
The Five Biggest Factors Challenging Start-ups in Nepal

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ABSTRACT

There are a variety of factors that pose challenges for start-ups globally. These challenges vary based on the country, region, or economy of operation. Research identified the challenges start-ups face depending on whether start-ups were established in developed or undeveloped countries. However, few research studies have been conducted in Nepal. Hence, the purpose of this study was to examine the top five factors that hindered start-up formation or posed difficulty for the growth of start-ups within Nepal between 2017 to 2020. The primary data was collected using a mixed method using purposive sampling consisting of an in-depth interview followed by a survey with entrepreneurs and experts of the entrepreneurial ecosystem of Nepal. The authors administered an in-depth interview with open-ended questions and then conducted key informant interviews. Throughout the interviews, the five major issues identified as hindering start-ups were human capital, finance, support system, policy, and marketing.

Keywords: start-ups, challenging start-ups, Nepali entrepreneurs, drivers of entrepreneurship, start-up failure

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Start-ups are considered drivers of the economy (Jonek-Kowalska & Wolniak, 2021). The number of start-ups has increased by roughly 20 times in less than ten years (Lyons & Zhang, 2017; Nafukho & Muya, 2010). Following the international trend, the culture of entrepreneurship and start-ups has slowly been evolving in Nepal within the last decade. Many millennials have also entered the entrepreneurial ecosystem by launching new start-ups. In recent

years, some of these start-ups have been able to not only survive but grow while others have succumbed to various challenges and failed. There has been much research on success and failure factors. However, the term "success factor" itself incorporates many things, and hence, lacks a consistent definition among these studies (Fisher et al., 2014; Freiling & Wessels, 2012). A great deal of research has been conducted to determine both the critical factors for success as well as hindrances to success in start-ups which provides insight into how to support start-ups and their founders in the early

years (Watson et al., 1998). These research studies also offer insights on how a country can utilize appropriate policies to educate and train the founders of start-ups. However, this previous research cannot be generalized to Nepal, as the availability of resources affects the environment in which start-ups grow and would vary, depending upon the country (Autio et al., 2014). Examining the international practices suggested for the success of start-ups and establishing these factors is a good way to understand the challenges faced by start-ups in Nepal and how these challenges can be resolved. However, these practices may be inaccurate due to the knowledge difference and the contextual difference between countries (Autio et al., 2014; Porfirio et al., 2016). To address this issue, this research seeks to discover the problems pertinent to Nepali entrepreneurs as they design and implement start-ups within the country. To do so, the authors conducted a literature review examining the problems applicable to developed and developing countries. This then helped identify possible factors regarding these problems and provided information about specific factors to discuss with entrepreneurs. The authors then conducted in-depth interviews with the entrepreneurs to explore the existing challenges in the context of Nepal. The result of the findings shows similar problems among Nepal and other countries. However, the priorities of the factors differed.

Literature Review and Conceptual Framework

Nepal has been identified as one of the least developed countries (LDC) in the world (United Nations "List of least," 2021). As a developing country, the challenges that Nepali start-ups face are likely similar to those of other developing countries because of similar political and economic conditions. Thus, to develop a conceptual framework for this research, we identified the challenges for start-ups within other developing countries like Myanmar, Bangladesh, Ethiopia, Angola, and Chad. We subsequently compared these challenges to those in the developed nations of Norway, Sweden, the Netherlands, and the Middle East to develop a final conceptual framework for this study.

Challenges Faced by Start-ups in Bangladesh

Extant literature has revealed several factors that pose challenges for the formation and scaling of Bangladeshi start-ups (Chowdhury et al., 2013). These factors include the absence of adequate infrastructure facilities (Chowdhury, 2007), bureaucratic obstacles (Quddus & Rashid, 2000), lack of long-term capital, limited personal and family savings (Chowdhury & Amin, 2011), limited access to market and technology information (Keh et al., 2007), political unrest, and lack of respect for democratic principles (Chowdhury, 2007). Recent literature on small-medium enterprises (SMEs) has also highlighted that access to finance, market competition, unfavorable loan policy, and poor supply chain support are problems affecting SMEs' growth potential (Islam et al., 2020; Sarker, 2020).

Challenges Faced by Start-ups in Myanmar

Like Nepal, the development of start-ups in Myanmar is still a relatively new phenomenon. Myanmar's political reforms and economic liberalization, which began in 2011, immediately increased foreign investments from \$300 million in FY 2009-2010 to \$20 billion in FY 2010-2011 (Allchin, 2011). Even though such events facilitated the formation and development of start-ups in Myanmar, several factors still made continued growth challenging. Though recent developments are extraordinary, economic development is nascent and was further affected by the recent COVID crisis (Malesky et al., 2020).

Start-ups in Myanmar have been engaged in legal and administrative reforms for SMEs. Poorly developed infrastructure, an unwieldy bureaucracy, non-transparent regulations, a shortage of skilled labor, least technological development, and weaker market access are some of the challenges faced by enterprises in Myanmar (OECD, 2016).

Kapteyn and Wah (2016) found that 89% of SMEs in Myanmar relied on personal or family savings/assets for start-up capital while only 17% of the enterprises relied on bank loans from the point they were established, and 85% of them had not applied for a loan in the two years prior to founding the business. This was mainly because 41% of the study respondents

were either unaware of the procedures for requesting a bank loan or felt that the processes involved were too lengthy and complicated. Nineteen percent lacked adequate collateral for loans (Kapteyn & Wah, 2016). The same research found that 97% of the enterprises in the survey experienced an electricity outage every month in the past year with an average of 12.9 outages per month (Kapteyn & Wah, 2016).

Other challenges facing start-ups in Myanmar include difficulty in finding employees with the necessary skills, high employee turnover rates, a culture that is risk-averse and where families do not support entrepreneurship, gaps in support systems such as infrastructure, mentorship, and networking opportunities, lack of affordable professional services, lengthy and costly company registration processes, and opacity of legal and regulatory compliance requirements (Project Hub Yangon "Mapping Yangon's," 2015).

Challenges Faced by Start-ups in African Countries: Ethiopia, Angola, and Chad

There are many countries in Africa considered to be amongst the least developed countries in the world, such as Ethiopia, Angola, and Chad. The challenges faced by start-ups in those African countries are due to the globalization of markets and production, lack of financial support, poor infrastructure, international expansion, and government-sponsored assistance (Ekeledo & Bewayo, 2009). The recent reports by the London Stock Exchange Group (2018) show that the lack of funding is still consistently one of the biggest problems for entrepreneurs. With globalization, the start-ups in these African countries have had difficulty competing with large companies in emerging countries that are able to produce cheaper and higher-quality products, such as China and Brazil (Ekeledo & Bewayo, 2009). Many start-ups in these African nations also lack access to infrastructure such as transport, electricity, telecommunications, and the Internet (Ekeledo & Bewayo, 2009). Some start-ups are unable to scale up and expand internationally because they are in countries with a reputation for producing low-quality products, and the existing policies make it difficult for them to join international supply chain networks (Rankin et al., 2006). Njanike (2019) suggested that to

combat these issues, the government should provide an enabling policy so that start-ups could have better growth, profitability, and create better job opportunities. Overall, the main areas of focus for entrepreneurs in the identified African countries are appropriate education, skill, and long-term financing (Gumel, 2019).

Challenges Faced by Start-ups in Developed Countries

Previous research regarding the challenges faced by start-ups within the United States, Norway, Sweden, Middle East countries, and the Netherlands has found that gender, human capital, motivation, process, finance, and networks are some of the factors that positively influence entrepreneurs in the pre-start-up phase (Gelderen, 2005).

Teten et al. (2013) suggested that venture capitalists use the TOPSCAN framework (Team building, Operations, Perspective, Skill-building, Customer development, Analysis, and Network) as a blueprint for operational involvement in start-ups. Team building refers to designing and recruiting a start-up's capital base while Operation signifies enhancing administrative, accounting, legal and technology capabilities. Similarly, Perspective refers to strategy, competitive positioning, defining the target market and scoping the product; Skill-building refers to building the right skills, especially for senior management. Customer development refers to identifying and gaining access to the right customer, and Analysis refers to how entrepreneurs measure, understand, and report the performance of their early-stage companies; Network refers to the cheapest, and sometimes the most value-added service, that an investor can provide in access to their network, particularly to potential investors and acquirers (Teten et al., 2013). We can infer from this framework that these seven variables are not only important for start-up formation but also for their perpetual growth.

While the factors and frameworks that positively influence entrepreneurs are clear, there are still clear challenges that impact start-ups. According to Salamzadeh and Kawamorita (2015), the factors posing challenges to start-ups in Middle East countries are financial challenges, lack of human resources, lack of support mechanisms, and environment. Pfeiffer

(2018) listed culture and education, support and network, and financing as the factors challenging eastern and central European entrepreneurs while financing, advice, education, and peer exposure were identified as necessary for the would-be entrepreneurs in the United States (Abraham & Master, 2021).

Methodology

The research was conducted in three phases using a mixed approach. First, we reviewed literature from around the world on countries having an economic, geographic, or social similarity to Nepal. Based on our review, we then developed a conceptual framework to understand the possible problems faced by entrepreneurs. In the second phase, we interviewed the entrepreneurs and in the third phase, we interviewed the key informants (experts) of the start-up ecosystem of Nepal.

Conceptual Framework

Based on the literature review, there were eight factors that were identified as posing challenges for start-ups around the world (conceptualized below in Figure 1).

Figure 1

Conceptual framework for the study

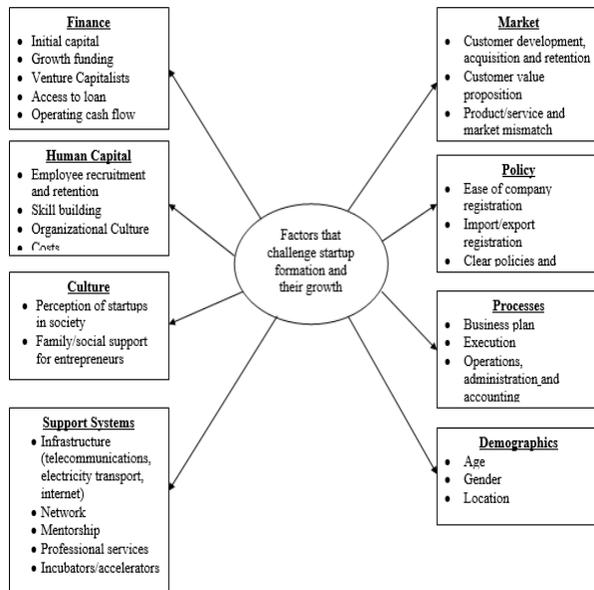


Figure 1 showcases the conceptual framework that uses finance, human capital, culture, support system, market, policy, process,

and demographics as the eight factors which can create challenges in the LDCs and the developed countries that were identified in the literature review.

Entrepreneurs' Interview

A list of fifty entrepreneurs based in Kathmandu whose ventures were less than five years old was created. The entrepreneurs were between the ages of 25-40. Out of the fifty entrepreneurs, eighteen were selected and interviewed based on their availability. These interviews were conducted in two parts. First, an in-depth interview with open-ended questions was conducted with the eighteen entrepreneurs to understand the challenges faced by the start-ups in Nepal (Part 1). The interview focused on gathering the thoughts and feelings of the participants, which was foundational to determining the most impactful challenges the entrepreneurs identified in their start-up endeavors (Merriam, 1992). The purposive (judgment) survey method was used, which is a non-probability sampling tool. In this method, the researcher autonomously decided what information was needed and who was able and willing to provide it based on their knowledge and experience (Bertrand, 2002).

After the in-depth interview, the entrepreneurs completed a five-point Likert questionnaire rating the degree to which each factor identified by the conceptual framework (see Figure 1) posed a challenge within their individual endeavors (Part 2). The scale ranged from 1 (least challenging factor) to 5 (most challenging factor). The average of each factor was then calculated.

Based on the in-depth interview, we clustered the findings into eight different categories formulated on the conceptual framework. We then picked the top five factors with the highest average and labeled these the "top 5 major factors challenging entrepreneurs" and prepared a spider chart based on the Likert scale to identify the top five most challenging factors.

Key Informants' Interview

The key informants are the experts, investors, mentors, and trainers of entrepreneurship who have more than five years of experience in the start-up ecosystem of Nepal. The key informants included individuals

who were able and willing to share their knowledge and expertise and were reflective and observant members of the start-up community to be studied (Seidler, 1974). The key informants selected for this research belong to various industries such as education, investment, and service. The key informants participated in a two-part interview. In the first part, we asked the key informants open-ended questions about the possible challenges faced by entrepreneurs while operating their start-ups. In the second part of the interview, we discussed the viewpoint of key informants in relation to the overall findings from the entrepreneurs' interview (see Appendix B).

Findings, Discussions, and Analysis

The findings from the in-depth interviews on the primary factors challenging the start-ups were categorized into factors identified as "Factors that challenge start-up formation and their growth" in our conceptual framework (Part 1) (see Figure 1). Then, the entrepreneurs also rated how problematic each factor was on a scale of 1 (least challenging) to 5 (most challenging) (Part 2). The average rating of each factor was derived as the arithmetic mean of all the ratings. The highest average was considered "most challenging", and the lowest average was considered "least challenging." Furthermore, the response of the key informants from the in-depth interview was also included in the discussion under the factors identified in the conceptual framework.

Figure 3
Factors Challenging Entrepreneurs

Factors	Average Rating
Human Capital	3.75
Finance	3.25
Support system	3.05
Marketing	2.7
Processes	2.4
Culture	2.35
Demography	1.8

Note. The average rating is the average of the sum of the rating divided by the total number of respondents

Finance

In the in-depth interview with the entrepreneurs, finance was identified as a major problem for start-ups to scale up their operations. Access to finance, via venture capitalists, accelerator programs, or bank loans, was found to be difficult for entrepreneurs for a variety of reasons within Nepal. Often banks in Nepal were found favoring a sector or segment. For example, one entrepreneur stated, "the banks have a number of entrepreneurs' business plans in the queue so they would only select the one from the sector they are focusing on. They aren't really interested in new ideas but only in the sector they want to focus on. For example, they invest mostly in agriculture for now" (personal communication, 2021). However, each of the five key informants mentioned that finance is not as big a problem as it is being stated but that instead entrepreneurs do not approach venture capitalists for investment. A key informant stated that "access to the venture capitalists' fund needs to go through numerous phases in an accelerator program, which the entrepreneurs might weigh with the opportunity cost lost while applying for these programs in getting funded. At times, a company would need to be registered and have been operating for a few years prior to getting approved for a loan, which might again add cost to the company for getting registered and so forth" (personal communication, 2021).

There was also a relationship between prior work experience and financial readiness for companies. Five of the 18 entrepreneurs rated

finance as the least challenging factor. These entrepreneurs however had prior job experience, and thus, had made savings for investment purposes.

The average score for finance as a problematic factor was 3.25 out of 5. The reason associated with this score was that many did not require a heavy initial investment in the company. An entrepreneur was quoted stating, "Finance is not the real issue but how to commercialize the product is the real problem. We need to start from small scale and prototyping" (personal communication, 2021). Overall, the capital needs of a company can be seen as a function of the phase of the company, fully dependent on the phase they are in. One needs small capital to begin prototyping. However, to increase the scale of the business, a larger source of capital is needed. Start-ups struggle most during the scaling phase.

On the contrary, the key informants did not believe that access to funds was as difficult as it is portrayed by entrepreneurs. They said that companies cannot even meet the minimum compliance set by the banks to be eligible to secure the funds, which has been the major reason for the rejection of funding requests. However, one key informant mentioned, "Nepal's ecosystem lacks the real venture capitalists who could provide the risk capital and bear the risk of the companies for a small amount" (personal communication, 2021).

Human Capital

Human capital was another factor that was identified as impacting start-ups in Nepal. Human capital was rated an average score of 3.75 out of 5. Most of the entrepreneurs' perspectives and ratings were consistent in this case. Fifteen entrepreneurs complained that the skilled people required for their businesses preferred applying to the established companies rather than to start-ups, due to the risk and instability associated with start-ups. Human-resources would negotiate more often for a rise in their salary which would, at times, even exceed the price range that would be offered by an established organization. On the other hand, one entrepreneur added, "Sometimes our partners (even employees) go for freelancing, switch to a well-paid job, or go abroad causing sufferings. And we need to reinvest new

resources in training or orienting new people" (personal communication, 2021).

Relatedly, key informants noted that forming a quality team requires forming a heterogeneous unit with diverse knowledge so that one can complement the other's information gap. However, most start-ups are struggling because they have a homogenous group with similar skill sets often formed by close friends. Additionally, the informants mentioned a problem in the process of coming together with the team members. A key informant stated, "Rather than coming to understand entrepreneurship, most of the employees come for the sake of salary, which makes them bargain most often" (personal communication, 2021). The companies ranking high in human capital were those where technical skills were required.

Culture

Culture was consistently identified as a barrier for entrepreneurs by all key informants; however, in our study, the entrepreneurs gave it an average score of 2.35 out of 5 on the scale. Culture affects the way entrepreneurship is perceived in any country. One major aspect of culture is family. Roughly 75% of the entrepreneurs interviewed stated that their Nepalese families did not want them not to pursue an entrepreneurial venture and wanted them to pursue a more conventional job instead. An entrepreneur mentioned, "Entrepreneurial ventures were often linked with failure and lower social status, which as a concept is ingrained in a family's perception and overall societal culture" (personal communication, 2021).

Likewise, a key informant clarified that "the mindset of failure as being bad is ingrained in our brains from childhood and people want their children to be on the safe side. This has led people to surrender when they fail at their ventures, but entrepreneurship needs failure as a part of the process" (personal communication, 2021). Thus, a lack of financial and motivational support on behalf of family and friends in Nepal significantly impacted and provided a challenge for the development of start-ups. Additionally, the surveys found that culture impacts the way that society views entrepreneurs and their credibility. "Entrepreneurs are often labeled as casual workers as opposed to those who hold a

serious, or more conventional job”, mentions one entrepreneur (personal communication, 2021). Similarly, based on the conversation with the entrepreneurs who had worked previously against cultural pressure, it was noted that they were less likely to perceive it as a problem when compared to the ones who had not.

Although entrepreneurs identified culture as a barrier, they did not score it as a more pressing factor on the Likert scale (i.e. rated it as the second least pressing factor). According to a key informant, the reason for this could be, “the cultural factor has been deeply ingrained in the brains of the Nepalese. It has already limited our thoughts, and thus, we do not see it as a problem” (personal communication, 2021).

Support System

The average score for “support system” was 3.05 out of 5 and is one of the challenging factors that were identified by the entrepreneurs through the rating scale. In the support system, we looked at the services related to infrastructure (telecommunications, electricity, transport, internet), network, mentorship, professional services, and incubators/ accelerators.

The availability of quality mentors throughout the process of registering and opening a business was consistently mentioned by twelve of the 18 entrepreneurs surveyed. Nine entrepreneurs interviewed remarked that the network with the right suppliers, investors, and key partners would make the scaling of a business easier. However, despite feeling the need for mentors, several entrepreneurs shared their concerns regarding mentorship mismatch. One entrepreneur mentioned, “In the past we used to talk to mentors but found their advice difficult to implement in our company” (personal communication, 2021). Though mentorship was mentioned as the most important support aspect from entrepreneurs in the rating scale for the growth of the companies, the key informants did not think that the lack of quality mentors in Nepal’s entrepreneurial ecosystem contributed to anything concrete and viewed the support as simply providing suggestions or feedback.

For IT companies, quality power supply and high-speed Internet were found to be pivotal for success. Negative experience with the

Internet was not an issue until entrepreneurs had to develop a personal relationship with the Internet service providers.

Though most of the entrepreneurs felt having incubators would be beneficial, key informants had reservations. One key informant mentioned, “Incubators have given rise to a culture where people run behind investors rather than being creative with their own deeds” (personal communication, 2021). This same expert also added that “even entrepreneurs are acting like investors, where they aren’t focusing on their start-up but rather going on investing in various other new start-ups like a chain entrepreneur” (personal communication, 2021).

From the in-depth interview with entrepreneurs, support systems were found directly related to the job experiences or years of operation. The companies which were in operation for at least three years went through learning cycles where they developed the knowledge for themselves. On the other hand, past job experiences or other experiences also gave certain benefits like network excess, which could develop the support system for a company.

Marketing

Marketing scored an average of 2.7 out of 5 and was identified as one of the problems faced through the rating scale. According to the key informants surveyed, the crux of the problem with entrepreneurs today is their inability to grasp the value proposition of their businesses. The market in Nepal is full of entrepreneurs who have products to sell but are not sure of the value proposition their product is offering.

This problem is said to be due to entrepreneurs’ lack of practical knowledge regarding marketing. Our key informants mentioned, “Entrepreneurs generally give more technical jargon to market the products rather than communicating in customer-centric ways” (personal communication, 2021). Another key informant mentioned, “the team, formed with heterogeneous members, should have at least one marketing expert to improve marketing. This could be further supplemented by a quality network of marketing professionals or subcontracting marketing agents” (personal communication, 2021).

Policy

Government processes and policies received a mixed response from entrepreneurs and key informants. Entrepreneurs stated that government policies are needed to promote the company, but also that some policies could inadvertently discourage the development of a business. One such policy that was specifically mentioned was the axiom code. One entrepreneur stated, "I had to register at VAT when I had a consignment worth more than one hundred thousand Nepali rupees, and later when I had no sales, they started questioning me for why I had zero sales" (personal communication, 2021). Another entrepreneur expressed:

My company's name was changed from "Slices Pizza" to "Slices Pizza Baked" because the government authority saw no meaning in the name I kept, whereas it has a meaning. This was done without asking me. They also declared themselves the rent of my business's outlet while the outlet was my own building and I had boot-strapped it. (personal communication, 2021)

Entrepreneurs also suggested that a no-tax policy for a certain number of years or policies supporting the companies during the product test level would be helpful to start-up development. The entrepreneurs believed this would help to promote their entrepreneurial effort. Similarly, many of the entrepreneurs expressed that they encountered issues with the middleman in government agencies because the government has not been able to remove them nor establish one clear door policy to registration. These middlemen are promoting corruption by creating a mandatory situation to go through them, especially in airport cargo. One entrepreneur complained, "it is more difficult for the companies to export goods than import because we cannot use PayPal, nor do we have any payment gateway" (personal communication, 2021).

One key informant, however, stated that government policy is a problem for start-ups and policy always comes after the need for it. Hence, Nepal still has a long way to go prior to creating a "critical mass" that could lobby the

policymakers to create a good start-up policy. The key informants argued that none of the current policies have hampered anyone from doing business.

Experts mentioned that all the policies are vague at their inception and that policies get defined and broader as the number of businesses increases. On the other hand, entrepreneurs stated that clear policies and guidelines would help them operate. On this dichotomy, we observed that the start-ups which had registered recently scored higher on the policy as a barrier as compared to companies which had been registered for a long time. As a result of which, they have given lower scores to this factor. Policy was given an average rating of 3.05.

Processes

Processes scored an average of 2.4 out of 5 in our scale. The technicalities of renewal or registration or even Value Added Tax (VAT) entry can become difficult or overwhelming for a new company. Almost 16 entrepreneurs mentioned a coherent business plan would have helped them expand their business had they known about it earlier. However, they had an idea in mind but had not actually developed them rigorously in a written plan.

Processes were found to be directly related to the experience of the founders and the variety of the skills of individuals in the company. A start-up consisting of a heterogeneous group with different skills, such as marketing and accounting, would be an advantage for the company in terms of its ability to accelerate and adapt quickly. Similarly, the entrepreneurs who had prior experience were seen to be better with operations or management. This would help to make it easier for them to handle the various required processes of running a business compared to novice entrepreneurs. A key informant was quoted saying, "Entrepreneurs must have work experience and have worked in most of the field or had learned a little bit of everything before they decided to join the venture or at least have a circle to refer to the emerging problems" (personal communication, 2021). Furthermore, this helped to accelerate this particular business.

Demography

Demographics was rated very low by many people, as it has scored 1.8 on the scale. Demography has a diverse and different effect on entrepreneurs. Entrepreneurs who started their start-ups in their early twenties complained that the market did not believe in them initially because of their age, but they also added that the context is changing. Additionally, in the case of women entrepreneurs, there is a seemingly mixed response. This mix seems to stem from access to information. The women, who had information about positive discrimination like tax exemptions and funds, were more likely to feel positive about the gender bias within the start-up community and vice versa. On the other hand, few women mentioned that the employees and

partners would still prefer a male boss over a female one, which remains a large demographic barrier.

Conclusion and Recommendations

This research analyzed different factors that affect entrepreneurs and ranked those factors based on the scores given. Based on the factors identified from the literature and participants' ratings, we have come up with the five main factors that have affected the entrepreneurs within Nepal. Those major factors were human capital, finance, support system, policy, and marketing respectively, as shown in Figure 2.

Figure 2
Spider Chart for the Five Factors Challenging Start-ups



Note. The five factors in the chart are the top five averaging factors rated by the entrepreneurs as the most challenging one.

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Appendix A

Questionnaire for Entrepreneurs

1. What are the challenges you are facing as an entrepreneur?
2. Is managing human resources a challenge for you?
3. Do you think that finance is a problem for the start-ups like you? How did you get your investment? Was it easy?
4. Were your family and friends supportive of your decision of being an entrepreneur?
5. Do you think having an incubator or any mentors could have made the entrepreneurial journey easy?
6. How easy or difficult was the marketing for you at first?
7. Did you find entrepreneurial/business policies as a problem for you? How?
8. Do you think your gender or your ethnicity was a problem for you to be an entrepreneur? Age? Any other demographics?
9. Please give score on the scale of 5 to these factors

Appendix B

Questionnaire for Key Informants

1. What do you think is the problem for entrepreneurs in Nepal?
2. We have found the following in interviews (the discussion from the entrepreneurs' interview), what is your take/reflection on it?
3. Can you say the main problem of Nepali entrepreneurs?