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Private Sector's Requirement for Growth Capital and DFI Investment

Background

Invest for Impact Nepal (IIN) is an initiative funded by British International Investment (BII); FMO, the Dutch Entrepreneurial Development Bank; and the Swiss Agency for Development and Cooperation (SDC), running from 2021 to 2025. It aims to complement existing efforts to attract more investments and advance the development of Nepal by channelling efforts to unlock the possibilities of investing patient, flexible impact capital to support private sector growth and innovation.

Main IIN Objective

- Support DFIs active or interested in Nepal with the ultimate objective to accelerate transformative DFI investment.
- Facilitate coordination between DFIs to reduce risks, raise returns and enhance development impact.
- In partnership with development partners, facilitate collaboration to shape Nepali market to unlock patient, flexible capital to support private sector growth and innovation.
- Support strengthening of key investment market-system actors and foster partnerships for a conducive environment for foreign investments.

Context and Objectives

Many private sector have prioritised and are keen to attract more FDI to enable them to grow. However, there are various barriers to FDI inflows to Nepal. Amongst them is investment readiness of SMEs, inadequate knowledge and understanding of new investment instruments, as well as poor understanding of the benefits of alternative investment instruments. In order to address these barriers IIN envisaged to build a partnership with an association of fund managers to develop, deliver and disseminate an influencing agenda that increases awareness of the benefits of growth capital. The key objectives were the following:

- Conduct a rapid analysis to assess the perceptions, incentives, capacity gaps and obstacles that lead to a low demand for alternative investments (DFI and PEVC investments) from the Nepalese Private Sector.

> "BII investment in the form of 10% equity in World Link caught our attention after the press release and we looked them up to learn more about them. Prior to that we did not know about BII's investment in Nepal."
>
> — **Gaurav Sharda**, Director- Sharda Group

- Design content and communications based on these findings to overcome the low demand.
- Deliver capacity development support of the partners to deliver and disseminate content, information, learning and communication through a sequence of in-house events.

Key Activities and Results

1. Interviews were conducted with mostly 2nd and 3rd generation business leaders of 22 prominent business houses in Nepal. The first series of interviews helped understand that private sector knowledge of the impact motive of DFIs, their priority sectors, interest, investment instruments and vehicles and value addition is low, in addition to a prevalence of negative perception about DFI requirements. The second series of interviews, with a smaller cohort of leaders helped identify the generally low levels of readiness on Environment and Social standards, yet a substantial appetite to learn and adopt such standards.

2. Nepal Private Equity Association (NPEA) was identified as a potential key partner and a MoU was signed with an intent to work collaboratively for the promotion of alternative investment ecosystem including enhancing capacity of investment professionals. This ensured that there is a local partner for market development activities and for further promotion of DFI investments undertaken by IIN ensuring long term ownership and sustainability of project activities.

3. Based on the understanding gained from the rapid assessment, an information brief about DFI investments was prepared in March 2022 and disseminated through the IIN website, social media platforms, direct engagement, and other in-house events. In conjunction with NPEA and its members, an investee toolkit was prepared and published. These activities helped bridge key gaps in information specific to DFI investments, increase awareness about alternative investment amongst the Nepalese private sector and helped establish IIN as a go to place for DFI related information.

4. In collaboration with NPEA and the Confederation of Nepalese Industries–Young Entrepreneurs Forum (CNI-YEF) an event was hosted in August 2022. The potential pipeline companies of PEVC firms received first-hand information from investee companies, PEVC funds and DFIs as well as other relevant information collateral and had an increased understanding on the benefits of PEVC and DFI investments. This also resulted in IIN receiving requests for similar events in the future.

5. An article was published in The Rising Nepal capturing private sector perspectives and suggestions based on key report highlights. This has resulted in increased awareness of the private sector, government, general public on DFI investments in Nepal.

> “So far our group has had no relationship with DFIs. “Do we qualify for DFI investments?” is a question I have.”
>
> — **Rabindra Shrestha**, Executive Director, I.J. Group.

> “We hesitate working with DFIs due to the unknown. But just having talked to “the Invest for Impact Nepal team” has given them the extra 10% trust to go and speak to DFIs.”
>
> — **Amir Rana**, Chairman Universal Group.

Lessons Learnt

- Nepalese private sector, especially the younger generation, are open to bringing in equity partners and are thus open to working with PEVC funds and DFIs. There exists a niche market for DFI investments that has the capacity to absorb minimum ticket size of USD 10 million.
- DFI visibility, active engagement with the private sector, especially through business associations together with targeted information dissemination is key to the uptake of DFI investments.
- Private sector knowledge of new and alternative investment instruments is limited. Investee company experience stories and stories on successful partial or full exits by PEVC funds can enhance demand for DFI/PEVC funds.
- Nepalese private sector led by young generation leaders are conscientious of ethical / environmentally sustainable business practices and the impact this could have on their business and brand image. Thus, there is significant appetite to work with DFIs and PEVC investors to improve ESG footprint as well as their brands.
- Easing policy hurdles for FDI inflows in the country could potentially enhance uptake of DFI and PEVC funds.

Recommendation & Next Steps

- Continue information dissemination on alternative investments, investment instruments, stories on DFI/PEVC investment exits and highlighting DFI investment benefits and ESG journey among others, focusing on industrial corridors outside of the capital city.
- Establish formal engagement with Business Associations (such as CNI, FNCCI, Nepal Chamber etc.) etc. for wider information dissemination and confidence building.
- Initiate engagement with the private sector to create a conducive FDI, DFI and PEVC regulatory framework for improved investment inflow and uptake.
- Promote increased ESG understanding and compliance by collaborating with Financial Institutions in assessing and supporting private sector's implementation challenges with a focus on industries with bigger environment footprint.

Invest for Impact Nepal

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