



National Governance Symposium 2024

***PROMOTING GROWTH ENTREPRENEURSHIP AND
EMPLOYMENT IN RURAL NEPAL***

**Strengthening Subnational Governance
for Inclusive Economic Development**

SESSION BRIEF





Executive Summary

Nepal transitioned to a federal democratic republic in 2015, aiming to promote inclusion at all levels of governance- local, provincial, and federal. While the milestone transition to a federal system is an important step towards good governance and inclusive growth, there are still some significant challenges facing Nepal today.

Hundreds of thousands of youth are leaving annually, often for temporary employment abroad, leading to a drain of talent and labor force capacity. This significant out-migration points to structural issues within Nepal's labor market- particularly lack of sufficient job opportunities, underscoring an urgent need for effective measures that foster inclusive, stable and sustainable employment.

Entrepreneurs in Nepal also face significant challenges, including limited access to capital, bureaucratic hurdles, and complicated regulations for business registration. Adding to subsistence-focused ventures, these obstacles, particularly in securing financing, are compounded by difficulty in accessing loans, especially in rural areas. Despite these barriers, there are efforts at the federal, provincial, and local levels, along with support from the private sector, to drive necessary initiatives and policy reforms. Creating an enabling economic environment that supports local businesses, enhances job creation, and addresses challenges is critical to achieving inclusive economic growth.

I. Introduction

Unemployment, particularly youth unemployment, fueled by a lack of adequate job opportunities, low investment in job creation, and lack of access to quality education, training and entrepreneurial activities, remains one of the key economic challenges that needs to be tackled. According to the Nepal Living Standard Survey carried out by the National Statistics Office, the overall unemployment rate for fiscal year 2022-2023 stood at 12.6%, with youth unemployment much higher at 22.7%. The number of Nepalis opting for foreign employment in 2022 was more than 630,000 (Nepali Times, 2022), increasing exponentially to 775,000 in 2023 (Nepali Times, 2023), with an average of more than 2000 Nepalis leaving the country daily. These out migration numbers indicate structural labor market issues within the country, leaving the youth with limited opportunities, therefore providing better prospects overseas often in the form of temporary employment (World Bank, 2024).

The foreign employment level in recent years has not only increased, it is at a historical high, currently making Nepal one of the top countries heavily relying on remittances. The World Bank reported that in the fiscal year 2024, remittance inflows accounted for more than 25% of Nepal's Gross Domestic Product (GDP). Remittances improve living standards by increasing household consumption and aiding higher investment in health and education. However, high migration costs create disparities in destination choices between low-income migrants and those who can afford high migration costs. Additionally, heavy reliance on remittances risks economic stagnation in case of financial shock in migrant receiving countries (World Bank, 2024).

Fostering entrepreneurship among youth and women groups is a key strategy to address unemployment and out-migration by expanding opportunities for its citizens. Micro, Small, and Medium-sized enterprises (MSMEs) are an integral part of economies, contributing to job creation, poverty alleviation and delivery of goods and services. According to a 2023 report by the International Labour Organization, MSMEs contribute to approximately 22% of Nepal's GDP, promoting economic growth through market diversification and employment generation. Yet, the productivity of the MSMEs is low due to low capital, lack of qualified workforce, lengthy business registration processes, insufficient knowledge of business and marketing opportunities, and inadequate access to technology.

Furthermore, entrepreneurship is frequently associated with subsistence ventures aimed at securing livelihoods and poverty reduction, as the inherent risks discourage broader engagement from the development and private sectors. The importance of scaling up local-level initiatives in fostering innovation and entrepreneurial growth cannot be undermined as the path leading to inclusive and sustainable economic growth. To ensure enterprise success, it is essential to focus on formulating policies that drive structural transformation based on the needs of entrepreneurs, leading to quality job creation and inclusive economic growth.

This policy brief is developed by looking at the present economic landscape in Nepal, current issues, existing policies, literature and key discussions through insights during the panel discussion on "Promoting Growth Entrepreneurship and Employment in Rural Nepal" at the National Governance Symposium 2024. The panel brought together key stakeholders from the government and private sectors who engaged in a constructive dialogue, shedding light on the programs and policies currently being implemented at the local, provincial and federal levels. They also emphasized the crucial role that the private sector can play in cultivating an ecosystem where both entrepreneurs and enterprises can thrive, contributing to inclusive and sustainable economic growth.

II. Entrepreneur Story

Tanka Nath Chimire, proprietor of Ranimahal Fishing Resort in Palpa, returned to Nepal 14 years ago with a vision to start something of his own and contribute meaningfully to his community. Starting with a poultry farm, he later transitioned into the hospitality sector, driven by a desire to make a lasting impact. The path to establishing Ranimahal Fishing Resort in Palpa was far from easy, marred by challenges such as inadequate infrastructure and skepticism from the local community. Yet, Tanka remained resolute, turning his dream into a reality. His unwavering commitment has not only provided jobs for 10-11 people in the rural municipality, but has also sparked the creation of a network of interconnected enterprises. While growth has been significant and the impact positive, challenges persist, underscoring the ongoing nature of an entrepreneur's journey.

Unfriendly bureaucratic hurdles continue to pose significant roadblocks for entrepreneurs at various stages of business development. Company registration and obtaining permits is often complicated by numerous challenging regulations. Furthermore, acquiring bank loans is a lengthy process, which is especially difficult for a solo entrepreneur starting a business. These challenges are further exacerbated by limited access to capital, even with government-backed loans. Additionally, rural land properties are often valued lower than in urban areas, making it harder to secure loans based on collateral valuation.

III. Programs and Policies

In addition to offering specialized training programs and entrepreneurship development programs, Sunwal municipality is committed to initiatives like 'One Enterprise, One Product' and 'One Forest, One Enterprise'. These initiatives are designed to empower local communities, encouraging them to utilize local resources sustainably and develop value-added products. To enhance the success of these local enterprises, the municipality is also focusing on improving product visibility by ensuring that quality, presentation and marketability of products are up to par. This comprehensive approach aims to bolster the local economy while promoting sustainable practices.

At the provincial level, Koshi province is actively working to scale up agricultural activities, through enhanced collaboration between farmers, government agencies, and NGOs. This collective effort aims to share knowledge, leverage resources, and increase access to new technologies and innovative farming practices, all with the goal of achieving financially viable outcomes. To further support entrepreneurs, the provincial government has been focusing on improving access to financial institutions by providing guarantees to banks, encouraging them to lend more freely. Additionally, training programs on product grading, packaging, and quality maintenance are being offered to ensure that local products meet industry standards, making them competitive in both local and international markets.

The central government plays a crucial role in fostering entrepreneurship and employment generation by supporting infrastructure growth, offering financial incentives, and implementing policy reforms. These efforts include reducing fees, streamlining administrative processes, and introducing online platforms to enhance efficiency. Additionally, the government encourages the use of local raw materials and helps enterprises increase the value of their products. This is achieved through training programs focused on quality control, branding, and marketing. Furthermore, the government collaborates with international organizations to strengthen global trade linkages, further promoting economic integration and growth.

The Federation of Chamber of Commerce and Industry (FNCCI) has played a pivotal role in fostering entrepreneurship by providing tax incentives for startups and raising awareness about available loan facilities, including flexible repayment options. FNCCI has also been instrumental in expanding collaboration between the private sector, chambers of commerce and industry (CCIs), and local bodies to create scalable entrepreneurship models.

Moreover, it advocates for policy reforms and the development of a supportive ecosystem that nurtures business growth. In recent years, FNCCI has worked closely with various ministries to develop the Startup Policy 2080/2081. A key aspect of this policy is the introduction of project-based loans, where funding is determined by the viability of the project itself rather than traditional collateral requirements. This approach, coupled with a strong support system, provides a solid foundation for entrepreneurs to succeed and thrive in a dynamic market environment.

IV. Startup Policy 2080/2081

The Startup Policy 2080 marks a significant milestone in Nepal's entrepreneurial development. Passed by the Council of Ministries in May 2024, it was developed through a collaborative effort between the Ministry of Industry, Commerce, and Supplies and the Federation of Nepalese Chambers of Commerce and Industry (FNCCI), serving as a strong example of effective cooperation between the public and private sectors, working together to foster an environment conducive to business growth. The Startup Policy is designed to drive economic development by creating a supportive framework for enterprises, encompassing legal, institutional and infrastructural elements. Key provisions include a ten-year income tax waiver for startups, reduced interest rate loans for innovative ventures, and relief from registration and administrative fees. The policy focuses on innovation, better access to finance, increased investment, and building a strong entrepreneurial ecosystem. This approach establishes a transformative ecosystem that simplifies processes and fosters startup growth and innovation.

V. Recommendations

1. Promote Public Private Partnerships (PPPs) and Chamber of Commerce and Industry (CCI) engagement

Promoting public-private partnerships (PPPs) and engaging the Chambers of Commerce and Industry (CCIs) go beyond policy formulation- they require transformative action and ownership at all levels of governance. PPPs bring together public sector resources and private sector innovation to foster competitive markets, support entrepreneurs, and generate decent jobs. CCI engagement not only brings in expertise but also conducts advocacy to stimulate innovation and create a supportive environment for entrepreneurs.

2. Decentralized research and development

Decentralized research and development is crucial for conducting need assessments, context-based interventions while ensuring decentralized governance, and ownership by stakeholders at all levels. Sharing best practices and promoting continuous R&D will help identify pressing needs, while advocating for necessary policy reforms to support sustainable and inclusive economic growth.

3. Strong Entrepreneurship Ecosystem

Building a strong entrepreneurship ecosystem requires a multifaceted approach that includes clear guidelines, robust support systems and networks. To address the challenges faced by entrepreneurs, it is essential to simplify bureaucratic procedures for business registration and obtaining permits. In addition, introducing training programs focused on skill development will equip entrepreneurs with the tools they need to succeed. Creating a supportive ecosystem will alleviate barriers, cultivate an entrepreneurial culture and generate employment opportunities.

About NGS

National Governance Symposium (NGS), an annual event organized by Governance Lab (Govlab) at the Daayitwa Abhiyaan, has been convening government, private sector, civil society and academia stakeholders since 2022 to foster discussions on and create a collaborative community for governance innovations and inclusive development in Nepal. This year, with the theme of **"Strengthening Subnational Governance for Inclusive Economic Development,"** the Symposium was organized on December 19-20, 2024 in partnership with Nepal Administrative Staff College (NASC) and with support from government partners Office of the Prime Minister and Council of Ministers, National Planning Commission and Ministry of Finance, as well as organizing partners Daayitwa and Nepal Leadership Academy.

Session 2: Promoting Growth Entrepreneurship and Employment in Rural Nepal

Chair: Mr. Krishna B. Raut, Secretary, Ministry of Industry, Commerce and Supplies

Presentation: Mr. Sanjay Pokharel, Entrepreneurship Manager, Daayitwa

Panelists:

- Ms. Bimala Aryal, Mayor, Sunwal Municipality
- Ms. Juna Mathema, Chairperson, Startup and Innovation Forum, FNCCI
- Dr. Sharan Kumar Pandey, Secretary, Ministry of Industry, Agriculture and Cooperatives, Koshi Province
- Mr. Tanka Nath Ghimire, Proprietor, Rani Mahal Fishing Resort, Palpa

Moderator: Dr. Pratiba Pandey, CEO, Herveda Botanicals

Knowledge Partner: Daayitwa



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