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Food from Foreigners: Examining Expatriate Entrepreneurship in the Food Sector of Nepal

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Food from Foreigners:
Examining Expatriate Entrepreneurship in the Food Sector of Nepal

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Abstract

Recognizing the large impact that entrepreneurship can have on the development of a country, this research attempts to study the process foreigners face in starting up a business, the motives for entering the Nepalese market place, and ultimately how these foreign business owners are finding success in Nepal. Focusing primarily on the food sector, this research hopes to answer the question of whether foreign entrepreneurs can successfully integrate into the Nepalese market, how foreign business might differ from native business, and how foreign presence is affecting Nepal's development. This study takes place in Kathmandu, Pokhara, and Patan, and will use semi-structured interviews and questionnaires to obtain data.

Research found that conducting business in Nepal as a foreigner is extremely uninviting, and there is much inefficiency present. Many foreigners are being kept out because of high barriers to enter the market. Moving forward, Nepal should relax its requirements to stimulate business in the food sector.

Dedication

For anyone with a passion for food.

Acknowledgements

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Introduction

Most current day economists agree on the potential impact of the entrepreneur on development. Countries cannot rely solely on foreign aid, but need a combination of aid and innovation in order to sustain a higher level of operation. Joseph Schumpter highly glorified the role of the entrepreneur, and claimed that economic growth is solely dependant on the availability of dynamic entrepreneurship in the concerned country (Bahadur, 1999). Where it existed in plenty, entrepreneurship in developing countries has played an important role in economic growth, innovation, and competitiveness (Lingelbach, 2005). However, entrepreneurship in developing countries is seldom studied. Existing models of entrepreneurship- such as Bhide's model of the consumer, are based largely on research done in the United States and other developed countries, and do not adequately describe the behaviors seen in developing countries, such as Nepal (Lingelbach, 2005).

Until recently, scholars and researchers have assumed entrepreneurship to be largely the same all over the world- driven by similar impulses and largely ignoring the differences in context. Researchers of entrepreneurship such as Schumpter (1942) and Knight (1921) do not distinguish between entrepreneurs operating in different business environments, and thus do not consider the differences faced by the entrepreneurs in wealthy vs. poor countries (Lingelbach, 2005).

Entrepreneurship specifically in Nepal poses as an interesting case study. Entrepreneurship as a means of poverty alleviation and economic growth does not resonate well with the government, intelligentsia and the development sector of Nepal (Giri, 2012). While there are many government-supported co-ops in Nepal,

the general attitude towards *new* ideas is that of skepticism. In Nepal, the general attitude toward business and profit making is that of corruption, and immoral behaviors. Regulatory hurdles, dishonesty, and political intervention have made Nepal one of the toughest countries to conduct a business (Giri, 2012). Its landlocked position makes market access a challenge, with surface transport into and out of Nepal very constrained by only one reliable road from India to Kathmandu Valley. High custom tariffs imposed on most manufactured products increase the price of foreign products in the Nepali market- sometimes selling for over 200% of the American value (US Commerical Service, 2012). These barriers in mind, it seems irrational for foreign entrepreneurs to seek out a market such as Nepal's as the final destination for business if the entrepreneur is acting on a purely business mind set.

As more countries become market oriented and develop economically, the distinction between foreign markets and domestic markets is becoming less pronounced. What used to only be produced domestically is now being produced internationally and imported in. The globalization of entrepreneurship can create wealth and employment that benefits individuals and nations throughout the world. While domestic and foreign entrepreneurs have similar goals (maximize profits, sales, costs, etc), what sets domestic apart from international entrepreneurs is the variation in the relative importance of the factors affecting each decision (Harbison, 1956). International entrepreneurial decisions are much more complex because of potentially unfamiliar factors such as economics, politics, culture, and technology (Zuccella, 2008). Typically, foreign entrepreneurs must first become accustomed to the stage of economic development in the country of interest; i.e. decode the economic system, exchange

rates, language barriers, and political-legal environment which can take a considerable amount of time.

In addition, entrepreneurs must make sure that each element in the business plan has some degree of congruence with the local culture. For example, the entrepreneur must make sure that the business plan makes sense in the Nepali context. When entering a foreign market, the international entrepreneur must also be aware of the strength of local competitors who are already established in the market. These competitive companies can often be a formidable force against foreign entry, as they are known companies with known products and services (Zuccella, 2008).

Opportunity for success is very different in developed countries compared to developing countries. Emerging markets lack the necessary stability and consistency of developed markets, and there are many risks associated with innovating in an unstable market (Lingelbach, 2005). Start up costs are often hefty, and many entrepreneurs lack the financial upfront costs. To a much greater extent than developed countries, nascent entrepreneurs must answer the question of whether it is rational to commit one's own financial resources to the new firm if the chances of failure are high (Zoltan, 2009). So while there is potential for emerging businesses in developing countries, upfront costs are expensive, and there is a high rate of failure. This brings researchers to the topic of risk and evaluating the psychological characteristics of successful business owners. As most people are risk adverse, it is uncommon for people to willingly risk large investments on chance. And while starting a business in any market poses an abundance of risk, as one of the poorest countries in the world, naturally a start up business in Nepal holds some of the greatest risk.

Focusing on Western expatriate entrepreneurs in the food sector, this research will examine the process of starting up a business, the motives for entering the Nepalese market place, and ultimately how these business owners are finding success in Nepal. This research hopes to answer the question of whether foreign entrepreneurs can successfully integrate into the Nepalese market, how foreign business might differ from native business, and how veteran entrepreneurs are adapting to Nepal's always changing market. In answering these questions, I will be able to point to specific futures, unique to Nepal's market for small businesses that help or hinder potential expatriate entrepreneurs seeking out Nepal as a location for business. The object of this research is to pin point why some foreign businesses are thriving, while others fail based on the characteristics of the entrepreneur, the type of business in operation, and the context of the local community.

Methodology

The majority of the information in this study was obtained in the Kathmandu Valley, although a week in Pokhara offered some crucial demographic information. All eleven firms were initially discovered through word of mouth and recommendations from friends and faculty. The 1905 Farmer's Market on Kantipath in Kathmandu was a key stepping stone for making contacts and meeting different kinds of business owners outside of those with restaurant fronts. At the farmer's market, I first established contacts via business cards or email addresses, in which I then contacted the entrepreneur at a later date to schedule a more formal interview. After introducing myself, I would send an email to the business owner during that next week and attempt to set up a meeting time. Typically, entrepreneurs without a restaurant front would invite me to their

homes or wherever they actually produced the food. At the end of each interview, I inquired about the expat community, thereby attempting to locate other expats in the neighborhood suitable for interviews. For entrepreneurs who own established restaurants in Nepal that I had heard of through word of mouth, or the *lonelyplanet* guide book, it was easier to just physically drop into the restaurant in an attempt to get an interview. Often I found that the owner who established the restaurant had moved back home or was out of the country travelling. I sometimes visited a single restaurant three or four times before actually receiving any information about the owner let alone set up a meeting with them. While it was cumbersome to keep visiting a single location, it was more effective than sending emails.

Interviews were semi-structured, with a list of guidelines but allowed for conversation to flow naturally. The conversation was led by the entrepreneur, and sometimes I refrained from asking questions that might steer the conversation in a different way. Because I interviewed foreigners, the interviews were in English and I was given verbal consent to use their information in my study. Usually I asked a leading question, such as "please tell me a little bit about your restaurant", which allowed them to highlight whichever aspects they found most important, and also was vague enough to get them talking. During an interview, the conversation was approximately 70% entrepreneur, 30% questions and clarifications.

Most interviews relied heavily on luck and good timing. Whether the owner was in the restaurant and whether or not there was a free minute to talk was always a gamble. Because most businesses in Nepal do not have websites, other methods of contact needed to be explored. Again, networking was key in

mapping the community of expats, and there was a strong emphasis on face-to-face contact rather than attempting to send emails. In addition, many business established by an expatriate are now Nepali owned, which offered valuable demographic information, but made it difficult to contact the originial owner. Expansion on this research would include interviews with the newly Nepali owners to discover the dynamic between foreign business owners who have left Nepal, and how new Nepali management has taken over.

In total, I interviewed with eleven different businesses, two of which were Nepali owned, and the remaining 9 were foreign owned.

Research Findings

Legalities

When looking to start up a business in Nepal, there are a couple of things the entrepreneur must first consider. The legal process of finding a physical space for business, obtaining a business visa, supplying electricity and clean water to the building, etc. are more than enough to deter many entrepreneurs away from the market. These processes are often very lengthy, expensive, and not as comprehensible as many western entrepreneurs are used to or comfortable with. More often than not, it becomes crucial for an entrepreneur to first establish a strong and trustworthy contact in Nepal for consultations and legal advice during the process. Sandra Robinson of *Pokhara Cheese*'s best advice for someone looking to enter the market is "get a good lawyer, or don't bother". At some point, foreign entrepreneurs are forced to evaluate whether the benefits outweigh the very heavy start up costs.

Business Visa

Getting a tourist visa in Nepal is a rather painless experience. Foreigners can show up at the airport with a couple of dollars and a passport sized photograph and they are granted permission to enter the country for up to five months. The problem stems from when a foreigner is hoping to extend their visit for more than five months. There are a couple of options for how to extend a visa- a work visa, a student visa, a residential visa, or a business visa. Of course attaining any of these extended visas is a lengthy and difficult process; some are more difficult than others. Because of harsh requirements, work visas are seldom issued even to those closely connected to well funded INGOs. Residential visas are even rarer issued than work visas because while some foreigners are looking to stay more than a couple of months, often they do not want to stay in Nepal for the rest of their lives, especially if they are not married to a Nepali citizen. In addition, there are steep requirements for a residential visa including a clause that entails contributing significantly to the economic, social and cultural growth of Nepal (US Commerical Service, 2012). The student visa has the fewest obstacles for attainment, but even that requires thousands of dollars in Nepali bank accounts, classes that cost upwards of $500 a semester, and visits to a plethora of campus buildings and stacks of paperwork for completion. There is next to no help navigating this process, and like most legal processes in Nepal, it requires an abundance of patience, red tape, and confusion before anything is processed. Despite the difficulties, the result has been that because of the few options for visas, many expatriates operate under a business visa while staying in Nepal.

The business visa itself is a head ache, but is attractive to unmarried expats who are looking to live in Nepal for a couple of years, and not necessarily tied down for the rest of their lives. While it is very attractive, it comes with quite a few hurdles itself. First, it requires $20,000 of committed foreign capital to be put toward investment. Even in the western world, this is not just a chunk of change, but requires serious budgeting and planning to come up with. This gamble is more than off-putting for many entrepreneurs because of the large monetary risk involved. Aside from the large down payment, a business visa requires copious amounts of paperwork, over 200 signatures from each investing member, dozens of passport photos, dozens of thumbprints, and numerous trips to government offices spread out over several months. For Brian Smith of Brian's restaurant and bar, it took over six months to receive a business visa. The problem is that a regular tourist visa lasts just five months, and often the business visa takes longer than that to process. So timing becomes crucial and often entrepreneurs must make multiple trips back and forth in and out of the country. Matthew Hirt at the Lazy Gringo's business visa was issued just days before his tourist visa expired, but his daughter was not as lucky and had to leave Nepal for a couple of weeks until the paperwork cleared itself out.

The constant need to sign paperwork or visit a government office is very hard to navigate to many expatriates. Even with a lawyer, which also costs plentiful amount of money, the process can be very confusing and often just frustrating. The frequent, short notice, trips to offices requires the expatriate to remain close to Kathmandu throughout the whole process, which is difficult if the tourist visa has already expired. In addition, the lack of modern technology that many westerners are accustomed to (ie. electronic signatures, email for

communication, modern filing system, etc.) slows the process even further. While attaining a business visa is frustrating at best, and very timely, it is attainable and often the choice of foreigners looking to stay in Nepal for longer than just five months.

Finding Property

Entrepreneurs looking for a restaurant space face difficulties because foreigners cannot legally purchase land. As of 2012, it became legal for expats to own their own apartments, but still not large buildings suitable for a restaurant. There are a couple of ways around this law. First off, because real estate in cities like Kathmandu is extremely pricey (even by western standards), it is appealing for many expats to simply rent a space instead. While renting can be cheaper in the short run, eventually it makes financial sense to purchase a space. There is also a loophole where while a foreigner cannot purchase land in his/her own name, it is legal to purchase land underneath the company name. So after an entrepreneur is approved for business, then he/she can use the company name to buy a space. In addition, some entrepreneurs choose to register their businesses in the name of their Nepali spouse so that the legal hurdles can be avoided. Alternatively, some entrepreneurs choose to work out of their home, such as Sandro Serafini at Himal Farm. He owns a house with his Nepali wife, and makes his own cheese right at home, which he in turns sells to restaurants such as Brian's and Fire and Ice. He also sets up a stand every Saturday at the Farmer's Market- ultimately avoiding the need to purchase an external space for business. While the legal process of purchasing a physical space can be trying, choosing the space for business geared towards optimal success is a different set of problems to be discussed later.

Infrastructure

One of the larger problems for running business in Nepal is the lack of infrastructure necessary for operation. Load shedding is the enemy to most restaurants if they do not have proper back up generators to power all of the equipment. Restaurants such as Brian's significantly suffer from load shedding because being located on the 9th floor without a working elevator deters many customers from coming in, and thus Brian looses business. In addition, back up generators are expensive and also partly unreliable. Sandro Serafini makes cheese out of his home, which requires a very scientific refrigeration temperature for the perfect creation. Unfortunately, he also suffers from load shedding, and had to build an exterior fridge in his back yard that can sustain the same temperature even without electricity. Nowadays, Sandro says that he can never take a break because with one wrong move, all of his cheese is ruined. However, for veteran expats like Maria at La Soon, the system has become so comfortable, and while it is still a nuisance, she has taken the last 20 or so years to figure it out.

On the other hand, access to too advanced technology and equipment is also a concern of some western entrepreneurs. Installing a fully western kitchen in a restaurant with Nepali cooks who were never trained on that equipment is a waste of both time and money. Brian at Southern Comfort imported most of his kitchen from the US and other countries because they were not largely available in Nepal. His restaurant has been open a couple of months now, and he is still working on training his cooking staff to use the bakery ovens, temperature gauges, ice cream machines, etc. Understandably such machinery is needed to cook certain styles of food properly, but sometimes efficiency could be

dramatically increased with equipment more familiar to what Nepali chef's are used to using.

Nepali Police

There is a curfew in most of Nepal, where businesses are not allowed to operate after a certain hour. In addition, there are noise controls in place that try to keep the city quiet at nighttime. For Brian's restaurant and bar, they are only allowed to operate until 11 at night. One of the main sources of business for Brian comes from the buildings ability to throw parties out of the roof top terrace. Because of these rules, Brian has had many run-ins with the police. Brian has described this experience as a "double-edged sword". In his experience, he has had to pay (bribe) the police with much more money than he believes a Nepali would have had to pay because "foreign faces get foreign prices". But at the same time, Nepali police seem to uphold a stereotype that all white men are powerful with a lot of money and a lot of connections. Therefore, Brian also believes that he has been let off many times because as a white business man, he could potentially be in contact with many power government officials (although that is not the case). It seems that foreigners can get away with much more than natives if the foreigners are willing to pay for it. Police tend to be much harder on Nepali's breaking the rules than foreigners breaking the rules because of those cultural differences. The police are described more of a nuisance rather than helpful, and while there may be very loud Hindi music blasting from a dance club down the street, the police will target foreign run places such as Brian's hoping to squeeze a buck or two more out of him than they would the dance club.

Wait Staff

Foreign run businesses, by law, must hire Nepali employees. That is, all workers in a restaurant must be Nepali, including the chef, host, and all wait staff, unless the foreign owner doubles as the chef, a waiter, etc. This means that unless an entrepreneur has very strong connections to Nepal and has a staff, the process of finding the right chef and the right wait staff can be a bit frustrating. Because everything is done on word of mouth, much is left to chance. In addition, language barriers are often relevant, and sometimes entrepreneurs cannot effectively communicate their demands and expectations because they cannot speak the language.

Mapping and the Movement of People

Examining the differences between the expat communities in Kathmandu versus Pokhara yields interesting demographic differences and similarities. Many restaurants in highly tourist hot spots, like Lakeside, Pokhara, claim to be western owned, and indeed were established by a westerner, however upon inquiry, it was revealed that many of these westerns do not actually still live in Nepal, and have moved on to other projects either back in their home country or elsewhere. In fact, on the strip of larger restaurants in Lakeside Pokhara, not a single one was foreign owned, and they had all been taken over by Nepali management. Even at Moondance, which reads on the front sign "Canadian and Nepali Management" was actually just established by a Canadian, and then a few years later bought out by a Nepali.

Similarly, other tourist areas, like Thamel, have this same dynamic. The restaurant Or2k was created and lifted off the ground by an Israeli, but he moved back to Israel a couple of years ago and left his restaurant in the hands of his

Nepali business partner. Reasons for leaving Nepal were not explicitly expressed by their Nepali counterparts, but assumptions suggest that while the entrepreneur had long-term goals for his restaurant, he had short-term goals for his stay in Nepal. La Soon, which has been run by a Ghanaian woman for the past 20 something years is soon to be left in the hands of her Nepali partner as well, as she soon plans to move back to Ghana in the next two or three years. It seems like location of the restaurant or business is correlated with the length of stay in Nepal. For example, restaurants in highly tourist areas could possibly be correlated with a shorter stay, and businesses run out of the home or in a location attracting more Nepali business is correlated with a longer, more permanent stay in Nepal. Although I do not believe one causes the other, it seems to be the general trend among expats in Nepal.

Nepali's Going Abroad

In recent years, Nepal is losing many of its youth to better job opportunities abroad. Because a majority of customers at foreign owned restaurants are foreigners as well, typically their employees need to be skilled in the sense that they need to understand other cultural norms, as well as speak English. However, there is a fault in the system, if a Nepali youth is skilled enough in language and in culture, then they will find better job opportunities elsewhere. It is then rare to find a suitable wait staff that can adequately address the demands of the owner as well as cater to the customers. The key to having a successful wait staff, says Maria from La Soon, is to find employees with a reason to stay in Nepal. It is not rare to come into the restaurant and find that an employee has quit due to better job opportunities elsewhere, or because they didn't feel like working the job anymore. The key is to find workers who have

families in Kathmandu, or are going to school here, something that is going to keep them tied into the job for some time.

At the same time, some of the most successful foreign run kitchens are head by a chef who has spent a significant amount of time abroad. Exposure to different tastes, foods, and ideas about food are crucial for a Nepali chef to be able to adapt to foreign management. The head chef at Southern Comfort spent almost six years in the United States before returning back to Nepal. Therefore, he can easily understand the food and spice combinations demanded by the American owner. The head chef at La Soon was hired some 15 years ago, then received a better job offer in Japan, and ended up spending about ten years there. Recently he came back and is again the head chef at La Soon. Maria, the owner, says that he is performing even better than he did before, and that she now feels comfortable with him in the kitchen that she can finally move back to her home in Ghana. Often, Nepali's who have spent time abroad offer the greatest possible skill set because they thoroughly know two different cultures. The key is just ensuring that they come back. While there is a serious unemployment problem in Nepal, there is also a serious lack of efficient manpower and skilled people who can effectively contribute to Nepal's labor force. Often, the key is to send Nepali's across borders and bring them back trained.

Networking and Word of Mouth

Because there is no such thing as Nepali yellow pages, most things are done on a word of mouth basis. Finding a property, employees, etc. are all done by networking, and talking to friends of friends. If an owner needs another waiter, then they simply ask the other wait staff if they have friends looking for a job and then call them in for an interview. Most things are done simply by asking

and getting lucky with the right people. While this process can be slow and frustrating, it is how most of Nepal works, and sometimes networking can be the most beneficial strategy when operating your business. Lawyers and other consulters are also found through recommendations from friends and a good track record.

Cultural Differences

One of the hardest things for a foreign to adjust to is the cultural difference in priorities and work ethics. Of all of the entrepreneurs interviewed who have staff members (ie. they have Nepali employees), all of them reported cultural differences as being a huge challenge in efficiency. Anil, from Rovyen's Café and Bar, is Nepali himself, and also complained about the lack of work ethic showed by many Nepali youth. He explained that even if they are very talented and skilled, too often they are distracted by drugs and family matters, and are unreliable employees. After spending a considerable time abroad, Anil identifies more with a German identity than a Nepali identity. In that sense, Anil can integrate into the Nepali culture fairly easily, however cannot understand the work ethic in Nepal versus abroad. Brian's Grill has been open about a year and a half now, and they do not have a single original employee. Maria at La Soon complained about employees not showing up for work because they didn't feel like it, and without any kind of notice they were just gone. There are a number of things (school, family, religion, etc.) that get prioritized over work in Nepal. This sort of prioritization is confusing at first to foreigners, and takes quite a bit of time to get used to. Maria has run her restaurant for 25 years now, and she says that she still doesn't understand the lack of work ethic by some of her staff members.

In addition, some entrepreneurs have found Nepali staff to be extremely timid and sensitive compared to their home country. In America, employees must be aggressive and outgoing with a tough spine in order to be efficient and take orders from their boss. However, Brian Smith describes an experience during his first couple of months where, he raised his voice at his employees regarding the way business should be run during one of their opening parties, and all of a sudden there were multiple staff members in tears, and two did not show up to work on Monday. For him, this was a huge wake up call as to how different businesses operate here versus in the US. He says that since then he has taken a more laid back approach, and uses more sensitive language, but it is inefficient and not the way he has been taught to run a business.

Passion vs. Business

A common thread to the question of "why did you open this restaurant/why do you make xyz" was that food was a passion of the entrepreneur, and they wanted to bring that passion to the Nepali people. Through this question, interesting conversation surrounding the food culture in Nepal was provoked. It seems that foreigners who enter the food industry after arriving in Nepal are very passionate about the food of the home country, and realizing the lack of quality food diversity in Nepal, they decided to start making their own to share with not only other expats, but to other Nepali people.

There exists, already, a unique culture surrounding food in Nepal. Nepali people are very passionate about food, but are pretty closed minded about exploration beyond daal bhat, momos, roti, etc. In addition, Nepali people were never taught how to properly taste. They are taught at a young age how to eat rice, quickly moving from hand to mouth to stomach, with little consideration to

subtle spices and mixtures of flavors. But it is not part of the culture to appreciate these subtleties, nor is it a priority. While entrepreneurs like Sandro Serafini are not trying to change this aspect of the culture, he is trying to bring something new to Nepal that Nepali's are not necessarily used to. He explains that from a very young age, he has been teaching his daughter how to properly taste food because taste is acquired; you are not born with it. In addition, before he starting making his own food, he quickly grew tired of over cooked and over seasoned food, and wanted his family to experience the kind of food that he was raised on.

In Italy, Sandro explains that it is customary to feed infant children cheese (as opposed to rice in Nepali culture). Due to the lack of cheese that was truly up to his standards and free of chemicals available in the Kathmandu Valley, he knew that he would have to make it himself. From there, he rekindled his love for cheese and other standard Italian cuisines. What started as a way to feed his daughter has turned into a business and he now sells cheese to many restaurants all over Nepal.

Maria from La Soon explained that she too had a great passion for food in Ghana, and after spending a considerable amount of time in Nepal she starting cooking up some of her personal favorites. During dinner parties, she was constantly told that her food was so delicious that she ought to start her own restaurant. It took a couple of years to get started, but she's never looked back since. Even 25 years later, she still describes the purpose of her restaurant as a way to share her passion with the rest of the world. Her philosophy is that if you cook food for other people, and they are not happy, then you have wasted your time. It's not about the process of cooking food or about the business it gives you, but about the feelings that you can give someone through the means of food.

She explains that you need a passion to make real creations. It is not enough to think up a business plan copied off another restaurant or off the Internet. You need authentic passion and imagination in order to be successful.

In both cases, the business developed as an afterthought. Entrepreneurs with a passion for what they do start on a small scale, and after some time they develop it into a business to share with other people. Problems arise, however, when the business develops without a passion for the food itself. Without genuine roots, the business has no nourishment for growth.

Keys for Success

Of the businesses interviewed, a couple common branches emerged as key for success. They are as follows:

1. A good, trusty worthy lawyer to navigate confusing and complicated paperwork.
2. A promising location. Because most business is conducted through word of mouth and foot traffic, being in a heavily populated area is extremely beneficial.
3. A head chef that has spent some time abroad, or is familiar with other styles of cooking. This can be crucial in order to produce the food that the entrepreneur is happy with.
4. Reliable staff that are tied into the job in some way. A business cannot grow if the staff is constantly being replaced and retrained. There must be a solid base that can operate without the owner physically being present all the time.

5. Solid infrastructure, including a stable back up generator and reliable water filtration system.
6. Time, money, and patience. The start up process is lengthy and requires thousands of dollars in investments and legal documents.
7. A passion for and understanding of food, and the culture surrounding food in Nepal.
8. A solid Nepali contact to help find lawyers, staff, a physical space, etc.

Discussion/Analysis

On Obtaining Proper Documents

The strict legal requirements for foreigners raise the questions of who these rules are protecting and who are they helping. While it can be argued that government officials want to keep foreigners out of the labor force in an attempt to protect domestic workers from foreign competition, it still doesn't add up. A number of highly qualified and highly skilled are being turned away each year because of the extremely high barriers to enter the market. In a nation that complains about losing talented citizens to job opportunities abroad, Nepal is in no place to turn down entrepreneurs who are potentially bringing new ideas to the table. Using the basic idea of gains from trade, there are mutual benefits from allowing the exchange of culture and ideas. Having intelligent and talented businessmen in Nepal not only creates jobs but also allows for a great flow of cultural capital between Nepali workers and foreign business owners.

In addition, it brings up the idea of what foreign investment Nepal is actually demanding, and who the government is trying to attract. Clearly regulations are not welcoming to small business owners, which points to the government wanting larger scaled investors. It doesn't make complete logical sense because if investors are risk adverse even on small-scale projects, then committing thousands of dollars to a large-scale foreign investment seems highly unlikely to impossible. It would be much more effective to support the little guys, establish a good reputation for foreign investors, and eventually larger investments will start coming to Nepal. Government officials are again thinking about the end reward without understanding the psychological ideas of risk aversion and building a good reputation. In the end, much inefficiency is occurring because of this missed step. There are many gains from trade still to be had, but because of high barriers to enter, there is a ton of dead weight loss present in the markets.

Game Theory Between Partners

A couple of businesses expressed the need for a Nepali partner but emphasized the huge risk associated with doing so. Often the foreigners felt they were played for fools, and cheated by their lawyers or consultant. In the current system, foreigners are not protected from scams, and are forced to be extremely careful with trust. The interaction between entrepreneur and their Nepali counterpart (ie. lawyer) can be analyzed using game theory. That is, determining a strategy based on the strategy of the other player. For example, in a classic Prisoner's Dilemma case, the two players involved have two options: to either be honest or to cheat. If both players are honest, both make $25,000. If player 1 cheats and player 2 remains honest, then player 1 receives $50,000 and player 2

loses $10,000 (and vice versa). And finally, if both players cheat, then they both receive $10,000. Of course the dominant strategy of both players is to cheat if it is a one-time game because they don't want to be caught honest if the other cheats and there is a higher incentive to cheat and catch the other play off guard. This ultimately forces both players into a vicious cycle of approaching business with a cheating mindset. Business partners do not want to be cheated, so they undercut the deal, and foreigners do not want to be scammed either, so they also hesitant to provide full information and trust into their partner.

In a country where many interactions are based on trust among business partners, there is a lot of under the table game-playing happening. If in fact the game is repeated (ie. many rounds of business), there is an incentive to remain honest throughout. However, many people are not interested in long-term business, and would rather make a big buck now and find further business in the future than remain honest and build a steady income over a longer period of time.

Though a bit pessimistic and cynical, this has been the biggest fear in trusting a Nepali partner. While all people are vulnerable to scam, and while securing a partner always requires a ton of trust, foreigners in Nepal are extremely susceptible to cheaters.

One reason that Sandro Serafini will not find a Nepali partner is that he does not trust anyone enough to bring him pure milk. In Nepal, most milk is watered down or contains chemicals because it generates more physical good, and thus more business. He knows that many people are out to turn a dollar or two, and does not want his name attached to a product that is not up to his standards. In addition, a couple of years ago Brian's lawyer from Brian's restaurant and grill also cheated him and inflated the rates when he should not have. Instead of being

honest, and receiving more jobs from recommendations by Brian, he is now out of work. Too often people take the big upfront reward instead of playing multiple rounds and creating long term mutual benefits, which are often more rewarding.

I'm not claiming that all Nepali businessmen are cheats, or that the whole country is based on making money at the expense of morality. I am, however, pointing to the fact that because most the country's business is conducted on good word and with little paper trails or legal systems in place to protect its people, let alone foreigners, there is a huge incentive to cheat and get away with it. In addition, if the general mindset is that a partner is going to open up a deal with a cheat, then strategically it makes sense to open with a cheat play as well. It is a vicious psychological cycle that is nearly impossible to break unless the meaning of trust is redefined. Ultimately in the end, cheaters are hurting themselves, and an abundance of cheaters just creates more cheaters, and all of a sudden the whole nation is full of cheaters.

Conclusion

Within Nepal, most expatriates place their businesses second to some other motive for being in Nepal. Whether it is simply to extend a visa and live in Nepal a little bit longer, missing food from their home, to do missionary work, or being married into a Nepali family, I did not find that expatriates actively sought out Nepal as a port for business. Generally, expatriates lived in Nepal for a while before even deciding to open their own business, and took quite a bit of convincing from friends and family to open a restaurant or start selling their food. Many entrepreneurs found themselves growing quickly tired of Nepali daal-bhat and recognizing the lack of access to clean, quality food, wanted to start a

business of their own that offered a different palate to both Nepali's and foreigners.

Building a Nepal from the Inside Out

Too often we see Nepal developing by piggy backing off the development of other countries. For example, access to modern technology has completely changed today's youth, and many of them are completely unaware of how they are being affected by the sudden access to technology. Close connection with India, China, and Thailand has given Nepal access to certain commodity goods such as cable television and Facebook, while other crucial developmental steps are lacking, like basic human rights and a stable government. "Development" by copying the moves of other countries is not a recipe for success. If the foreign entrepreneurs emphasized anything, it is that success must come from within. It cannot be copied or imitated from someone else's success. What works for other countries may not work for Nepal.

Moving forward, it is only logical to emphasize entrepreneurship among today's Nepali youth. Given all the obstacles that entrepreneurs face and all the red tape associated with starting up a business, the process must be made more comprehensible and accessible. Such high barriers to enter the business market deters many talented, bright-minded foreigners who can potentially offer invaluable incite to other Nepali entrepreneurs. While I am not claiming that foreigners are the key to Nepal's development, I believe that foreign and Nepali businesses alike are crucial for offering job opportunities and instilling an efficient work ethic in Nepali youth. And while foreign owned businesses are not the driving force behind Nepal's development, they certainly cannot hurt, and the government turning so much energy into keeping them out of the market is time

and energy wasted. Instead, they should focus that energy towards other, actually harmful, policies that are the cause of much inefficiency.

List of Interviews

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Smith, Brian. Brian's Bar and Grill. Interview with the author. Kathmandu, April 10, 2013.
Serafini, Sandro. Himal Farm. Interview with the author. Khumaltar, Patan, April 11, 2013.
Rana, Anil. Rovyen's Café and Bar. Interview with the author. Lakeside Pokhara, April 18, 2013
R, Christina. Sing Ma Food Court. Interview with the author. Pulchowk, Patan, April 23, 2013
Maria. La Soon. Interview with the author. Pulchowk, Patan, April 23, 2013.
K, Brian. Southern Comfort. Interview with the author. Pulchowk, Patan. April 26, 2013.
Robinson, Sandra. Pokhara Cheese. Email message to the author. April 29, 2013.
Thapa, Ujwal. Shangrila Coffee. Interview with the author. Tripureshwor, Kathmanu. April 25, 2013.
Garet, Antoine. Sula Wine. Interview with the author. 1905 Farmer's Market. Kantipath, Kathmandu. April 28, 2013.
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