

IBN DISPATCH

Monthly Newsletter

YR: 3 | ISSUE: 1 | AUGUST 2017

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IBN 27TH MEETING TAKES CRUCIAL DECISIONS



KATHMANDU: The 27th meeting of the Investment Board Nepal was held on 3 August 2017, under the chairmanship of the Right Honorable Prime Minister and Chairman of the Board, Sher Bahadur Deuba. At the meeting, which was conducted at Office of the Right Honorable Prime Minister and Council of Ministers (OPMCM), crucial decisions were made about the different projects being implemented with IBN facilitation. It was decided to immediately move forward the process of providing the forestland required for the Upper Karnali and Arun-3 hydropower projects to the developers on lease. The meeting also directed the Ministry of Forest and Solid Conservation to revise the existing ‘Guidelines on Utilization of National Forest Land 2017’ and ‘Working Policy on Construction and Operation of Physical Infrastructures within Protected Area 2007’, after consultation with stakeholders, so as to create an investment-friendly environment.

At the meeting approved a draft Project Investment Agreement (PIA) to be signed between IBN and Hongshi Shivam Cement Pvt Ltd, on 3 September 2017. The PIA will be the first of its kind in Nepal, aimed at promoting private investment by a foreign company. As per the PIA, the Government of Nepal will provide investment

security, services, facilities and other support to the developer through IBN.

It was also decided to form a high-level committee, headed by a member of the National Planning Commission in the agriculture sector, to recommend a modality and Viability Gap Funding (VGF) for the establishment of a chemical fertilizer plant in Nepal. The committee will be mandated to submit a report with recommendations based on the public-private partnership (PPP) model to IBN within three months.

At the meeting an investment proposal was approved for the management of solid waste in Dharan Sub-Metropolitan City by Venture Waste to Energy Pvt Ltd. A decision was also made to consent, in principle, to provide compensation, conditional upon proof, to those who have not received any compensation for acquisition of their land for the construction of a 4.5 km (Chhainkutti-Diding) section of the powerhouse site access road for the 900 MW Arun-3 Hydropower Project.

On the occasion, Right Honorable Prime Minister Deuba directed to all concerned agencies to undertake the necessary legal and procedural reforms to remove

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IBN, HONGSHI SHIVAM CEMENT SIGN PROJECT INVESTMENT AGREEMENT



KATHMANDU: Investment Board of Nepal and Hongshi-Shivam Cement P. Ltd. signed a Project Investment Agreement (PIA) on September 3 for the establishment of a mega cement factory in Nepal. The Chief Executive Officer (CEO) of Office of the Investment Board (OIBN), Maha Prasad Adhikari on behalf of the government and the Director/General Manager of Hongshi Shivam Cement Pvt. Ltd, Mr. Lai Weipeng, on behalf of the company signed the PIA in the presence of Honorable Minister for Finance and Vice-chair of IBN Gyanendra Bahadur Karki and Her Excellency Ambassador of the Republic of China for Nepal Yu Hong.

The PIA is a contract between the government of Nepal and the company, and it lays down the rights and obligations of both the parties. The contract provides high confidence to the company by providing protection to its investment. It also ensures the success of the project by specifying the timelines for its construction.

As per the agreement, the company will make an investment of \$359.18 million (App. NRs 36.75 billion) to set up a cement factory in Sardi of Nawalparasi district. The company has its mine in Jyamire in Palpa district. The project, a joint venture between Hong Kong Red Lion Cement No. 3 Ltd, a subsidiary of Hongshi Group from China and Shivam Holdings, consisting representatives from various business groups in Nepal, has planned to produce 6,000 tons of cement per day. The

company will start production by 2018 and it has a target to produce 12,000 tons of cement per day.

The factory plant to be equipped with modern technology would supply high quality cement in local market creating competition among producers for quality of cement production in the country. The company has employed more than 1000 people during its construction period.

Speaking on the occasion, Honorable Finance Minister Karki said the realization of the investment has sent a positive message highlighting overall business climate in Nepal. He also expressed commitment for providing necessary support on behalf of the government for smooth implementation of project. "I would like to ensure that government will provide all the necessary support and facilitation required to execute the project," he said. He also said that the government will provide necessary infrastructure facilities to the company as committed in the budget. Minister Karki also appreciated the efforts from Office of the Investment Board and necessary cooperation from all line ministries and agencies in the process of finalizing the pact.

CEO of the Investment Board Adhikari said the agreement proved that Nepal has truly become an attractive investment destination for foreign investors. "With this agreement today, we open endless doors of investment opportunity for foreign companies to

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“GOVERNMENT’S SUPPORT NECESSARY FOR PPP PROJECTS

TULASI PRASAD SITAULA
National Coordinator, Office of Millennium
Challenge Nepal (OMCN)



Tulasi Prasad Sitaula is National Coordinator of the Office of Millennium Challenge Nepal (OMCN), which has been mobilizing the more than USD 630 million received from the Millennium Challenge Corporation (MCC) of the US government and Government of Nepal for the development of the energy and transport sectors. Sitaula, a former secretary of the Government of Nepal, was previously involved in policymaking and the implementation of transport infrastructure. Sitaula talked to IBN Dispatch about the key bottlenecks in infrastructure development and the significance of MCC funding for the development of energy and transport infrastructures in Nepal.

You have worked in infrastructure development at both the policy-making and implementation levels for a long time in the Government of Nepal. What is your assessment of the overall development of infrastructure in the country?

We fare very low in Nepal in terms of the overall delivery of infrastructure. However, satisfactory progress has been made over the last ten years in some sectors, such as energy and transport. The significance of these sectors has also grown with anticipation of the new federal set up. However, despite progress in road infrastructure, we have failed to maintain quality.

Bureaucracy is blamed for the poor performance in infrastructure development. What is your take on this?

Poor quality has marred road infrastructure in Nepal. However, quality has been maintained in the construction of bridges and hydropower structures,

due to the use of sophisticated technology. Most of the roads constructed in the past were narrow and of poor quality, which is a major cause of accidents. The reality is that the government’s policy has focused on increasing the number of road rather than upgrading their quality. This has resulted in poor road infrastructure.

The government has been constructing new road structures and maintaining existing roads through private sector contractors, as practised worldwide. But, our private sector has failed to deliver quality infrastructure on par with expectations. Private contractors are only concerned with minimizing their costs, rather than maintaining quality in line with international standards. Even the officials who are responsible for the monitoring of construction work have ignored their responsibilities. Over the last few years, the number of contractors has gone up and construction work increased. But, the quality of domestic contractors has not increased commensurately, leading to poor quality

construction, cost overruns and delays. This is a major challenge in the delivery of sustainable infrastructure.

In your opinion, which modality for the financing of infrastructure is appropriate for Nepal?

The public-private partnership (PPP) modality cannot work without government support in certain sectors. PPP is not feasible for superhighways, for at least another decade, because the existing number of vehicles plying roads is insufficient. Road tolls alone fund the construction and maintenance costs for such roads. Without Viability Gap Funding (VGF) – a kind of economic incentive from the government – private investment in road infrastructure will not be feasible. At the same time, giving financial incentives to private companies is likely to draw flake from the public. The public will ask why the government is providing cash incentives to private companies.

However, there are ways to make such projects feasible. We can learn from India about how to make expressway projects attractive for the private sector. For example, the Indian government provided land for the Jamuna Expressway, which links Agra with Delhi, for 30 years, in place of VGF, as the toll fee was not sufficient to cover the costs of constructing the road and ensure a profit for the developer. As the PPP model is all about risk sharing, the government must offer incentives to lure the private sector into infrastructure development. We need to come up with a new PPP Act to pave the way for more private sector involvement in infrastructure. India has made significant inroads in implementing infrastructure projects under PPP over the last two decades. In the beginning, the government had to provide incentives to private developers of expressways until the number of vehicles reached a level sufficient to recover their costs. We will need to continue support for at least the next 10 years for highways and 20 years for railways.

How can we attract more FDI into Nepal?

We need to immediately reform the laws governing PPP. We are currently overseeing the implementation of projects under the PPP model through the BOOT Act. The new PPP Act should focus on attracting private sector actors to develop infrastructure by offering incentives, which will help end the crisis of

confidence between the government and developers. Also, a conducive environment is crucial for foreign investors, who are more sensitive about the security of their investment than domestic investors. We need to build up a favourable investment climate with lucrative incentives and establish project banks that offer potential for investing in different sectors in the country. Our PPP policy has also envisaged setting up a PPP Cell and Project Appraisal Cell to facilitate foreign investors. In the beginning, India offered VGF worth around 40% of the total investment to lure investors. Now, India is in a position to collect royalties from investors from the projects supported by the government.

You are the National Coordinator of OMCN, which is supporting hydropower and road transport in Nepal. What is the significance of MCC funding in Nepal?

In 2014, MCC conducted a study named ‘Nepal Growth Diagnostic’, which identified four key constraints on economic development in Nepal: a) policy implementation instability, b) shortage of electricity, b) high transport costs due to poor road infrastructure, and c) poor industrial relations and rigid labour regulations. Of these constraints, the MCC flagged energy and transport as a high priority, as the prospects for investment and impact are very high in both sectors. In both sectors, energy become the top priority for the MCC. At the same time, Nepal is witnessing significant growth in the number of electricity projects. However, the pace of construction of high-voltage transmission lines is very slow.

The Government of Nepal has decided to accept around NPR 51 billion from the MCC for projects. The MCC plans to develop a 300 km long 400KV transmission line for Lapsipedi-Damauli, Hetauda-Galchhi, Damauli-Sunawal to link up with the cross-border transmission line in India. Under the transmission line project, three substations will be constructed to regulate the power trade between India and Nepal. The MCC is also supporting capacity enhancement programmes for officials working at energy-related offices, such as the Ministry of Energy, Department of Energy Development, and Water and Energy Commission Secretariat.

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HIGH-LEVEL MEETING TO PROMOTE INFRASTRUCTURE INVESTMENT



KATHMANDU: In an effort to explore ways to accelerate investment in infrastructure projects by creating an investment-friendly environment, a high-level meeting involving top policymakers and implementing agencies was held on 12 August at the Office of the Investment Board Nepal (IBN). Honorable Vice-Chairman of the National Planning Commission (NPC), Dr Swarnim Wagle, CEO of the National Reconstruction Authority (NRA), Prof. Dr Govinda Raj Pokharel, His Excellency Nepalese Ambassador to India, Deep Kumar Upadhyay, and IBN CEO, Maha Prasad Adhikari, along with senior officials from IBN, participated at the meeting.

To kick off the meeting, IBN CEO Adhikari presented a list of projects currently being developed by IBN under Project Bank and Project Idea Note. The discussion focused on infrastructure projects, the key obstacles in implementing large-scale infrastructure projects, and the policy interventions needed to create an investment-friendly environment in Nepal. Under Project Bank, IBN is planning to conduct feasibility studies for at least 10 projects within a year and showcase them in the international market to attract investors. The meeting also identified ambiguous and outdated policies and lack of coordination and cooperation among implementing

agencies as the major bottlenecks in executing large infrastructure projects in Nepal. The meeting concluded that a special mechanism needs to be developed to move crucial infrastructure projects forward and avoid procedural and other delays.

At the meeting, Honorable NPC Vice Chair, Dr Wagle, stated that his office would coordinate with IBN to discuss policy hurdles so as to move forward key projects without delay. Dr Wagle also said that a special mechanism would soon be set up for this process. Deep Kumar Upadhyay, Nepalese Ambassador to India, highlighted the potential for Indian investment in Nepal. He also stressed the need to overcome problems regarding the environment, land acquisition, forests, and politics to speed up infrastructure development in Nepal. The CEO of the National Reconstruction Authority, Dr Pokharel, said that a special mechanism was required to move national priority projects forward. He also underlined the need to amend the IBN Act to strengthen it for implementing mega projects. The forthcoming visit of Right Honorable Prime Minister Sher Bahadur Deuba to India was also discussed, including how to utilise the visit to expand economic cooperation between the two countries. ♦

GOVERNMENT'S SUPPORT...

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Of the total MCC budget (USD 630 million), around 75% is earmarked for the energy sector alone. The transportation sector is the second highest priority sector. The MCC is planning to establish a standard for maintaining and upgrading strategic roads. Five highways – the Mechi highway, Koshi highway, Sagarmatha highway, Hetauda-Bhaise-Bhimphedi highway, and Ameliya-Tulasipur highway – have been selected for piloting with MCC support.

The MCC will also enhance the capacity of the Department of Roads and Road Board of Nepal to carry out maintenance work in a systematic and planned way.

Funds from the MCC must be spent within five years, with no provision for extending project implementation. So, MCC projects are planned and designed to be completed within the stipulated time and budget. The MCC wants to eliminate challenges in implementing projects in the energy and transport sectors by setting an exemplary model that can be replicated by others.

The US government has provided a huge amount, worth NPR 51 billion, through the MCC for use in the energy and transport sectors for the next five years, at a time when bilateral assistance is generally decreasing. This programme will bring significant progress and set an example in the energy and transport sectors, if we use the fund properly.



The MCC's key funding is in transmission line development, at a time when the expansion of transmission lines is facing major challenges due to difficulties in acquiring land. How does the MCC deal with this problem?

You are right. We have acknowledged that land acquisition is the principal challenge in the process of expanding transmission lines. This is for three main reasons: a) lack of effective public consultations to address people's concerns, b) insufficient compensation for land, and c) lack of a proper resettlement plan for affected people.

The OMCN is well aware of these challenges and has given high priority to stakeholder engagement to address the public's concerns, including providing sufficient compensation and proper planning for the resettlement of affected people. We are following the Performance Standards of the International Finance Corporation (IFC) for stakeholder engagement, compensation determination and the resettlement of

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FINANCE MINISTER KARKI APPOINTED AS IBN VICE-CHAIR

KATHMANDU: The Right Honorable Prime Minister of Nepal and Chairman of IBN, Sher Bahadur Deuba, has assigned Finance Minister Gyanendra Bahadur Karki as Vice-Chairman of IBN. Right Honorable Prime Minister Deuba appointed Minister Karki in accordance with Clause 3 of the Investment Board Act, 2068 BS. As per the Act, the Right Honorable Prime Minister can choose a minister for the responsibility of Vice-Chair. ♦

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obstacles faced by investors, stating that both domestic and foreign investments are necessary for the prosperity of the country. IBN CEO Adhikari tabled the meeting agenda and presented the project updates. Adhikari also underlined the need for forging coordination among government agencies to move the implementation of infrastructure projects forward.

Honorable Minister for Finance and Vice Chairman of IBN, Gyanendra Bahadur Karki, Minister for Information

and Communication, Mohan Bahadur Basnet, Minister for Physical Infrastructure and Transport, Bir Bahadur Balayer, Minister for Energy, Mahendra Bahadur Shahi, Chief Secretary, Rajendra Kishore Kshetri, Governor of Nepal Rastra Bank, Dr Chiranjibi Nepal, President of the Federation of Nepalese Chambers of Commerce and Industry, Bhawani Rana, President of the Confederation of Nepalese Industries (CNI), Hari Bhakta Sharma, board member, Balkrishna Siwakoti, secretaries of the concerned ministries, and private sector representatives were also present at the meeting. ♦

IBN, HONGSHI SHIVAM...

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confidently invest in Nepal and become a partner in its journey towards economic prosperity,” Adhikari added. He also thanked all stakeholders for the support and cooperation to facilitate the implementation of the project.

He also expressed gratitude to development partners such as JICA, World Bank, USAID and especially DFID for extending support to Investment Board to deliver the highest quality service and professionalism that significantly contribute for delivery of large-scale infrastructure projects in Nepal

On the occasion, Lai Weipeng, Director / General Manager of Hongshi Shivam Cement Private Limited

thanked the Investment Board for its support to bring the project to this stage. “Role of Investment Board has been very important to materialize this agreement. Our very experience regarding investment environment in Nepal would help circulating positive messages among international investors to attract more foreign investment into Nepal,” said Lai.

Others dignitaries present on the occasion were members of the Investment Board, Honorable Members of Parliament, high-ranking officials of various government agencies, senior representatives of Development Partners among others. ♦

UPPER KARNALI, ARUN-3 GET FOREST LAND FOR CIVIL WORKS

KATHMANDU: Nepal government has decided to provide local forest land to Upper Karnali and Arun-3 hydropower projects on lease in line with the Project Development Agreement (PDA) signed in 2014.

A cabinet meeting held on August 14, 2017, paved the way for concerned developers to expedite the implementation of the biggest hydropower projects which were struggling to secure forest area required for civil construction and access road. As per the decision, SJVN-Arun-3 Power Development Company (SAPDC) developer of Arun-3 and GMR- developer of Upper Karnali can use forest land by paying lease fee of Rs 15,000 per hectare annually to the government. The lease fee is subject to increment by 10 percent in every year after two years. ♦

