



Dispatches from The Hall of Ideas!

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SUPPORTING ENTREPRENEURS IN NEPAL: THE ROLE OF INDUSTRIAL ENTERPRISE DEVELOPMENT INSTITUTE*

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The Industrial Enterprise Development Institute is often less talked about. Yet when it comes to entrepreneurship and entrepreneurship development, the agency established on November 4, 1996 through a special legislation, has always been at the forefront. At the time of its conception, it was thought of as an agency that would assist small and medium-scale industries. In fact, IEDI in its current form is the continuation of the Small Business Promotion Project—a cooperative endeavor undertaken jointly by the GIZ and then Government of Nepal. The SBPP was one of the earliest efforts undertaken to help small businesses across Nepal. The modality of the program was simple—SBPP staff would undergo training on key areas deemed necessary for small businesses and then would be dispatched across Nepal to train potential entrepreneurs. Today, the modality of operation has changed significantly, yet the IEDI remains committed to help entrepreneurs both existing and potential.

IEDI has been operating in all seven provinces at different capacities. The master trainers in these offices assess the entrepreneurial possibilities, collaborate with local governments in preparing business plans, and provide training to people to promote entrepreneurship. IEDI also supports entrepreneurs by providing them with subsidized lending facilities.

Supporting startups in Nepal is a conversation that started at least 20 years ago. A concrete commitment, however, came in 2014/2015 during Dr. Ramsharan Mahat's tenure as Finance Minister. Then incumbent government realized that it should direct its focus and investment in developing the entrepreneurial ecosystem. Since then, the government promised grants and concessional loans to the emerging entrepreneurs through the budget announcement. It did face some setbacks here and there, for instance the lack of a working procedure, the non-allocation of funds through the appropriation act etcetera. The initiatives announced then gained some momentum in the year 2020 when the role of loan disbursement was delegated to the National Planning Commission. All these efforts and schemes were elusive until 2021. It was finally decided that the efforts would be spearheaded by

* The text is an abridged and translated version of the November 2024 edition of Sambaad @ Samriddhi. Sambaad @ Samriddhi is a monthly discussion on contemporary issues held on the last Friday of each month. In this edition, Er. Umesh Kumar Gupta shares his reflections on the role of the IEDI in supporting Entrepreneurs. The discussion was moderated by Niraj Khanal.

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the IEDI and the Ministry of Industry, Commerce and Supplies.

Recognizing the need for a solid policy framework, changes were also made to the already existing startup bill. Amendments were also proposed to the eight existing legislations, including the Industrial Enterprise Act, to incorporate provisions for startups. All these efforts were directed towards promoting entrepreneurship, facilitating the registered businesses and incentivizing entrepreneurs through measures like income tax rebates and concessions. Business Incubation Centers were also established to provide technical assistance to such emerging startups. All while, the Startup Policy was passed by the cabinet on May 2024. A revised working procedure for disbursing loans to startups was also made.

Upon call for applications for subsidized lending, the IEDI received a total of 1658 applications. 183 applicants were selected based on their project pitch, credit appraisal and other assessments. IEDI played an active role not just in credit facilitation but also in safeguarding these loans through credit protection funds. Loans were insured through micro-insurance companies to mitigate the potential risks.

According to the working procedure of the loan scheme, an enterprise can start paying back the principal amount and the interest amount after a year from the date of the loan agreement. However, entrepreneurs can voluntarily begin repaying the principal and interest amount in the first year. Encouragingly, many enterprises voluntarily began repaying the principal and interest amount in the first year itself. IEDI has already received returns amounting up to sixty lakhs in the first quarter.

There have been some criticisms about the way in which the IEDI has disbursed loans, and I would like to clarify them. The IEDI disburses loans based on evaluations made by a committee comprising of representatives from the government of Nepal and various private sector associations. Each member of the committee is required to declare that they do not have any conflict of interest. These mechanisms have been put in place to ensure a fair and transparent proceeding. Some criticisms also followed with regards to the nature of business that the IEDI had selected for the program. To give you an example the IEDI had disbursed loans to an animal husbandry farm, naturally then people questioned if animal husbandry was even a start-up. Here one needs to realise



that we are operating under a definition of startups that might not reflect global realities. Today our focus is on supporting entrepreneurs that have operated a business for a certain number of years and during the course of operation had made use of innovative methods. The animal husbandry farm in question operated differently from a traditional farm, at least in the context of Nepal. They had used technology to track nutrient availability and medicinal requirements, they had segregated the herd based on several categories they devised to pursue scientific agricultural farming. These differing methods made the farm innovative enough to be eligible for loans. Startup don't need to have an innovative product, even having innovative methodologies or procedures for producing the same products already available in the market is enough for company to be deemed as a startup. This isn't just our realization. Recall for instance that there was a time period when only Information Technology companies were deemed to startups, today, this definition has changed to the extent that the product need not be innovative, just the innovative process of producing the product is enough.

A very related concern today is how we define startups and how we operationalize mechanisms to support them. Currently we support companies that have been in operation for a few years and have the capacity or the potential to scale-up their operation. But, if on were being honest, Startups are not companies, they are ideas and globally 90 per cent of all startups—to the extent that they are seen as either temporary companies or ideas—have failed. Even in Nepal only a handful of startups have succeeded. This discussion is perhaps needed in the days to come, i.e. how to move from supporting preexisting companies to ideas that are innovative.

The Government of Nepal is also trying to change the modality of the current fund. We are currently looking into the possibility of a revolving fund model, whereby even the private sector or a foreign investor would be allowed to contribute to the fund. Some changes to the current policy

will be required and at the ministerial level these changes are being talked about, perhaps soon the private sector and foreign investors will be allowed to contribute to the fund.

The IEDI remains committed to stakeholder engagement. As far as possible the IEDI holds a stakeholder consultation every month or so. The reasoning is simple, we would like to hear from people who work in this sector, and we have always been open to criticism. The commitment to being open to change is perhaps best illustrated by the Prime Minister of Nepal taking the time to personally meet three entrepreneurs who had availed lending facilities. The highlight was an entrepreneur appreciating the efficiency with which the IEDI processed all documents and provided the loan.

The IEDI is also looking to operationalize at the provincial and local level to reach out to more people. This year, we have established 6 business incubation centers in 6 major cities. The National Planning Commission had planned to establish incubators across all local governments in Nepal, but that would not have been feasible. The IEDI worked with the National Planning Commission on the Working directives, and it was finally agreed upon that we would first proceed with establishing business incubation centers in the major cities and expand gradually.

Nepal's new federal structure and a strong realization that entrepreneurship is essential for job creation has created new avenues for dialogue, partnerships and facilitation. Indeed, there are some policy changes that we need to make moving forward, and if the work of IEDI is any indication then these changes will happen sooner rather than later.

