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Government of Nepal
Office of the Investment Board Nepal
East building of ICC Complex, New Baneswor, Kathmandu
Phone: +977-1-4475277, 4475278
Email: info@ibn.gov.np
Website: www.ibn.gov.np
Twitter: @IBNOffice

IBN ORGANIZES PROMOTIONAL EVENTS IN HONG KONG, SHANGHAI AND BANGKOK



KATHMANDU: Office of the Investment Board Nepal (IBN) in collaboration with the Nepali diplomatic missions organized investment promotion events in China. A high-level delegation comprising senior officials at IBN and other government agencies visited Hong-Kong and Shanghai to follow up and strategically attract investors to unleash investment opportunities in Nepal. During the visit Nepali delegation conducted promotional events in two major cities of China --Shanghai and Hong Kong- on 24th - 29th June.

Consulate General of Nepal in Hong Kong and IBN jointly organized a program on Investment Opportunities in Nepal on 24th June. Business people based in Hong Kong, Nepali diaspora and experts and other stakeholders participated at the program. The event was inaugurated by Leela Mani Paudyal, ambassador of Nepal to China. Kamal Prasad Bhattarai (Consul General of Nepal in Hong Kong), Ravi Bhattarai (Consul General of Nepal in Guangzhou) and senior officials from Nepali delegation had shared the stage with the Ambassador. The Nepali team also participated at Hong Kong- Nepal Trade Fair 2017 to promote Nepal art, culture and tourism in Hong Kong.

Shanghai on 26th – 28th Investment Board jointly with Consulate of Nepal in Shanghai organized an event at the Convention Center of Shanghai Oriental Pearl TV Tower, the Office on Investment Opportunities in Nepal.

There were representatives from Consulate of Nepal in Shanghai and members of Nepali delegation. Wu Jianming, Honorary Consul of Nepal in Shanghai and senior officials from Nepali delegation had spoke about the investment opportunities in Nepal. Nepal delegation also met with representatives of Hongshi Cement and Huaxin Cement—Chinese cement producers investing in Nepal.

On way back to Nepal, Nepali delegation also held a meeting in Bangkok on June 30 with Nepali ambassador to Thailand and explored future collaboration for investment promotion activities in countries under its mandate. The events were arranged as part of the economic-diplomacy initiative of Nepal government to promote trade, investment and tourism through its diplomatic channels.

Members of Nepali delegation were IBN's Joint Secretary Uttam Bhakta Wagle, Director General of Department of Industry Shankar Aryal, Joint Secretary at the Ministry of Industry Pradip Kumar Koirala IBN's Under Secretary Khagendra Prasad Rijal, IBN's section officers Dipak Kumar Thapa and Ratnesh Shashi, Section officer Janaki Karki Section Officer, Office Of The Prime Minister & Council Of Ministers as well as IBN consultants Ratish Basnyat, Ram Krishna Khatiwada, and Suvechha Nepal. ♦



GMR ORGANIZES WORKSHOP ON INDUSTRIAL BENEFITS PLAN



KATHMANDU: GMR Upper Karnali Hydropower, developer of Upper Karnali Hydropower Project—organized a workshop on July 5 on ‘Industrial Benefits Plan’ for potential suppliers of goods and services for the project. The half-day workshop provided a platform to local business people to make their offers to supply the products and services needed for the project. Under the ‘Industrial Benefits Plan’, the project will provide local industries with the opportunities to supply construction materials, legal and other consulting services in the project period.

Speaking at the workshop on “Opportunities for Industries in Nepal in construction of Upper Karnali Project” the Chief Operating Officer of GMR Hervinder Manocha sought the government’s cooperation to speed up the process of acquiring required government land for the project. Acquisition of land is precondition for securing financial closure for the project. The developer has to complete the financial closure by mid-September 2017- an extended deadline. Price for private land has already been settled following the series of consultation with concerned landowners. However, the developer has complained that the acquisition of forest land has remained contentious. Manocha complained that existing guideline issued by the Ministry of Forest and Soil Conservation on ‘Using Forest Area for National Pride Projects 2017’ is not favourable to smoothen the process of land acquisition.

Maha Prasad Adhikari, IBN’s CEO said he would leave no stone unturned to resolve the hurdles surfaced in the implementation of Upper Karnali Hydropower Project. He also urged the local goods and service providers to take advantage of the opportunities from the project. Bhawani Rana, president of the Federation of

Nepalese Chambers of Commerce and Industry said implementation of the project would pave the way for employment opportunities, local infrastructure development activities and overall national development with multi-dimensional economic benefits.

On the occasion, GMR sought proposals from domestic suppliers of construction materials and availability legal, engineering and other consultancy services within the country.

Manocha also expressed commitment to give high priority to use domestic materials, which are in desired quality necessary for the project. On the occasion, Dhruva Thapa president of Nepal Cement Producers Association, Sahil Agrawal president of Steel Producers Association, Sarad Kumar Gauchhan president of the Federation of Nepal Contractors’ Association, Anil Kumar Shah president of Nepal Bankers’ Association, among others had offered to supply goods and services for the project. Madhu Prasad Bhetuwal, IBN’s Joint Secretary urged the project developer to create a situation to maximize the utilization of domestic products in the project. GMR and the Investment Board Nepal (IBN) are jointly developing the Benefit Sharing Plan, Employment and Skill Development Plan, and Industrial Benefits Plan for project-impacted people.

The development of these plans is mandatory under the Project Development Agreement (PDA) signed in 2014. The project developer has already started collecting socioeconomic data for the three different plans in affected districts- Surkhet, Dailekh and Achham. ♦



ANNUAL FDI INFLOWS OF AT LEAST 5 PERCENT OF GDP WOULD ACCELERATE THE ECONOMY

DR. SWARNIM WAGLE

Honorable Member, National Planning Commission

Dr. Swarnim Wagle is a member of National Planning Commission (NPC) - an apex policy-making body for the Government of Nepal. This is his second stint at the NPC. A graduate of three of the world's top universities, including Harvard, Dr. Wagle was working at the World Bank in Washington DC when he was requested by the then Government to return home to serve in public office three years ago.

*A pragmatic economist with broad international experience, Dr. Wagle shared his views on Nepal's economic development with **IBN Dispatch**.*

You have closely observed international investment trends in the development of infrastructure. How is the situation in Nepal?

We fare very poorly. The World Economic Forum has ranked us as having the worst physical infrastructure in Asia. Among 138 countries assessed globally, we stand at 130th. This is abysmal for three reasons. First, the overall investment envelope, both from the public and private sectors, is grossly insufficient. Second, whatever we spend is mis-prioritized, mis-allocated and mis-spent. Third, our core sectors of comparative advantage are all amenable to massive investments in infrastructure, such as connectivity, tourism, energy and modern tradable services, yet they remain unexploited relative to potential.

Among these sectors, there is some excitement now on energy. Prolonged power cuts have ended. In 1990, we had less than 250 MW of installed capacity. In two years, we will more than double the existing capacity of about 900MW to over 2000MW, with a significant share accounted for by private producers.

On physical connectivity, there is much to lament, despite having identified an impressive portfolio (as Projects of National Pride) of North-South and East-West highways that can really unite this country economically. Three additional international airports are also being built which will help us become part of regional and international markets, but progress is slow, and we need a “war room” mentality to expedite them. For example, the long-stalled Kathmandu-Tarai expressway, which will be transformative in reducing trading costs and in unifying Nepali economy, is finally going ahead.

Unlike in the energy sector, we have not been very welcoming of the private sector in the connectivity agenda. This needs to change. Similarly, while the primacy of the public sector will remain in other infrastructure areas, such as irrigation, drinking water and sanitation, there ought to be greater space for private or PPP projects in ICT and tourism. We have leapfrogged in these areas, but still need to do more. The number of telephones we had in 1990 in the entire country was about 71,000; today, Nepalis carry 28 million cellphones. In tourism,

after two decades of slow growth, major investments are now flowing in. We need to diversify both in terms of the products we sell and the markets we serve. For example, we have sold Nepal cheap; and we still have not realized that the big spenders in large numbers live within a short haul flight from Kathmandu.

The 14th plan has set target to achieve average 7.2 percent growth. Similarly, targets to graduate from Least Developed Country status by 2022 and become a middle-income country status by 2030 are also with us. Can we meet these targets?

I believe all these targets are conditionally achievable. This fiscal year, our economy is expected to have grown by over 7%. But this was almost a one-off statistical windfall – growth last year was at zero percent, so we had a narrow base; electricity problems were managed well; trade flows normalized; remittance inflows continued to fuel demand for services; and we had very good monsoons that lifted agricultural production. To have a high and sustained economic growth rate for at least a decade, we cannot always rely on a one-off set of events. We need painful economic reforms that form a credible basis for large investment inflows. This has to begin with capital formation in the infrastructure sector. But alongside reforms and resources, we need to overhaul the way we manage projects too.

Going forward, we have some reasons to be optimistic. The recent local level elections, for example, fill a twenty-year political vacuum. This will expedite public spending at the local level, and relieve the federal government to focus on initiatives that are longer term and large-scale in scope.

As for LDC graduation, we are on track to meet two of the three criteria set by the UN in two consecutive triennial reviews. So, purely on technical grounds, we will probably graduate on the strength of two non-income criteria. But the government is keenly aware that a meaningful graduation to developing country status requires much higher per capita income. We fear that graduation propelled on non-income criteria alone is vulnerable to reversal. This is where the 2030 milestone of becoming a middle-income nation becomes ever more salient. Because 2030 is also a year to meet the

Sustainable Development Goals, our hope is that an economically dynamic country will pave the way for enhanced MDG-plus attainment of goals in the social and environmental sectors too.

What are the key bottlenecks for project implementation in Nepal?

Let me single out five generic constraints. First is the lack of preparedness. Most projects are initiated even without a detailed project report (DPR). We tend to kick the can down the road -- complex issues are often left to be solved later when the project has already commenced. Financial incentives are not designed to be unambiguous and non-discretionary. Second, we have persistent difficulties procuring land and securing forest clearances. We need to adopt a flexible compensation modality and complete Environmental Impact Assessments within a few weeks. Third is our chronic deficit in capacity to draft and honor contracts. Fourth, it is the ready unavailability of construction materials. We are yet to strike a healthy trade-off between vital construction needs and legitimate commitments to protect our pristine environment. In the absence of a consensus, we are prone to swinging to the extremes. Fifth constraint is personnel management and performance monitoring. Ensuring steady leadership and management, punishing bad performers and rewarding competence is a standard practice elsewhere. But because we have politicized staffing, procurement and contracting, we have a long way to go to meet international professional benchmarks.

What would be your message to those investors to showcase Nepal as a lucrative investment destination?

Three of our advantages are unique. Investing in sources of energy that are one hundred percent clean; Nepal's varied beauty forms a perfect bedrock for a distinct set of services; and our location in Asia, not just between China and India, but also places from Dubai to Denpasar are within easy reach. Global investors are always looking for an edge. Nepal's clean energy and exotic location gives them a premium. Tourism is still a virgin territory for investment as we have not exploited corridors other than Kathmandu-Pokhara-Chitwan. We need to diversify destinations, attract higher-spending and longer-term tourists. We need to think in terms of

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ANNUAL FDI INFLOWS...

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marketing our landscape, not just traditional budget tourism.

But, Nepal should not give up on manufacturing yet. Although we can't compete directly with countries like India, China, Vietnam and Bangladesh for mass manufacturing, Nepal can be a producer for niche goods, amenable to being parts of regional production networks. The Tarai is a natural candidate for this. In other regions, we need to promote products with high-value-to-weight ratios. FDI has been seen to transform economies, foremost through manufacturing.

How far are we in utilizing Foreign Direct Investment for economic prosperity?

Our record is sub-optimal, explainable in part by the lack of economic reforms, but also our political difficulties of the past 20 years. We need FDI to meet our financing constraints for large-scale projects, to bring us up to speed with technologies and management practices that are state of the art, and to link us with foreign markets through new network conduits that accompany FDI. Despite tremendous potential, we have been able to attract only about USD 50-60 million in annual FDI which is negligible, relative to the size of our 25 billion dollar economy. If we can ramp up average FDI flows to about USD 1 billion, year after year, we can nudge our economy in significant new ways. If

post-conflict Rwanda is attracting FDI flows worth 4%-5% of GDP, why can't Nepal? I think the letters of intent (LoIs) signed at the recently-held Nepal Investment Summit signal these lofty possibilities. We need to seize these opportunities with a proactive follow-up and a willingness to deal with large investors on a case-by-case basis. I have seen how targeting of "anchor" investors can lead to a surge in FDI. You can look at what Intel's arrival did to Costa Rica or Vietnam, for example.

We heard you recently went to observe the Arun 3 Hydropower development project site in Sankhuwasabha? What is your observation of the progress in the field?

I was encouraged to see substantial progress being made deep in the heart of remote Sankhuwasabha. As we all know, Arun 3 resembles a missed opportunity for Nepal when it got cancelled 20 years ago as a result of a combined myopia of the World Bank, one of our political parties and a few NGOs. Everyone now realize their folly, and this project enjoys massive political and popular support. The project developer is planning to award contracts for construction of project structures by September with the aim of completing the project within five years. However, two issues are still not resolved. One is forest clearance in the buffer zone of the Makalu Barun national park, and the other is disputed compensation to land owners of a section of the access road to the powerhouse. I am told the cabinet will resolve both issues soon. The Koshi Highway, which not only provides access for this particular project, but will eventually link Biratnagar with Kimathanka (and India with China) needs a major upgrade. Soon, there will be heavy vehicular traffic there, and the quality needs to be much higher. Overall, I came away hopeful that this project will eventually yield multiplier effects of international proportions. It carries with it immense symbolism, and all our hopes of a rapidly transformed Nepal by exploiting some of our innate advantages in clean energy, quality tourism, and connectivity (road, air, energy grid).

» *Visit www.ibn.gov.np for full interview.*

INTERACTION WITH MAYORS OF VALLEY MUNICIPALITIES

Solid Waste Management Project



KATHMANDU: Mayors and senior officials of municipalities covered by planned Integrated Solid Waste Management Project have offered their all-out support smooth implementation of the project.

Stressing the need to speed up the project implementation process, they also urged Investment Board Nepal (IBN) to intensify the engagement with stakeholders to sort out the outstanding issues before signing Project Development Agreement (PDA) with the project developer. Keeping in view the growing problems of solid waste management in the capital, the government came up with plan to implement the project with the involvement of private investors.

In a bid to sensitize newly elected mayors, deputy mayors and Executive Officers of the concerned 10 municipalities including Kathmandu Metropolitan City (KMC) on significance of the project in capital, IBN office had organized an interaction on July 11.

Mayors, deputy mayors and senior officials of KMC, Gokarneswor, Kageshwori, Tokha, Tarakeswor, Chandragiri, Tarakeswor, Shankharapur municipalities had participated at the half-day interaction. They also voiced concerns over issues such as management of existing workforce of KMC, distribution of royalty among municipalities, availability of land in proposed land field site Banchare Danda, collection charge to be paid by households, development support for affected area and responsibility of government, developer and city resident in the process of project implementation. They also asked IBN to organized more extensive interaction with all stakeholders to clarify and discussion on the proposed provisions and outstanding issues in draft PDA.

Speaking on the occasion, Dinesh Kumar Thapaliya, secretary at the Ministry of Federal Affairs and Local Development urged IBN and concerned municipalities said that government should not delay to implement the project that would be instrumental for making the capital clean and livable.

Thapaliya also said that management of solid waste was great challenges stating that KMC alone has been spending annually more than Rs 550 million for the purpose. He also suggested that developers and the government officials should avoid any ambiguities regarding project implementation modalities, role of everyone linked to the project, royalty distribution, incentives to developers, management of existing manpower with KMC, before signing PDA. IBN's CEO Maha Prasad Adhikari highlighted the significance of the project in Kathmandu valley urging all concerned municipalities to support for successful implementation of project.

Adhikari said that most of the major issues were agreed in the PDA, including the tariff to be levied by the project developer on individual households stating that IBN was conscious on making the PDA more realistic. Ashish Gajurel IBN's consultant for Integrated Solid Waste Management Project, briefed about the technical aspects of the project and progress in PDA negotiation regarding the project.

Service charge has been proposed at Rs219 per month from each household for collecting their solid waste with the provision of tariff to increase 5 percent every year. Likewise, the developer has to pay 2 percent of the fees collected to local bodies as royalty.

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CHEMICAL FERTILIZER PLANT FEASIBILITY REPORT APPROVED

KATHMANDU: The evaluation committee led by CEO of IBN, has approved the Detailed Feasibility Report on establishment of a Urea Fertilizer Plant in Nepal—submitted by a consulting firm. The report which was approved on July 4, has stipulated three technologies to produce the urea based on energy sources—natural gas, electrolysis and coal. However, the report concluded that technology based on natural gas is the best option in term of cost of plant and cost of production.

The consortium of Infrastructure Development Corporation (Karnataka) Ltd, India, Shah Consult International (P.)Ltd, Nepal and Institute of Agricultural Technologists, India was designated to prepare the report. The government had selected the the firm on June 12, 2016 to complete the report.

The report has put the total cost of the project at USD 1.3 billion for coal plant, USD 983 million for Water Electrolysis plant and USD 665 million for natural gas plant. The report also found that cost of production per ton on coal USD 372, on natural gas USD 268 and water electrolysis USD 448.

The report has concluded that the project is financially viable for implementation through Public Private Partnership (PPP) modality. However, the report has suggested the financial incentives to developers such as exemption of excise duty, grant financing of about 30



percent, tax moratorium for three years and long-term offtake purchase agreement of urea between the owner of the fertilizer plant and the government of Nepal.

The report has underlined the need for start talks to concerned country’s government for uninterrupted transmission of natural gas (feedstock) into Nepal into the project site, finalize project financial structure and incentives to developers, and invite process licensors to set up plant. ♦

INTERACTION WITH MAYORS...

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Nepwaste, a Nepali-Finnish joint venture, will undertake Package 1 of the project which covers KMC and nine neighbouring municipalities—Budhanilkantha, Nagarjun, Tokha, Tarakeshwar, Gokarneshwor, Sankharapur, Dakshinkali, Kageshwori-Manohara and Chandragiri. Nepwaste has agreed to build a landfill site at Banchare Danda in Nuwakot and a transfer station at Teku in Kathmandu.



After the PDA is signed with Nepwaste, IBN will initiate PDA negotiations with Clean Valley Company—the developer of Package 2 and Package 3 of the project that cover municipalities in Lalitpur, Bhaktapur and Kirtipur. Senior officials of IBN have already completed separate meetings with mayors and deputy mayors of Kathmandu Metropolitan City, Mahalaxmi Municipality, Shankarapur Municipality, Gokaneshwore Municipality. ♦