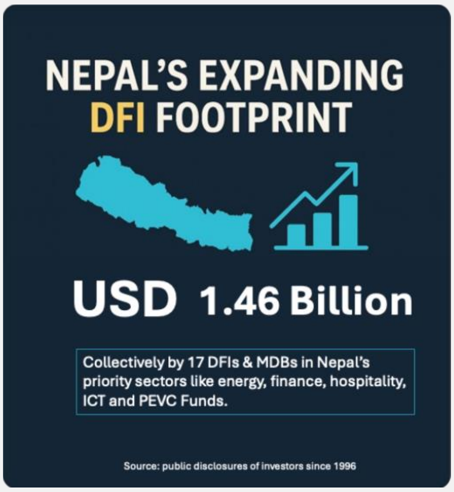
How DFIs Are Powering Nepal's Private Sector Growth

Nepal is witnessing a silent transformation when it comes to foreign investments. At the heart of this transformation are Development Finance Institutions (DFIs), Government backed financial institutions investing in private sector in emerging markets like Nepal to help catalyse private sector growth and sustainable development.

What Are DFIs and Why They Matter

DFIs bridge the gap between public aid and private finance. They take risks that commercial investors avoid, providing patient capital and technical expertise to businesses that can generate jobs, inclusion, and economic resilience. Backed by national or multilateral guarantees, DFIs raise funds on international markets and invest them where their impact is greatest, in developing and frontier markets like Nepal.

Their involvement brings more than financing. DFIs help strengthen corporate governance, introduce international best practices, and enhance the credibility of their investees, paving the way for further investments, including from commercial investors.



Nepal's Expanding DFI Footprint

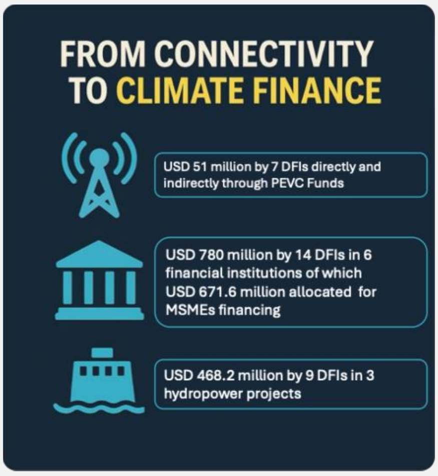
In recent times, Nepal has been a focus market for DFIs in South Asia alongside other major markets such as India, Bangladesh, Pakistan and Srilanka. DFIs and Multilateral Development Banks (MDBs) such as Asian Development Bank (ADB), Asian Infrastructure Investment Bank (AIIB), British International Investment (BII), BIO, U.S. International Development Finance Corporation (DFC), European Investment Bank (EIB), Finnfund, Dutch Entrepreneurial Development Bank (FMO), International Finance Corporation (IFC), Japan International Cooperation Agency (JICA), KfW/DEG, OPEC Fund for International Development (OFID), Proparco, Swedfund and Swiss Investment Fund for Emerging Markets (SIFEM) and other impact investors have collectively committed approximately USD 1.46 billion in the country. This commitment is material in the context of Foreign Direct Investment (FDI) in Nepal, which historically has been one of the lowest in the region.

The largest share of DFI investments (about USD 780 million), has happened in the form of debt into financial institutions, followed by investments in hydropower (USD 468.2 million), private equity and venture capital funds (USD 133.1 million), technology (USD 51 million), and hospitality (USD 16.7 million) sectors. Each of these sectors and investment aligns well with Government of Nepal (GON's) development priorities.

In October 2023, GoN and six Development Finance Institutions (DFIs) signed a Memorandum of Understanding (MoU) which reflects collective effort to create a favourable investment climate in Nepal, helping DFIs and other international institutional investors to increase their FDI commitments in the country.

**Data Source: based on public disclosures by DFIs since 1996*

From Connectivity to Climate Finance
DFI investments have produced visible results in Nepal:



DFI investments have played a critical role in Nepal's emerging PEVC sector, including strategic investments in funds like Dolma Impact Fund – I&II, Business Oxygen and One to Watch. These funds have invested in a number of growing businesses, supporting and creating much needed jobs.

In the digital sector, WorldLink Communications, Nepal's largest internet service provider, has received successive rounds of financing from DFIs such as BII, IFC, and Finnfund to help the company expand broadband access across the country.

In banking, fourteen DFIs have been financing Nepali banks such as NMB, Global IME, Laxmi Sunrise, Siddhartha, Sanima and Prabhu to unlock capital for MSMEs, women owned businesses, climate assets and trade. In addition to finance, these investments have also helped increase their environment and social management capabilities and risk management.

Energy has also been a focus area for DFI investments. In projects like Upper Trishuli-1 Hydropower Project, and Lower Solu Hydropower Project, DFIs and MDBs have collectively mobilized about half a Billion USD, laying out a model to finance Nepal's clean energy ambitions at scale.

How DFIs Invest
DFIs invest using a range of products including debt, equity, guarantees and mezzanine. They invest either directly or via intermediaries such as financial institutions and PEVC funds, specially to address lower ticket needs in smaller markets.

Their support extends beyond capital. Through their engagement and technical assistance, DFIs help companies strengthen Environmental, Social and Governance (ESG) capacity, making them more competitive and investment ready.

High Standards, Long Horizons
Partnering with DFIs demands strong governance and compliance. Prospective investees must meet national as well as international laws and commit to strong ESG standards which is thoroughly assessed during the due diligence process

DFIs often stay invested for years, enabling steady growth rather than short term profit. Their involvement also signals stability, attracting domestic and international commercial investors who might otherwise hesitate.

A Platform for Sustainable Growth
DFI investment in Nepal has been increasing steadily since 2021 and has the potential to grow. As with most FDIs, this will require a stable and predictable policy environment. DFI partnerships deliver knowledge, credibility, and access to global markets, which are essential ingredients to supporting Nepal's sustainable growth ambitions.

**Data Source: based on public disclosures by DFIs since 1996*