

# With impact

Tim Gocher and the Dolma Impact Fund aim to help transform Nepal – and prove that private equity skills can change the world for the better. **Stuart Crainer** examines the reality of investing with impact

**D**uring the 20th century, the basic model of helping poor nations was to hand out (usually Western) largesse in the form of aid. This often provided a much needed sticking plaster at a time of crisis or disaster. After the dust had settled, the nation quickly returned to the normality of despair and poverty. Over the last decade, however, the aid model has been increasingly questioned and now robust alternatives are being put to work – often with dramatic results.

Among those leading the charge is Tim Gocher, founder and head of the Dolma Impact Fund. Early in his career, Gocher followed a tried and tested route. He worked for Deloitte and JP Morgan before doing an MBA at London Business School. From there he became managing director of the investment bank Interregnum and was a co-founder and partner of a New York-based venture capital firm, Academy IP, which partnered with some of the country's leading research universities.

And then, in 2003, Gocher visited Nepal and his life changed. He was stranded in the remote village of Bridim by the monsoon rains. The people of Bridim (population 150) made him welcome. He was overwhelmed by the simplicity of their lives and their generosity. There he met a nine-year old girl called Dolma and her family. The result was the nonprofit >



Dolma Development Fund. Its aim is to alleviate poverty by investing in sustainable businesses and education in Nepal.

Dolma herself is a beneficiary. She was the first child to receive a scholarship from the fund. This meant that she started school and graduated in 2013.

While the Dolma Development Fund continues, in 2012, Gocher and his team began fundraising to create the Dolma Impact Fund, the first international private equity fund for Nepal, which provides growth capital for small and medium-sized enterprises. In September 2014 the fund reached its first close with \$21m in subscriptions with an eventual target size of \$40m.

Investors in the Dolma Impact Fund include FMO, the Dutch development bank, the Finnish Fund for Industrial Cooperation (FINNFUND) and OeEB, the Development Bank of Austria, as well as private investors.

The actual mechanics of creating such a fund in Nepal, as with many other developing countries, is fraught with complexity. Nepal has, until recently, been politically unstable. And, among other things, the legal and regulatory systems are not geared to private equity. In addition, the Dolma Impact Fund was the first of its kind in the country.

Persuading investors and creating a reassuringly robust and transparent fund structure with systems and checks was time consuming. The project was supported by the British Government via the Department for International Development (DFID), which helped overcome some of these hurdles. The lessons from the work with DFID are shared for the public good and for future investors into Nepal, thus fulfilling DFID's private sector development goal of market enablement. "Working through all the complexity of the structuring was difficult and took a long time," says Gocher. "There's very little precedent of investments in Nepal. We are a first-time fund in a first-time market that's been relatively untested by private equity. So caution is perfectly understandable. DFID was an important player in overcoming the hurdles."

### Investing power

Gocher's is now raising a further \$20m in investment while executing the fund's investment strategy. The fund is looking very closely at hydropower as well as agriculture as key areas for investment. Hydropower is particularly important for Nepal. The nation is blessed with more water than any other country in South Asia. In September 2014, the Nepalese government announced a \$1.4bn hydropower project on the Karnali River with the Indian company GMR. Nepal's hydropower

potential is estimated at 80,000 MW, of which only 700 MW is currently exploited.

The need is pressing. Currently, there is no power in the Nepalese capital Kathmandu for around 12 hours a day. "We're very keen to get hydropower off the ground to get more homes and businesses powered up," says Gocher. "It's a cliché, but power's the great enabler of, or the platform for, commercial development, so we're very keen to expand in hydro."

Agriculture is also an area of obvious importance. Around 70 per cent of the Nepalese population works in the sector - though the amount of land that can be cultivated is only 20 per cent of the country's area due to the Himalayan terrain. Currently, there is rising demand for better food and greater spending power, but food is often imported from India. The Dolma Impact Fund aims to help local Nepali producers increase quality and capacity so that local demand can be met with local supply. "For the community, this will create a much needed boost to the local economy and

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employment situation which is sustainable," says Gocher. "For local companies, it will make delivery and prices more predictable than relying on imports."

Local impact and knowledge are core to the Dolma funds. Historically, funds have tended to avoid investing in Nepal simply because they didn't have the local knowledge. An investor based in Mumbai or Delhi is naturally more inclined to invest in India than make the geographical and problematical leap to Nepal. But Nepal itself, with a population of almost 30 million people, is not small. It just looks that way to investors relative to its neighbouring giants of India and China.

"Our Community Partnership Model is at the heart of what we do," says Gocher. "These partnerships bring us close to on-the-ground needs and cultural sensitivities, while directly involving local people in the businesses in which we invest and the programmes we help create. Having a team there on the ground not only allows us to best deploy \$20m or \$40m from the Dolma Impact Fund, it creates opportunities for international co-investment partners, especially those with vertical industry experience. For example, commercial



Top: Tim Gocher speaking at the launch of the Dolma Impact Fund. Above: Dolma Impact Fund team members (Tim Gocher in the blue shirt)

agriculture funds have tended not to go near Nepal because they don't know the local idiosyncrasies, regulations, and so on. We do, and I think that's a really powerful proposition. We want to be a hub for other co-investors to bring their capital and skills to the party and to the country."

The Dolma management team now numbers six, of which Tim Gocher is the only non-Nepali. Among the fund's board members are the Trinity Mirror Chairman David Grigson and Peter Kellner, President of YouGov. Its Advisory Board includes London Business School's Professor Michael Hay; Ian Taylor MBE, former UK Minister of Science and Technology; Rameshore Prasad Khanal, former Nepal Finance Secretary; and His Excellency Curtis S. Chin, former US Ambassador and main board director at the Asian Development Bank.

### On the ground

Gocher combines his work with the Dolma



From left to right: Bidhya Sigdel, Investment Director, Shabda Gyawali, Investment Manager, Tim Gocher, Arjun Giri, Bhim Poda and Nikita Bajracharya, Investment Analyst, of the Dolma Impact Fund in Kathmandu. Below left: aerial view of Kathmandu



course, this could apply across the developing world, not just in Nepal, hence the regional nature of the study."

### Spreading the word

The final phase is important. Potentially, the most powerful element of all this is that Gocher believes the Dolma model is replicable elsewhere. Processes, structures, agreements and standards are portable. This opens up many other underdeveloped countries so they, too, could potentially benefit.

"Our work can provide an institutional, investment track record for a nation like Nepal, many African countries and some countries in Southeast Asia," he says. "It's very difficult to persuade anybody to invest unless you can provide a long list of previous transactions and how they performed. And that's the importance of the development finance institutions in our fund. These are commercial funds that require a market return, but they're prepared to shoulder more developmental risk than a pension fund or other, more commercial, asset managers. Nepal needs to be put on the map in terms of internal rate of return

and some successful, transparent investments and exits. That's much more powerful than any investment brochure the Nepal government could write. The international capital markets will look at our returns and, if attractive, money will flow into Nepal. I think that could be the single, most powerful macro FDI stimulant for Nepal."

These are early but crucial days for the Dolma funds and the economic development of Nepal. There are encouraging signs and much support. The governor of the country's central bank, Dr Khatiwada, spoke at the Dolma Impact Fund's launch event on the importance of private equity in Nepal, as did Baroness Northover, UK Minister and DFID spokesperson in the House of Lords. Gocher is under no illusions. This, he concedes, is "a bit of a honeymoon phase". He is tied - happily - into being involved with the Dolma funds for at least the next decade. It has the makings of a long and happy marriage. ■

Impact Fund with the original nonprofit Dolma Development Fund. Over 80 children now receive sponsored education. The fund is also building a disabled children's home and has arranged financing for the expansion of a boarding school which now offers education to 500 children. The fund also works in a partnership with Tsering Lama, a local mountain guide, in Dolma Ecotourism. "What we do as a charity is work with a community to implement a model where we generate revenue streams for that community. In this case it's ecotourism," Gocher explains. "Any profit goes into an education fund that sponsors the children to get an education from that community and then we also raise money to make sure there are health centres and things like that. It's a community model; not one-way charity. It gives the community a sense that they're earning their own progress and I think that's very important. The ecotourism project has actually been a good investment for the Dolma Development Fund, but it would have been too risky and remote for commercial investors; that's why I call it an impact-first investment. But it's a wonderful and sustainable

social model."

There is also, one hopes, a knock-on effect. While clearly the companies invested in by the Dolma Impact Fund should grow and improve their performance, what of other local businesses in the same sector? As Honorary Professor of Sustainable Business at the University of Nottingham attached to the Malaysia campus, Gocher is carrying out research across South Asia into what happens to competitors that don't receive international private equity investment. "Do they emulate our more compliant, transparent practices? Can investment in one company stimulate a positive cycle of competitive dynamics in that industry that boosts the economy, transparency and critically tax collection across the board?" asks Gocher. "That's a hypothesis yet to be proven. But the policy implications are huge. If whole industries can be improved by targeted private sector investments, it could reorient the way that donor countries and aid organisations approach poverty alleviation. And, quite simply, if tax payments improve due to greater transparency and reporting, so fiscal deficits will decrease thus reducing the need to provide aid to national budgets. Of