**
 - 2 strategies and 5 initiatives.
 - Facilitate access for local enterprise especially Bumiputera (the marginalised community to international markets) – provide market intelligence and advisory services on international markets; global alternative financing network; facilitate compliance of international standard and quality to enable local enterprise
 - Promote networking and business collaboration

3.1.4 RWANDA

Rwanda has adopted several market-oriented reforms to develop **Entrepreneurship Development Policy**²⁹. This is evident in the MSME ecosystem in Rwanda – from the Ministry of Trade and Industry - retrieved April 2020. Rwanda hopes to achieve upper middle-income status by 2035 and targets private sector entrepreneurs – private sector dynamism. This is built on its existing policy which explicitly outlines 'Make in Rwanda' Policy along with explicit focus on SDGs, and African Union commission (AU) Agenda 2063. Aside from that, it also incorporates East African Community (EAC) Vision 2050 which replaces and builds the 2010 SME Development Policy. In addition to SMEs, there is also a focus on enterprise growth at all stages - from start-up to existing micro, small, and medium enterprises.

Seven pillars that can be clearly identified in its policy landscape are:

- Human capital, and management
- Business support
- Financing
- Business enabling environment
- Markets and value chains
- Technology and infrastructure
- Entrepreneurial culture

Aside from these key pillars, MSME policy also relies on an overarching institutional framework of translating start-ups in initial phase to Entrepreneurship Development Programme (EDP) development – discussion and validation of inception report, data collection in 20 districts – 313 individuals, Ministry team review, provincial validation workshop, senior management meeting, stakeholders validation workshop, sector working group, economic cluster, Inter-Ministerial Coordination Committee, cabinet approval.

²⁹ Republic of Rwanda. (2020, Ministry of Trade and Industry). Entrepreneurship Development Policy: Developing an effective entrepreneurship and MSME ecosystem in Rwanda. Retrieved from: https://www.minicom.gov.rw/fileadmin/user_upload/Minicom/Publications/Policies/Entrepreneurship_Development_Policy_-_EDP.pdf

3.1.5 SOUTH KOREA

South Korea has adopted several country strategies, and adopted legislative reforms to foster entrepreneurship culture. These are evident in the country's policies on the demand-side push for greater start-up firms. Similarly, there are also adequate skills in the workforce of SMEs on the supply side. Organisation for Economic Co-operation and Development (OECD)³⁰ document further recognises that fostering entrepreneurship education right from the start and lowering the personal costs faced by entrepreneurs in the initial phase of start-up would be ideal policy intervention for Korea. This also opens up a greater role for venture capital, in part, by allowing the Merger and Acquisition (M&A) market to recuperate their funds.

In particular, Korea's Tech Incubator Programme is highly oriented to build a science and technological system to nurture innovation capability. There is also a special focus on digital and green technologies to foster a green transition³¹. Its overarching framework is, however, based on Israel's programme. The City of Songdo, in particular, can be taken as an archetype that looks to scale up its green and smart technologies while creating a nurturing environment for entrepreneurs. In an attempt to do so, it has moved into economic diversification across advanced manufacturing, tradable services and digital/green technologies. One of the flagship programmes is Tech Incubator Programme for Start-Ups (TIPS). Korea is looking to grow these start-ups into global start-ups - a term applied to young firms heavily involved in international trade and have made large contributions to innovation and employment. This policy pathway of economic diversification of Korea³² can be taken as policy learning for Nepal as it looks to liberalise its economy to achieve greater economic growth rate over the next decade.

3.2 Lessons Learnt

The following section provides lessons learnt from various case studies:

3.2.1 LESSONS FROM COUNTRY CASES

INDIA

- Develop a start-up action plan that provides incentives to innovate with special incentives for firms who have sustainable missions and provide IPR for distinct ideas
- Promote environmental disclosure programmes and integrate advanced certification and eco-labelling schemes into existing tax-incentive structures. Incentivise Green Innovation Research and in-house research and development (R&D) activities
- Provide special provision for banks which promote small industries i.e., Small Industries Development Bank of India
- Look into the possibility of introducing a public bank specifically catered to start-ups or support existing financial institutions that can pool funds to invest in start-ups
- While several exemptions on tax & capital gains and concessions have been provisioned in Nepal, effective implementation of such facilities is a lesson Nepal needs to emulate. The IEA (2020) has tasked one-stop service centres for the same; however, lack of institutional capacity has hindered efficient delivery of such facilities.
- Policy to link technical universities with research parks in order to start incubation hubs within universities to encourage new founders

³⁰ Jones, R. S., & Lee, J. W. (2018). Enhancing dynamism in SMEs and entrepreneurship in Korea. Retrieved from: [https://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=ECO/WKP\(2018\)58&docLanguage=En](https://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=ECO/WKP(2018)58&docLanguage=En)

³¹ World Bank. (2022). Policy Lessons from South Korea's Development. Accessed from: <https://olc.worldbank.org/content/policy-lessons-south-koreas-development>

³² OECD. (2016). Entrepreneurship Promoting innovation entrepreneurship Retrieved from: https://www.oecd.org/policy-briefs/korea-promoting-innovative-entrepreneurship_EN.pdf

BHUTAN

- Aside from funding new start-ups, design policy that supports capabilities of existing SMSEs – i.e., through business development support and access to market.
- Start-ups and CSI Development Flagship Programme which is based on the UNCTAD's Entrepreneurship Policy Framework: which among other pillars relies on policies to facilitate and increase access to finance and social network for greater business promotion
- Envision a national pride project that focuses on entrepreneurship (taking into account the learnings from national pride projects)

MALAYSIA

- Recognise and internationalise high growth start-ups in order to create national identity through start-ups - i.e., Malaysia Expo
- Having a range of financing instruments ranging from loans from commercial banks, venture capital firms, angel investors, and peer-to-peer loans
- Increase capabilities of micro, small and medium enterprises, while also providing incentives to new start-ups
- Government can pick winners: support for high growth and innovation-driven enterprises – performance based loans and incentives for innovation
- Something along the lines of MEDAC in Malaysia can be emulated with the establishment of a dedicated government entity that looks at issues of entrepreneurship, SMEs, start-ups, and could have an extended scope.

RWANDA

- Focus on developing an ecosystem rather than individual enterprises
- Increase production capacity, both manufacturing and service industry
- Inter-Ministerial and inter-sectoral coordination committee to promote 'make in Nepal' and encourage authentic Nepali brands
- The Seven Pillars can be contextualised to support human capital initiative that drives entrepreneurial culture in Nepal

SOUTH KOREA

- Focus on ICT sector; Recognise comparative advantages (cheap labour and low living costs) of Nepal in the ICT sector and link them with global ICT industries.
- Initiate tech incubator programme for start-ups
- Look into trading ICT products to a wider international audience

3.2.2 VISION AND LEGISLATIONS

Aside from the piecemeal policies summarised in the table above, there is also a long-term vision for all the countries mentioned in the above example. To exemplify, Malaysia also has a 2030 strategy in place in order to achieve its outward looking and global policies on start-ups. While Nepal's ministries (chiefly Ministry of Finance, Ministry of Industry and Commerce Supplies, and National Planning Commission) have some section specific acts on promoting entrepreneurship, Nepal lacks a comprehensive strategy paper. Hence, Nepal could emulate Malaysia's long-term strategy on entrepreneurship as it looks to achieve GRID-oriented development post COVID-19³³.

³³ World Bank. (2021). Nepal's transition to green, resilient, and inclusive development (grid) for sustainable recovery, growth, and jobs. Accessed from: <https://www.worldbank.org/en/events/2021/09/15/nepal-s-transition-to-green-resilient-and-inclusive-development-grid-for-sustainable-recovery-growth-and-jobs>

3.2.3 PROGRAMMATIC INTERVENTION

On a more programmatic level, Nepal can look into a range of intervention areas including but not limited to incubators, co-working space, and establishment of alternative financial instruments on both debt and equity (Bhutan). Aside from that, Nepal can look into clear targeted support for financial inclusion established by Malaysia for its entrepreneurship policy.

3.2.4 STAKEHOLDER ENGAGEMENT

The policy however should engage various stakeholders in the process. These include representatives from the private sector, public sector and non-profit sectors including universities, local governments and local chambers of commerce and industries. This process will allow greater engagement from the citizens, and ensures ownership of the policy. In Malaysia's long-term strategy for entrepreneurship for instance, stakeholders from all sectors, 6,000 respondents to be precise, across the country were involved in the entire process.

3.2.5 INSTITUTIONAL ARRANGEMENT

The above policies are placed institutionally under the top-most political leadership i.e., Prime Minister (in the case of Bhutan). Meanwhile in Malaysia, there is a dedicated Ministry for Entrepreneur Development - MEDAC (Malaysia) which designs long-term strategies.

3.2.6 ENTREPRENEURSHIP EDUCATION AND SKILL DEVELOPMENT

Another avenue for governments to support entrepreneurship is by embedding entrepreneurship education at all levels. This can establish entrepreneurship as a viable career choice among youths involved in higher education.

3.2.7 PROMOTING NETWORKS AND AWARENESS

Another policy lesson from Malaysia is using its diaspora widely in order to finance enterprises at home. Remittances from Nepal's diaspora can be channelled to financial institutions in Nepal via banks, co-operatives, and venture capital firms. This will provide necessary financing to support small businesses and start-ups in Nepal. In cases where domestic, and non-resident Nepali's financing is insufficient, the private sector can also look into international financing sources including grants, and seed funds from financial institutions.

What works for entrepreneurship development?

In addition to learning lessons from other countries, it is equally important to assess from time to time what works for entrepreneurship development in Nepal through evidence reviews and policy reviews. The same policy could work in one country but not be so successful in another. In Germany, the curriculum has designed an entrepreneurship university course. Even though this is regarded positive for entrepreneurship intent, similar policy has been unsuccessful in other countries like New Zealand. However, one policy that has been successful is start-up subsidy which increases the prospect of self-employment among youths. In Sweden, Flanders and regions in Austria, such a policy is coherent among local and national level. Similarly in Switzerland, Business Plan contests to incubate new start-ups can be regarded as a step in a positive direction. The UK also has a consultancy initiative for innovative start-ups in their ideation phase. For a country like Nepal, it is first important to encourage generation of evidence based on which this evidence can be reviewed. An example could be NESTA's 'The Impact and Effectiveness of Entrepreneurship Policy'³⁴.

³⁴ Rigby, J., & Ramlogan, R. (2016). The impact and effectiveness of entrepreneurship policy. Handbook of innovation policy impact, 129-160.

4. Opportunities for GRI-Entrepreneurship Development

4.1 Regulatory Framework and Environment

- Promote a mix of Market-based instruments and price-based controls by setting clear standards to increase the uptake of technology in pollution abatement, air quality maintenance, public procurement, and recycling to mandate a change in business practices.
- Nepal is yet to conceptualise comprehensive legalese on the definition, characteristics, and nature of a 'Start-up'.
- Business entry and closure-related provisions are cumbersome, repetitive, and unharmonised. Navigating through a myriad of requirements to this end is further complicated by information asymmetries borne out of existing structural deficiencies.
- Roles of agencies and authorities involved in formulating laws/policies that dictate the business environment often overlap. The duplicity of mandates of incumbent agencies alludes to a lack of integrated vision and inter-agency communication.
- Complying with tax-related procedures is time ineffective and costly thus is a massive challenge for micro and small enterprises and the main reason for the tepid participation of businesses in the formal economy.
- Lack of a strong contract enforcement practice and jurisdictional ineffectiveness is eroding the resilience of nascent stage entrepreneurs.

4.2 Entrepreneurship Education and Skills Development

- Spatial inequality in terms of access to higher education across the seven provinces is considerable. Bridging this gap in access and following it up with a sound institutional arrangement to promote entrepreneurship courses, programmes, and chairs at higher education institutions and universities can culminate into tangible gains.
- Entrepreneurship education is relatively recent and is still offered only by a handful of academic institutions. Significant headroom remains for developing an entrepreneurship curriculum with a pedagogy based on a cross-cutting approach that supplements real-time problem-solving, critical thinking and skilling for first-generation entrepreneurs.
- GRID is a largely missing vocabulary in higher education, and the perspective is limited to the Nepali development sector. Federalism offers an unmatched upside potential in that promotion of technical and vocational education can permeate at the grass-root level by onboarding the sub-national and local governments.
- Academic institutions lack an incentive to produce entrepreneurs as a function of an archaic assessment system that gives precedence to quantity over quality.

4.3 Technology Exchange and Innovation

- Scant effort in research and development and a shrinking manufacturing base has inflated the cost requirement in tapping innovation for aspiring enterprises.
- Diffusion of novel technology and integration of ICT measures must be collated in select service-oriented sectors that have demonstrated high growth potential vis-a-vis high return outcomes.
- Little-to-no precedence has been given to promote local knowledge and traditional technology.

4.4 Finance and Related Infrastructure

- Small enterprises have difficulties accessing larger volumes of credit but are too big to benefit from microloans. On the other hand, insufficient venture capital financing, stringent collateral requirements, and the “missing middle” problem plague enterprises.
- Nepal lacks an appropriate credit infrastructure to support MSME growth, including credit guarantee mechanisms and insurance schemes.
- The PE/VC ecosystem has experienced early success in the digital domain. Alternative assets class actors are still at the nascent stage but well-positioned to tackle the credit gap through structures that source funds from the local and international markets. However, constraints in sourcing FDI remain.
- Start-ups face stiff demand-side constraints stemming from difficulties in complying with the requirements of BFIs when availing loans and a lack of capacity to upgrade their institutional practice.
- A conventional collateral-based lending system makes it more difficult for BFIs to diffuse credit under the central bank’s directive. Further, this has aggravated inaccessibility to finance especially for women and entrepreneurs from marginalised communities.
- The entrepreneurship support ecosystem is crowded but unorganised. Several incubators and accelerators run by private and development agencies under varied impact-oriented philosophies have made a passage in this space. However, a limited number of entrepreneurs have gained from this ecosystem as it lacks symbiotic linkage and common grounding.

5. Designing a National Framework for Entrepreneurship Development

5.1 Need for an Integrated Entrepreneurship Framework

Policy initiatives on entrepreneurship development in Nepal have not been harmonised and remained unambitious in that they are implemented without robust commitment and required resources. ICIMOD is working closely with the MoICS to develop a policy framework to provide strategic direction to sub-national and local governments.

Drawing convergence from country cases reviewed in Section 2 of this report, it is evident that countries have taken eclectic measures to integrate policy and programmatic interventions to drive entrepreneurship development. What is more common among the countries like India and Bhutan is that these interventions stem from a larger policy vision or strategy with a clear cut out for the role of institutions, support mechanisms, and concise metrics for evaluation of implemented interventions. A rationale for an integrated framework for enterprise development in Nepal also emerges from the findings ascertained in Section 2 of this report that identifies the binding constraints to start-up development, reviewed the legislative landscape, and zoned in on the best practices of programmatic interventions in Nepal. The alignment of political capital and the mandate and ownership of implementers in Nepal has been a longstanding challenge. Similarly, periodic plans and a myriad of programmes that have in the past attempted to define a national vision have fallen short in driving a strategic focus to bolster enterprise creation, support MSMEs, and uplift the greening of the economy. Replication of lessons and successes of programmes such as MEDEP and MEDPA have been sub-optimal due to a weak institutional framework.

In iterating Nepal's aspiration of green growth, socially inclusive and resilient enterprises are a must. An integrated framework for entrepreneurship development will help Nepal mainstream emerging constructs-GRID-oriented enterprises within the existing narrative of entrepreneurship development in Nepal. A rationale for an integrated framework for entrepreneurship development in Nepal is desirable because it enables to:

- Derive a common consensus between policymakers and institutions to harmonise efforts across governments such that the agendas of green and resilient growth get center stage.
- Capacitate institutions in assuming policy roles based on their strength such that incentive-based targeting systems can be localised.
- Emulate lessons from best practices to bring together actors within the ecosystem on the same page.

5.2 Components of a National Entrepreneurship Framework

5.2.1 OPTIMISING THE REGULATORY ENVIRONMENT

The national entrepreneurship framework for Nepal needs to reassess the regulatory environment to ensure that regulations do not place an unfair burden on the entrepreneurs in starting and operating their businesses. A policy regime based on an empirical study of the time and cost of starting a business in detail is important to measure deviation from the benchmark. Similarly, a balanced approach to blending regulations and standards with sustainable development objectives that emphasises GRID principles is a must for Nepal. Furthermore, the optimisation of the regulatory environment requires minimising regulatory hurdles by reviewing and reducing requirements such as fees, licences, and procedures. Likewise, Nepal needs to channel the inertia towards digitalisation via ICT enablement in governance. One of the key hurdles of formality in Nepal, besides lengthy and ineffective setup procedures, and high costs, is a lack of awareness of the benefits of formalising businesses and their regulatory procedures. Therefore, entrepreneurship policy needs to prioritise robust information campaigns so that entrepreneurs can navigate the regulatory environment with ease.

- Develop a comprehensive definition of 'start-ups' and introduce legalese on the concept of GRID-enabled enterprises. Ensure inter-governmental and cross-agency efforts to expedite the enactment and endorsement of the national start-up policy.
- Conduct a wide-scale mapping of Entrepreneurship related opportunities, trends, and status. A nationwide benchmarking of 'doing business' indicators is required to set a baseline of time and cost incurred for entrepreneurs.
- Mandate a lead agency to carry out the benchmarking of time and cost incurred for incorporating a business, paying taxes, and meeting statutory compliances for enterprises. The lead agency will also conduct periodic reviews against a set baseline such that policy reforms are measured against verifiable indicators.
- Review and revise existing parameters, requirements, and compliances related to business registration, corporate governance, and firm exit. Take note of India's effort in enabling fast-tracking of incorporation processes via self-certification for start-ups.
- Capacitate agencies such as OCR, DoI, and IRD via ICT enablement and technical assistance to streamline service delivery across functions i.e., business registration, obtaining licences and permits, paying taxes, and 'doing business'-related service delivery.
- Develop information campaigns on regulatory requirements and work in close coordination with the private sector for efficient dissemination and outreach. Set up a low-cost assistant mechanism to help businesses in meeting regulatory requirements.

5.2.2 ENTREPRENEURSHIP EDUCATION AND SKILLS DEVELOPMENT

Nepal's school and higher education is still largely driven by a focus on preparing students for the job market. Education that emphasises on developing entrepreneurship mindset – not only in business management education but also in STEM and technical and vocational education – develops skills and competencies necessary for individuals to undertake their own business ventures. A comprehensive entrepreneurship policy embeds entrepreneurship education in both formal and informal education. This includes imparting both soft and hard skills necessary for a successful entrepreneur.

- Mainstream entrepreneurship skills and mindsets by incorporating them into coursework and extra- and co-curricular activities.
- Promote technical and vocational education – that has been introduced into school curricula and as separate training and education track under TVET in Nepal – through apprenticeships and formal channels that link them to the job market.

- Incorporate components of experiential learning, local tools, knowledge and skills to develop effective entrepreneurship curricula based on local knowledge and innovations.
- Build teacher training and entrepreneurship educator's network to foster entrepreneurship thinking.
- Forge effective partnerships between academic institutions and industry to reduce the distance between the industry and education that presently plagues Nepal which has fuelled the problem of youth unemployment.
- Audit institutions such as CTEVT and National Education Board to assess their ability to incorporate experiential learning and entrepreneurship skills and mindset in their curricula.
- Include GRID approach and entrepreneurship development among the criteria for reviewing higher education institutions in University Grants Commission's quality assurance and accreditation process.

5.2.3 TECHNOLOGY EXCHANGE AND INNOVATION

Technology and innovation are the pillars of entrepreneurship development. Hence, an entrepreneurship policy framework supports the effective diffusion of technology in an economy. This requires stimulating the usage of ICT among small and medium enterprises, facilitating knowledge of indigenous innovation, particularly those that belong to rural and marginalised communities, and a policy environment that creates access to technology enablement.

Similarly, the private sector needs an inter-firm network for the exchange of technology and innovation. Business linkages through supplier development go a long way in ensuring that innovative practices are in place at each stage of the supply chain. An integrated entrepreneurship policy framework must ensure that the ecosystem of innovation is strengthened by building bridges between public bodies, research institutions, universities, and the private sector. Green business incubators and other similar venture support programmes (including early-stage venture funding support) via government or multilateral agency interventions can be devised to support ventures that have a green approach to doing business.

- A support system for high-tech start-ups can help low-tech sectors benefit from the spillover in the form of high-tech business incubators and knowledge hubs. The policy needs to incentivise the commercialisation of innovation. Green innovation policies and investments play a role in supporting green business development. Governments can consider grants and direct investments for early market R&D. The national tax systems may be used to offer a combination of broad-based and sector-specific support for business R&D, which can be incremental and targeted at SMEs³⁵.
- Support greater technology diffusion by creating awareness and capacity-building campaigns on ICT use. Increase knowledge dissemination on ICT to specific target groups such as women and rural entrepreneurs. Adopt green business approaches for natural capital by reinforcing natural capital accounting approaches to promote enable governments and businesses to improve their decision-making to include natural capital considerations. Take note of the PES modality being adopted by countries like Bhutan and India.
- Channel technical assistance toward the manufacturing and agriculture sector, especially in the digitisation of the value chain and warehousing, to help them gain equal footing with the service sector. Continue supporting digital enablement in the service space, especially digital finance, to foster interoperable aggregative solutions that have a cross-cutting impact on the resilience of micro and small businesses.

³⁵ Ponzi, D. (2019). ADB Sustainable Development working paper Series The Business Of Greening policy measures for green BusinWess Development in Asia.

Pilot a programme that brings together public bodies, research institutions, universities, and the private sector to identify research work on the viability of the application of local technology and iterating traditional knowledge into low-cost solutions for micro and small entrepreneurs.

Promote institutional synergies at the sectoral level such that commercialisation of domain expertise in technology and innovation is rewarded. Channel the knowledge spillover from the high-tech sector to sectors that are at the lower end of the tech spectrum by co-sponsoring business incubators and knowledge hubs.

5.2.4 ACCESS TO FINANCE

Financial inclusion is still a long way to go in Nepal as most small businesses still rely on informal channels to raise funds to start and operate their ventures. While the banking sector is growing in terms of size and number of institutions, accessing finance is still the prerogative of the few. Alternative modes of finance are rarely available to a large mass of the population. Therefore, improving access to relevant financial services through initiatives such as low-cost loan servicing and collateral-free loans for certain kinds of enterprises such as green businesses and women-led businesses.

An integrated entrepreneurship policy promotes the capacity of the financial sector to service traditional and innovative start-ups. Financial literacy for entrepreneurs is a must in ensuring that they can access cheap, easy loans that are relevant to the sector in which they operate. DFIs have already set a precedent in supporting Nepal's PE/VC sector. Synergies with incoming DFIs can be converted into an effective lever by promoting funds that are aimed at sustainable investing, whereby investors can incorporate environmental criteria in their investment decision-making. This lever can help fulfil the domestic financing needs and target green businesses in increasing their existing capital. Similarly, the current regulations that guide BFIs and MFIs in Nepal need revisions to incorporate environmental risk in their lending portfolios.

- Address the credit market failure by improving the bankability and creditworthiness of micro and small firms. Consider relaxing compliances for BFIs and MFIs and integrating alternate models of credit dissemination- project finance and warehouse receipt financing.
- Integrate environmental risk assessment criteria in credit assessment for BFIs/MFIs and collaborate with DFIs that are looking for avenues to make sustainable investments.
- Promote moveable collateral-based lending for MSMEs by improving credit information and secured transactions systems. Pilot alternative credit evaluation methods such as psychometric testing for 'high credit risk' segments.
- Improve access to finance for start-ups via public credit guarantee schemes and concessional loans through proximity lenders in rural locations.
- Consider revising corporate governance compliance and regulatory hassle for alternative financing institutions. Audit and improve existing mechanisms for fast-tracking FDI approvals and repatriation for DFIs.
- Reassess the restriction provision of the IEA 2020 to consider PV/VC assets class as an industry and back it up with better tax-incentive funds for offshore funds to invest in domestic funds. Integrate environmental risk assessment criteria in credit assessment.
- Undertake financial literacy initiative to build the capacity of micro and small firms to partake in fintech, digital retail payment, and function-specific digital platforms i.e., enterprise resource planning.

5.2.5 AWARENESS AND NETWORKING

Nepali society has historically, culturally, and politically held negative perceptions around entrepreneurship. This has acted as a significant barrier that has led to a distrust of entrepreneurs by consumers, policymakers, and civil society, among others. Therefore, an entrepreneurship policy framework enables an entrepreneurship ecosystem in raising awareness about entrepreneurship opportunities through campaigns, advertisements, career fairs, forums, and summits. A robust entrepreneurship ecosystem also caters to essential incubation support needs, reduces instances of early demise for start-ups, and connects scalable ideas with funding opportunities.

- Deepen public investment in the incubation space and co-sponsor incubation support activities at the provincial and local levels. Focus on green-incubators and support value chains that work in holistic greening to signal preferential treatment for entities working in green sector.
- Partner with the private sector and development actors to close the gap originating from information asymmetry among firms in the pre-growth space of the ecosystem. Follow it up with innovative and low-cost tool kits, summary guides, and tutorials on essential business management functions such as book-keeping, business regulations, and tax-related compliances.
- Provide incentives to ecosystem actors at the growth and funding stage to create a pipeline of prospective businesses and work as a facilitator to declutter the ecosystem by helping ecosystem actors better organise their activities.
- Open avenues of partnerships between provincial governments and incubation/accelerator programmes. Take notes from existing programmes being run at the SNG level- I-Cube Chitwan to devise similar platforms in other provinces.
- Partner with corporate entities like CG and Nabil to conduct start-up outreach programmes- mentorship networks for start-ups in rural areas, one-off networking events, and knowledge-sharing platforms.

The actions that have been recommended, their stakeholders, and the time frame that it could take are summarised in the table below:

Actions recommended	Stakeholders	Time-frame
Conceptualise comprehensive legalese on the definition, characteristics, nature, and criteria of a 'Start-up' and 'GRID' enterprise	Federal: MoICS, MoF, NPC, Nepal Law commission	Short-term
Develop a start-up action plan with incentives for innovation, IPR protection, and support for sustainable missions	Federal: MoICS, MoF, NPC, Nepal Law Commission; Provincial, Local Governments; Private Sector	Short-term
Establish a dedicated government entity to focus on entrepreneurship, MSMEs, start-ups, and innovation	Federal: MoICS, MoF; Private Sector; DFIs	Short-term
Support existing financial institutions to pool funds for start-up investments	Federal: MoF, NRB, SEBON; Private Sector; DFIs	Mid-term
Promote environmental disclosure programmes and integrate advanced certification and eco-labelling schemes into existing tax-incentive structure	Federal: MoICS, MoF, NPC; Provincial and Local Governments; Private Sector; DFIs	Mid-term
Create and support incubation hubs within universities by linking technical universities with research parks	Federal: UGC, MoEST, CDC, CTEVT; Provincial Governments; Local Governments; Private Sector	Mid to long-term
Design policy to support capabilities of existing MSMEs through business development support and access to markets	Federal: MoICS; Provincial Governments; Local Governments; Private Sector; DFIs	Mid-term

Actions recommended	Stakeholders	Time-frame
Develop a range of financing instruments, including loans from commercial banks, venture capital firms, angel investors, and blended finance	Federal: NRB, BFIs, MFIs, SEBON; Provincial Governments; Local Governments; Private Sector; DFIs	Mid to long-term
Embed entrepreneurship education at all levels and establish entrepreneurship as a viable career choice among youths	Federal: UGC, MoEST, CDC, CTEVT; Provincial Governments; Local Governments; Private Sector	Long-term
Use remittances from Nepal's diaspora to finance enterprises via banks, co-operatives, and venture capital firms	Federal: MoF, NRB; Provincial Governments; Local Governments; Private Sector; DFIs	Long-term
Strengthen one-window systems and one-stop service centres at federal, provincial, and local levels for ease of business registration and closure, tax-related procedures, and compliance cost reduction	Federal: MoICS, OCR; Provincial and Local Governments; Private Sector; DFIs	Short-term
Support green business incubators, eco-friendly value chains, and public-private partnerships for infrastructure development at all government levels	Federal: MoICS, Development Agencies-ICIMOD; Provincial Governments; Local Governments; Private Sector; DFIs	Mid to long-term
Implement financial literacy initiatives, capacity-building programmes, and training workshops for micro and small firms at local levels	Federal: NRB; Provincial Governments; Local Governments; Business support Services; Private Sector; DFIs	Short-term
Establish a national entrepreneurship council with representation from all three government tiers, the private sector, academia, and civil society to coordinate efforts and share best practices	Federal: MoICS; Provincial Governments; Local Governments; Private Sector; Academia; Civil Society; DFIs	Mid-term
Create a competitive grant programme for academic institutions to develop entrepreneurship programmes and innovation centres	Federal: UGC, MoE, CTEVT; Provincial Governments; Local Governments; Private Sector; DFIs	Long-term
Promote entrepreneurship courses, programmes, and chairs at higher education institutions and universities	UGC, Provincial Governments	Mid to long-term
Organise and sponsor networking events, mentorship programmes, and knowledge sharing platforms for entrepreneurs, investors, and other stakeholders at provincial and local levels	Federal: MoICS; Provincial Governments; Local Governments; Private Sector; DFIs	Short to mid-term
Develop and implement a monitoring and evaluation framework to assess the effectiveness of entrepreneurship policies and programmes, involving all government tiers	Federal: NPC, MoICS, MoF; Provincial Governments; Local Governments; Private Sector; DFIs	Mid-term
Incentivise private sector and DFIs to support incubators, accelerators, and mentorship programmes by offering tax incentives, co-financing opportunities, and technical assistance.	Federal: MoF, MoICS; Private Sector; DFIs	Mid-term
Facilitate alternative assets class actors in the PE/VC segment by mandating insurance companies and pension funds to diversify their investment into equity from banks or related instruments	NRB, SEBON	Mid to long-term
Develop appropriate credit infrastructure to support MSME growth, including credit guarantee mechanisms and insurance schemes	NRB, BFIs, and MFIs,	Mid to long-term

5.3 Strategic Action Plan and Multi-Level Governance

These recommendations need to be juxtaposed against the roles and responsibilities of various level of governments from a multi-governance standpoint such that a set of these combined strategic plans can lead to GRI-oriented entrepreneurship landscape development in Nepal. Nepal's federal constitution has functionally assigned responsibilities for the natural resources sector to all three levels of government. The local-level governments are assigned to complete field-level responsibilities in agriculture, forestry, environment conservation, rural development, and irrigation. However, medium and larger-level programmes and policy matters are under provincial and federal governments respectively. Similarly, education is a concurrent responsibility shared among all three levels of government. The federal-level government is responsible for developing a national-level TVET policy, curriculum framework, accreditation, skill-testing framework, and regulation. The federal-level governments also oversee central universities, academies, and higher education: accreditation, standards, and foreign affiliation. While at the provincial level TVET provincial policy, curriculum, Provincial universities, and regulation planning are endowed. The local-level governments are mandated with the operation, licensing, and regulation.

To optimise the regulatory environment, various government agencies across all three levels of governments need to harmonise their activities. From the consultations done as part of this research, it was evident that as we have moved to a federal structure, the clarity in terms of roles and responsibilities is lacking. This is also because of the differences between the capacities of various provincial and local governments. While some provincial and local governments have been active in defining their industry and environment related laws defining their own limits, others have not been able to do so. This has created disparity in the regulatory environment experience across different geographies. Moreover, there is a risk in terms of losing or not having a consolidated information, database on industries and enterprises. This is a challenge that needs to be immediately resolved under the leadership of MoICS.

To promote entrepreneurship, various governments have used the approach of announcing specific incentives in their policies and budget. While this is good to promote the local economy and there are opportunities for cross-learning, working in tandem with each other can help to generate a critical mass of success required for entrepreneurship development.

Federal structure can promote healthy competition between different local governments to create an optimised regulatory environment. A GIZ project called Local and Provincial Economic Development has been carrying out 'Doing Business' studies at local levels to compare the indicators across different local governments. A nationwide study across various local governments in participation with the private sector apex bodies such as FNCCI, CNI, FNCSI, FWEAN and integrating GRID related indices can help to track progress over time.

Sub-national governments can play an important role in mainstreaming entrepreneurship education and prioritising skills development. Provincial governments have the authority to establish province-level universities. Some provinces such as Bagmati and Gandaki have already moved forward in the direction of setting up provincial universities. These institutions can be experimental, practical, and especially focus on entrepreneurship education. Local governments have the authority to design and implement specific curriculum in the schools that fall in their area. They have the opportunity to be proactive in designing entrepreneurship curriculum to help students develop such a mindset from an early age. On the other hand, a review of public investment in skills shows that these have not be either efficient or effective. Governments at all levels need to generate evidence to identify skills gap and invest in skills that are most relevant to the labour market.

Use of technology will expedite the promotion of a GRID focused entrepreneurship. Lagging regions can especially catch-up with leading regions in terms of development if they have a population that is ICT proficient. Public investment in ICT and related skills can help promote entrepreneurship as well. Moreover, technology and innovation will help to unlock the innovative entrepreneurship activities. Products and services designed to solve challenges related to climate change, inclusion, among others can rely on technological development to scale up and be successful. All three levels of governments need to work together on promoting innovation. Although the system of innovations is not well developed in Nepal, governments can make effort to develop local, regional as well as national systems of innovation.

Access to affordable finance can be addressed with a mix of interventions and coherence activities under the leadership of the federal government and Nepal Rastra Bank. As the banking and finance industry is heavily regulated by the central bank, key interventions need to be from there. So far, the initiatives have been to direct lending to specific sectors and provide subsidised loans. However, the major problem lies in the collateral-based lending approach that has restricted lending to those who already have some net-worth. Therefore, approaches and strategies to promote alternative models of credit dissemination such as project financing, lending based on actual business growth, etc. are important. To get to this, it will be important to pilot alternative credit evaluation methods such as psychometric testing, having enriched credit information related database. Access to finance for start-ups can also be promoted through credit guarantee schemes. Some municipalities like Tilottama Municipality have experimented with this scheme. This could be more successful if backed by DFIs and done at a large scale so that the risk could be shared.

So far, the government as well as the larger narrative have been focused on debt. However, provision of finance through debt alone cannot solve the challenge of access to finance. Enterprises need business partnership, mentorship, and support for growth. In this regard, alternative investment vehicles can be a key driver for promoting GRID focused entrepreneurship. Private equity and venture capital funds promoted by SIF regulated domestic fund managers are new vehicles that can act as business growth partners and investors for potential investee companies. Other stakeholders can support these companies by investing in the bankability and investment readiness of potential investee companies.

Finally, an important area of intervention where all levels of governments can make significant impact is in awareness and entrepreneurship network creation. Local governments are capable and have the resources to partner with private and social sectors to create spaces such as incubation, acceleration, and co-working spaces. There are some development partners that are working in this area. However, duplication of efforts and lack of coherence is an issue. Hence, the local governments need to conceptualise their idea of support and spaces that they want to provide to their residents. The support from the development partners should be directed to inform and address those priorities. All levels of governments are uniquely placed to be the nodal point to coordinate activities of various ecosystem players. Hence, it is with their leadership that entrepreneurship can developed.

