

IBN

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DISPATCH

Monthly E-Newsletter of Investment Board, Nepal (IBN)



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LOOKING BACK 2017

Major IBN Events of 2017

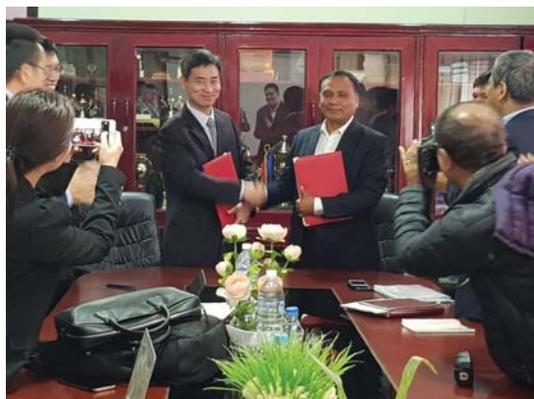


NEPAL INVESTMENT SUMMIT 2017

March 2-3, 2017

PROJECT INVESTMENT AGREEMENT WITH HONGSHI

September 3, 2017



JOINT VENTURE AGREEMENT FOR WEST SETI

November 16, 2017

IBN, HUAXIN INITIALIZE PIA

December 27, 2017



HAPPY NEW YEAR 2018



IBN CEO Maha Prasad Adhikari (Right) and Overseas Development Officer of Huaxin Cement Liu Jianguo (Left) after initializing the PIA

IBN, HUAXIN INITIALIZE PIA

KATHMANDU: Investment Board Nepal (IBN) and Huaxin Cement Narayani Pvt Ltd of Huaxin Cement Co. Ltd of China initialed an agreement to establish a large-scale cement factory in Nepal. IBN CEO Maha Prasad Adhikari and Liu Jianguo, Overseas Development Officer of the Chinese company, signed the pact on December 27 at IBN Office representing their respective organizations.

As per Investment Board Act, the 19th meeting of IBN held on December 20, 2015 approved a Foreign Direct Investment (FDI) worth around Rs 15 billion for the cement production project. The company has set a target of producing 3,000 tons cement per day. Nepal government has recently awarded limestone mine in Panikharka of Dhading district. The company would pay Rs 30 million which is 0.2 percent of the total project cost as project negotiation fee. The company has acquired the mine site through competitive bidding paying Rs 600 million to Nepal government.

Speaking on the occasion IBN CEO Adhikari stated that negotiations and the agreement have sent a message that climate for FDI in Nepal is getting favorable. Adhikari also expressed hope that the company's production will significantly support fulfilling demands for quality cement in domestic market. The company is creating direct employment to over 1,000 people.

Liu Jianguo, Overseas Development Officer of the company, extended thanks to all concerned for providing an opportunity for collaboration through a cement industry for the development of Nepal.

The final agreement will be signed once the initial pact is endorsed by Investment Board meeting. ☸



MEDIA TRIP TO HONGSHI SHIVAM CEMENT SITE

PRODUCTION TO START BY FEBRUARY, 2018

KATHMANDU: The Investment Board Nepal (IBN) organised an observation trip for Kathmandu-based and local journalists to the Hongshi Shivam Cement plant site in Sardi, Nawalpur district from 15 to 17 December. The three-day programme was aimed at updating the media on progress with the construction on the site, which started in early 2017. A total of 13 journalists from print and electronic media participated in the trip.

During the trip, journalists visited different plants, buildings and key structures, as well as the resettlement colony in and around the project site. In addition to constructing civil structures and plants, the company is constructing 26 homes for those who have been displaced by the mine site in Jyamire, Palpa district, as part of its corporate social responsibility. Despite impressive progress achieved in civil construction, overall, progress has not been as expected and some government obligations remain unfulfilled.

At an interaction programme with media personnel, the General Manager of Honshi-Shivam Cement Pvt Ltd, Lai Weipeng, praised IBN for its role in facilitating the implementation of the project. Lai also urged the concerned government agencies to speed up construction of the 132 KVA transmission line from Bardaghat to Sardi Bagaichha to ensure power supply for the project, as well as the approval of forest clearance at the mine site and completion of the environmental impact assessment (EIA) for the access road. The developer has already upgraded the 12 km road from Dumkibas to the project site and the 28 km road from the plant to the mine site.

According to Gaurav Goel, Deputy General Manager, the company needs 50 MW of electricity to produce 6,000 ton1 per day, as planned in first phase. However, the Nepal Electricity Authority says that construction of transmission line will take at least two years. So, the company has been generating 13 MW of electricity from the thermal plant and is installing a plant to generate 12 MW of waste-heat power as alternative power sources for the plant. The plant will need 80 MW of electricity

when the capacity of the plant is doubled to 12,000 tonnes per day.

IBN approved foreign direct investment worth NPR 36 billion on 28 July 2015 for the establishment of a large-scale cement factory in Nepal. After a series of negotiations, IBN and Hongshi-Shivam Cement signed a project investment agreement on 3 September 2017. The company is planning to produce cement from February 2018. So far, the company has provided employment to around 1,100 Nepalis, mostly local people, in addition to hiring 500 Chinese workers for the project. Hong Kong Red Lion Cement No. 3 Ltd, a subsidiary unit of Hongshi Group from China, and Shivam Cement of Shivam have 70% and 30% shares, respectively, in the joint venture company.

MEDIA TRIP TO SANITARY LANDFILL SITE AT BANCHARE DANDA

IBN organised a media trip to the proposed Sanitary Landfill Site at Banchare Danda on the border of Dhading and Nuwakot districts on 24 December. A total of ten journalists representing print, broadcast and online media inspected the proposed landfill site, as well as the existing landfill site at Sisdole. IBN and Nepwaste (a joint venture by the Organic Village and the Finnish company Comunication Oy) are signing a Project Development Agreement (PDA) for implementation of Package I of the Kathmandu Valley Integrated Solid Waste Management Project. Package 1 covers Kathmandu Metropolitan City and adjoining municipalities. Speaking to the media, the CEO of IBN said that the project would not only manage the solid waste of the Kathmandu Valley in scientific way, but also generate revenue for the government. ☺



DEVELOPMENT MODALITY TO BE FINALISED SOON

KATHMANDU: The committee formed to recommend a development modality for establishment of a chemical fertiliser plant in Nepal, is planning to submit its report soon. At the 27th meeting of IBN held on 2 August 2017, it was decided to constitute a high-level committee, headed by a member of the National Planning Commission overseeing the agriculture sector, with the mandate to recommend a development modality and determine the viability gap funding for the establishment of a chemical fertiliser plant. The committee was charged with submitting its recommendations, based on a public-private partnership (PPP) approach, to IBN within three months.

On 4 July 2017, the evaluation committee, led by CEO of IBN, approved the Detailed Feasibility Study (DFS) report submitted by the Infrastructure Development Corporation (Karnataka) Ltd, India; Shah Consult International (P.) Ltd, Nepal; and the Institute of Agricultural Technologists, India, the designated consulting firm. The report assessed three technologies for producing the urea fertiliser based on different energy sources: natural gas, electrolysis and coal. However, the report concluded that technology based on natural gas is the best option in term of both plant and production costs.

The report concluded that the project is financially viable for implementation through a PPP modality, if the developer is incentivised by exempting it from excise duty, grant financing for about 30%, providing it with a

tax moratorium for three years, and ensuring a long-term off-take purchase agreement for urea between the fertiliser plant developer and the Government of Nepal.

PDA NEGOTIATION IN FINAL STAGE

KATHMANDU: Negotiation of the PDA for the implementation of Phase I of Integrated Solid Waste Management Project in Kathmandu Valley has reached the final stage. IBN and the developer have completed several rounds of negotiations and the developer is planning to sign the agreement in early 2018. Similarly, IBN has recently conducted a topographic survey of Banchare Danda in Nuwakot, where the developer is planning to construct a Solid Waste Processing Center and Residual Inert Waste Sanitary Landfill Site. Nepwaste, a Nepali-Finnish joint venture, will undertake development of Package 1 of the project, which covers Kathmandu Metropolitan City and nine neighbouring municipalities (Budhanilkantha, Nagarjun, Tokha, Tarakeshwor, Gokarneshwor, Sankharapur, Dakshinkali, Kageshwori-Manohara and Chandragiri). Similarly, PDA negotiations are ongoing with Clean Valley Company, the developer of Package 2 and Package 3 of the project, which covers municipalities in Lalitpur, Bhaktapur and Kirtipur. ☺



HARI BHAKTA SHARMA
PRESIDENT, CONFEDERATION OF NEPALESE INDUSTRIES (CNI)

A STABLE GOVERNMENT IS INSTRUMENTAL TO A FAVOURABLE INVESTMENT CLIMATE

Hari Bhakta Sharma is President of the Confederation of Nepalese Industries (CNI), the apex organisation for Nepal's big industrialists, and one of the members of IBN representing the private sector. Sharma has been closely watching Nepal's economic performance and business climate for the last several years. Talking to **IBN Dispatch**, he shared his views, as an investor and leader of the business community, on Nepal's economic prospects and the challenges and opportunities for investment in Nepal.

As a leader of the Nepali business community, how do you assess the current economic situation and business climate in Nepal?

We have seen sluggishness and a host of difficulties in Nepal's economy for a long time. A strong investment climate could not be established against that backdrop. However, the significant amount of remittances sent by our young migrants has kept our economy afloat, even during difficult periods. Our economy has been dominated by imports, which have pushed our trade deficit to an alarmingly high level. At the same time, our industrial production has remained nominal, compared to the goods we import every year. So our economy is bloated by huge imports, as we lag far behind in industrial production and technology. However, we have huge potential in many sectors of the economy, but have failed to attract the desired amount of investment. We have many things to do to establish our country as an ideal destination for investment. We are hopeful that the expected stable government will be instrumental in creating a favourable investment climate in the country.

What are the comparative advantages for investors to invest in Nepal?

I have not seen so many competitive advantages for investors in Nepal. But, it is high time that we managed to convert challenges into advantages. The biggest disadvantage in Nepal has been the political instability. Outdated policies and laws are still governing the business sector, making investment promotion very weak. We have huge potential in tourism, commercial agriculture, hydropower, and medicinal herb production and processing. To harness the potential in these sectors we have to ensure political stability, undergo massive legal reforms and ensure the development of quality industrial infrastructure. We are excited by the successful completion of elections for all three levels of government under the new federal set up. We are also hopeful that stable government in coming days will bring policy stability, which will clear the deck for industrial development, investment promotion, employment generation and infrastructure development. It is the right time for the government, private sector and people in



WE HAVE HUGE POTENTIAL IN TOURISM, COMMERCIAL AGRICULTURE, HYDROPOWER, AND MEDICINAL HERB PRODUCTION AND PROCESSING.

general to demonstrate that Nepal is a business and investment-friendly destination. We should not lose this opportunity.

We have embarked on a fully-fledged federal set up with the successful completion of elections for federal and provincial bodies. As a leader of the business community, what would be your suggestions to achieve the desired economic development under the new state administration structure?

We have completed the political transformation phase. Now the time has come for us to focus on plans and strategies to achieve economic prosperity. The in-coming government should give high priority to creating a business and investment-friendly environment and carrying out legal and policy reforms. The government should formulate plans to establish at least one industrial zone in each province, linking them with strategic highways and upgrading industrial infrastructure at the regional level. The government should come up with a package of programmes integrating infrastructure development with investment promotion to keep our economy dynamic.

The governments in all seven provinces should identify their development priorities, as well as investment potential, and chart out a plan to promote investment by offering incentives to investors. Provinces that are liberal and investor-friendly will attract more investment and achieve more economic prosperity. We have examples in many countries where provinces that are welcoming to investors perform economically better than others that are not so favourable to investors. For the next few years, the provincial governments should focus on enhancing the confidence of investors, giving tax exemptions and other incentives. Investment cannot be promoted if the government concentrates on collecting taxes from business people. We are ready to offer our suggestions to support the government in formulating business and investment-friendly policies.

What are the problems and challenges facing Nepal's industrial sector?

We have a burgeoning trade deficit due to our weak supply capacity, compounded by slowed industrial production. The government should encourage investment by offering incentives to investors and carrying out legal, as well as policy, reforms to stave off the deepening unemployment and soaring trade deficit. We are strategically located between Asian giants – India and China – who can be great sources of investment and markets for companies operating in Nepal. We suffered a setback in industrial production and infrastructure development due to power shortages in the past. However, the utilisation of installed capacity has improved with the reduction in load-shedding since 2016. But our industrial infrastructure is weak, making the production and delivery of industrial goods costly, time consuming and difficult. Uncontrolled imports of goods have posed a threat to the survival of domestic producers, because we lack an equal playing field for business. The low productivity of domestic labourers is also hampering industrial productivity. In the past we could not sensitise policymakers, the political leadership and the common people about the significance of industrial development. Now the time has come to establish a collaboration among those forces to move ahead jointly for industrial development.

What should be the role of IBN in investment promotion?

IBN is a high-level government body mandated to promote investment, especially foreign investment. IBN should be strengthened as a one window service agency to provide effective services to investors in large-scale projects. The in-coming government should enhance the capacity of IBN to promote and facilitate investment for such projects in an effective manner.

Login to www.ibn.gov.np for full interview.



CALL FOR EOI AND RFP FOR METRO, MONORAIL, ROPEWAY COMING SOON

KATHMANDU: IBN is preparing to call for expressions of interest (EoI) and to make a request for proposals (RFP) for a detailed project report (DPR) and detailed feasibility study (DFS) for the construction of Metro Rail Line No. 2 linking Dhulikhel and Nagdhunga. The 28th meeting of IBN held on 13 November directed the office to conduct a DFS and DPR for the 45 km Nagdhunga-Kalanki-Koteshwor-Dhulikhel line, to be implemented under the Kathmandu Valley Metro Rail Project using a build, own, operate and transfer (BOOT) modality, as recommended by the designated committee headed by a member of National Planning Commission overseeing the infrastructure sector.

In line with the decision taken during the 28th meeting, IBN sent a letter to the Kathmandu Monorail Company on 6 December 2017 asking it to prepare to signing an MoU for the DPR to construct a Monorail along the Kathmandu Ring Road. IBN is also planning to call for EoI and make a RFP to construct a ropeway between Kathmandu and Birgunj via Hetauda to replace the 90 km long ropeway established in 1964 that was closed in 1994.

A team of officials from IBN and the Department of Railways visited the project site on 28 and 29 December 2016. The team observed the old structure and identified the 'right of way' conditions along the route. After the visit, the team recommended that the government commission an independent firm to conduct a DFS for the project. Similarly, the team also recommended that the Birgunj Dry Port be linked to the proposed Kathmandu dry port at the Chobhar ropeway line. ☞



CRUCIAL PLANS MADE FOR LOCAL PEOPLE IN UPPER KARNALI, ARUN-3

KATHMANDU: The developers of Arun-3 and the Upper Karnali hydropower projects, in collaboration with IBN, have started working on formulating four crucial plans aimed at benefiting the local people. As per the PDA, SAPDC, the developer of the Arun-3 Hydropower Project and IBN are jointly working on a Local Benefit Sharing Plan, Nepal Employment and Skills Training Plan, Nepal Industrial Benefits Plan, and Disaster Management Plan. The parties have prepared draft versions of the plans and are planning to finalise them by February 2018. Similarly, SAPDC has also submitted to IBN a draft of the Rehabilitation and Resettlement Action Plan (RAP) Framework for its 217 km-long transmission line project for comment. Both parties have set a target to finalise the RAP by February 2018.

The RAP for Arun-3 was approved by IBN in February 2017. As per the provisions of the RAP, the developer has distributed compensation and five different allowances worth over NPR 1.36 billion to 269 project affected families.

In the case of the Upper Karnali Hydropower Project, the developer has started acquiring private land, as per the provisions of the final draft of the RAP and Livelihood Restoration Plan. The developer has set a target to complete the land acquisition process by the end of September 2018. As per the PDA, the developer has also initiated the process of developing a Local Benefit Sharing Plan, Nepal Employment and Skills Training Plan, Nepal Industrial Benefits Plan, and Disaster Management Plan. The developer has completed the scoping activities for these plans. The developer is planning to accelerate the process of developing the plans after acquiring the private land. ☞



NEA, CHINA THREE GORGES SIGN JOINT VENTURE AGREEMENT

KATHMANDU: The Nepal Electricity Authority (NEA) and China Three Gorges International Corporation (CTGI) signed a joint venture agreement (JVA) in Kathmandu on 16 November for the construction of the 750-MW West Seti Hydropower Project. Both sides had signed an initial JVA on 16 January, which was approved by the boards of NEA and CTGI on 18 January 2017 and 29 August 2017, respectively.

In August 2012, the government and CWE Investment Corporation, a subsidiary of CTGI, signed an MoU to construct the hydropower project. As per the MoU, the Chinese company will have a 75% stake in the joint venture company, while NEA will hold a 25% stake. The 17th Meeting of IBN approved foreign direct

investment worth USD 1.6 billion for the project and allowed a Chinese team to conduct a geological survey and undertake necessary civil construction (such as for expansion of the access road and a residence camp at the project site). The JVA has paved the way for establishing a joint venture company as special purpose vehicle to implement the project. ☺



CONTRACT SIGNED FOR CIVIL CONSTRUCTION OF ARUN-3

KATHMANDU: The SJVN Arun-3 Power Development Company (SAPDC), the developer of the 900-MW hydro project, and M/S Jaiprakash Associates Ltd of India, the contractor company, signed an agreement on 14 November to undertake Phase 1 of the civil work for the project. As per the agreement, the contractor firm has to complete construction of the dam, diversion tunnel, intake, intake tunnel, headrace tunnel (up to 3.1 km) and diversion tunnel gate for the project. The developer will also select contractors to build a powerhouse and transmission lines and execute electro- and hydro-mechanical works under Phase 2 of the civil work.

On 5 January 2016, the developer had already signed an agreement with the Department of Roads to construct a 28.69 km access road linking Chhyankuti to the powerhouse in Diding, Sankhuwasabha. On 25 November 2014, IBN and SJVN signed a project development agreement to develop the 900 MW Arun-3 Hydropower Project. 🌀

