PUBLIC PRIVATE PARTNERSHIP
IN NEPAL

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Government of Nepal
Outline

- Context
- Role of PPP in Infrastructure
- Evolution of Legal Framework for PPP
- PPP Practice in Nepal (Hydropower, Road, Airports, Urban/Municipality Level)
- Issues
- Opportunities
- Initiatives
- Way Forward
Context

- Nepal a land-locked, but not potentially locked (rich natural resources, demographic and geographic dividends)
- Unitary to Federal Structure (Stable government at federal, province and local levels)
- Area: 147,181 Sq. Km
- Population: 26.67m (2011 census)
- Economic Growth Rate: 6.9% (2017), ~8% (2018 Projected)
- Total Budget: USD 12.15 billion (2018-2019)
- Least Developed Country (LDC) graduation to developing country by 2022, Middle Income Country (MIC) by 2030
- Full commitment of SDGs achievement by 2030.
Infrastructure

- **Road Density (km)**: Nepal (139 km per 1000 km²) Vs South Asia (1123 km per 1000 km²)

- **Urbanization**: least urbanized country (~20 percent population living in the urban area) and fastest urbanizing country (growth rate of 5 percent per annum on average)

- **Poor Infrastructure** – major hindrance in Nepal’s Competitiveness (88 out of 137, Global Competitiveness Report Report 2017-18)

**Per Capita Electricity Consumption (Kwh per capita)**

- **Nepal**: 105 Kwh per capita
- **Bangladesh**: 258 Kwh per capita
- **India**: 684 Kwh per capita
- **Sri Lanka**: 490 Kwh per capita

*Source: The World Bank, 2016*

*Source: Reducing Poverty by Closing South Asia’s Infrastructure Gap, The World Bank, December 2013*
Infrastructure Needs & Required Financing to Meet the SDGs

- Nepal needs to invest as much as 10% of GDP on Infrastructure (Currently at just 5 percent of the GDP) - i.e. USD 13-18 billion to bridge the investment gap in infrastructure.

- Basic urban infrastructure need about USD 2 billion per year at Municipality level.

- Financing gap for achieving SDGs estimated to be USD 18 billion till 2030 annually.

- Potentially available resources within the country - About USD 13.5 billion.

- Net shortfall of about **USD 4.5 billion** per year for SDGs implementation.
Role of PPP in Infrastructure Development

- **Private sector has a role to play** in contributing finance, technology, and innovation to accelerate the infrastructure development process for delivering quality, faster and cost effective and efficient public services.

- Engaging the Private sector in infrastructure development allows the Government to leverage governments funds to focus on social sectors.

- PPP emerged as a reliable alternative in emerging markets for infrastructure development.
# Evolution of Legal Framework for PPP

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<thead>
<tr>
<th>1990 - 2000</th>
<th>2001-2010</th>
<th>2011 Onwards</th>
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<tbody>
<tr>
<td>• 1992 – Hydropower Policy &amp; Electricity Act, Foreign Investment &amp; Technology Transfer Act</td>
<td>• 2001 - Hydropower Policy, Public Infrastructure Build Operate and Transfer Policy</td>
<td>• 2011 – Investment Board Act</td>
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<td>• 1999 – BOT Policy on Road Sector</td>
<td>• 2003/04 - Private Investment in Infrastructure Build and Operate Ordinance</td>
<td>• 2015 – PPP Policy</td>
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<td>• 2006 - Private Financing in Build and Operation of Infrastructure Act (BOOT Act)</td>
<td>• 2015 - Foreign Investment and One-Window Policy</td>
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<td>• 2006 - Private Investments in Infrastructure Act</td>
<td>• 2017 - Electricity Regulatory Commission Act, Foreign Investment &amp; Technology Transfer Act (Amended)</td>
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<td>• 2007 - Financing in Build and Operation of Infrastructure Regulations</td>
<td>• 2018 - Electricity Regulatory Commission Regulation</td>
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PPP Practice in Nepal

- Hydropower Projects: Widely in practice (BOOT Model)
- Road & Airport: Not materialized yet
- Urban Development: Initiated (small scale)
PPP Models in Hydropower Development

Public Private Partnership

Export

Unsolicited: West Seti (750 MW)
Solicited: Upper Arun (900 MW), Upper Karnali (900 MW)

Domestic 3085 MW

Unsolicited: 2875 MW
In operation: 513 MW
Under Construction: 2362 MW

Solicited: Super 6 Projects – 210 MW (Under Construction)

Domestic Resources: 2429 MW
In operation: 283 MW
Under Construction: 2146 MW - Upper Tamakoshi (456 MW), Rasuwaqadi (110 MW), Middle Bhotekoshi (102 MW) and others (500 KW to 100 MW)

FDI Involvement: 446 MW
In operation: 230 MW - Khimti 60 MW, Bhotekoshi 45 MW, Upper Marshangdi 50 MW, Upper Madi 25 MW
Under Construction: Upper Trishuli (216 MW)

Unsolicited pipeline PPP Projects with PPA concluded but pending financial closure: 1659 MW
Hydropower Sector

- 83 GW theoretical potential of hydropower, 45 GW economic potential of hydropower
- Realized potential: Less than 1% of economic potential of hydropower

- Public Private Partnership – Khimti HEP, Bhotekoshi HEP, Chilime HEP (Initial PPP Projects – 1990s)

- Almost 10 years negligible PPP development in hydropower thereafter

- Public Private Partnership with People Participation - Chilime HEP, Upper Tamakoshi HEP (Initial PPPP)
  - Funds (Equity & Debt) generated through public utilities: unavailability of funds from Banking sector (Capacity as well as loan tenure)
  - Funds generated through general public including local participation: Sense of ownership and facilitation in construction
Case Study: Financing Structure of Upper Tamakoshi 456 MW

- SPV Company, PPA concluded with Nepal Electricity Authority (also a promoter)
- Debt: Equity = 70:30
- Debt: Employees Provident Fund, Citizen Investment Fund, Rastrriya Beema Sansthan, Nepal Telecom, Government of Nepal
- Equity:
  - Promoter Share (51%): NEA (41%), Nepal Telecom (6%), Rastrriya Beema Sansthan (2%), Citizen Investment Trust (2%)
  - Public Share (49%):
    - Employees of equity provider: 24%
    - General Public: 25% (local – 15%)
Cross Border Transmission

- 400 KV 140 km transmission line between Nepal and India. 42.1 km portion of the transmission line on the Nepali side and 85.5 km in India side.
- Whole transmission capacity is booked by NEA with a guaranteed annual payment of wheeling charge.

**Financing Structure**
- Debt: Equity = 80:20
- Equity:
  - PTCNL (NEA – 64%, ILFS – 10%, PGCIL – 24%),
  - CPTCL (NEA – 10%, ILFS – 38%, PGCIL – 26%, SJVN – 26%)

**Lesson Learned**: Successful because of revenue guarantee
CASE - Road

- **Kathmandu – Terai/Madhes Fast Track Road Project (Strategic Project: 72 KM, 4 Lane expressway)**
  - *First mega road project in PPP in BOT / FDI (Solicited)*
  - *First attempt in 2008 (procurement)*, 2012: *BOT EOI, RFP* - three shortlisted companies IL&FS, L&T and Reliance did not participate in the RFP stage (citing not sufficient funds to match the investment cost and profit – showing a need of viability Gap Funding
  - 2014 again EOI on the basis of PPP/BOT model was published, 3 companies submitted EOI & 2 shortlisted companies submitted RFP
  - 2015 IL&FS was selected based on lowest evaluated substantially responsive bidder
  - No contract was awarded because of reluctance of IL&FS to implement project on given condition
  - Responsive bidder demanded government guarantee for minimum traffic. However, contract was silence in Viability Gap Funding

Lesson learnt:
- *No clear cut PPP structure, unclear procurement process, BOT Act lacked pulling effect to attract the foreign investment as no provision for VGF, public resistance*
- *Project structuring for PPP - remained very complex and difficult for risk-return profile.*

*E.g. traffic revenue estimation turned less than forecasted.*
- *Compensation guarantee was demanded from the bidder - creates substantial implicit liabilities for the government, Project was bailed-out.(IL&FS fast track project)*
CASE - Road

- KATHMANDU KULEKHANI HETAUDATUNNEL HIGHWAY : BOT/ Local (Unsolicited), 58 km, 4 Lane expressway
  - NPB Company Limited, More than 1000 promoter shareholders
  - Could not mobilize required financing from domestic market, therefore they are trying to mobilize FDI
  - No government participation
Airports

Gautam Buddha International Airport (Under Construction, estimated completion time by 2020)
- Developed by government, exploring possibility for PPP in operation management
- EOI to be published soon

Nijgadhi International Airport
- Detailed feasibility completed
- Exploring for PPP (BOT/BOOT)
PPP at Urban/Municipal Level

- Small Initiatives under PPP
- Examples:
  - Urban transport (Fee Collection at Mahendra Bus Park, Bharatpur; Operation and Management of Lumbini Bus Terminal in Butwal)
  - Solid Waste Management (Used Plastic Management in Mechinagar
  - Water Supply (Kathmandu Valley Drinking Water Limited- KUKL)
  - Park Management
  - Sanitation
Issues

Political
- Political commitment and consensus among various stakeholders

Legal Framework
- PPP policy revision inline with federal structure and context
- Enactment of PPP ACT, regulation

Institutional Mechanism
- Strong PPP Center responsible for PPP Project development, allocation and PPP structure
- Roles and functions still unaddressed, due to which vision for PPP is not established yet and shared
- Mainstreaming of PPP projects in periodic and sectoral plans
- Capacity Building and Training
Issues

Financial

- Reduction of transaction cost of PPP through creation of Project Development Fund for project development and land acquisition and other clearances/statutory approvals
- Actualization of one window policy through review and amendment of prevailing Acts (e.g. Investment Board Act) for attracting and creating enabling environment for FDI.
- Development of Local debt and capital market

Social

- Public Awareness on PPP for public support
Opportunities

- Infrastructure gap
- Reconstruction (for financing arrangements, capability and capacity)
- Political Stability
- Government geared up PPP in infrastructure development by creating enabling environment
Initiatives

■ Formulating the Public Private Partnership (PPP) Policy in 2015 as well as drafting of PPP Act
■ Reforming laws (e.g. Land Management Act)
■ International Infrastructure summits in Nepal focusing on PPP infrastructure project development
■ PPP Discussions – PPP Policy Dialogue, Workshops, Training
■ Infrastructure Development Bank (PPP model)
■ **Setting up of PROJECT BANK at NPC** (Screening, appraisal, selection and prioritization)
Highlights of PPP Policy 2015

- Using this policy, the government intends to engage the private sector in development of various physical infrastructure, such as roads, bridges, hydropower projects and transmission lines.
- Incorporates a provision on “Unsolicited Proposals”
- Land Acquisition to be done by Government of Nepal
- Provisions for Project preparatory fund
- Provisions for Viability Gap Funding
- Demarcation of the responsibilities of PPP Centre and PPP Steering Committee
- Guidelines for operation of viability gap fund and project preparation facilitation fund to be prepared within a year
Highlights of PPP Policy 2015 (Contd...)

- Projects to be built under PPP to be identified by government
- If a project is worth over Rs 1 Billion, global bidding is a must
- Procurement process for projects of Rs 500 Million or more to be initiated upon getting approval from PPP Steering Committee
- If a project is worth over Rs 100 Million, requires viability gap funding or needs government subsidy, then project design and other documents must be approved by PPP Centre
- Policy allows government to extend tax relief to build PPP projects,
- Government to share risk and benefits with private developers
## Investment Board Nepal

<table>
<thead>
<tr>
<th>Project</th>
<th>Amount (USD)</th>
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<tbody>
<tr>
<td>900 MW Upper Karnali HEP</td>
<td>1.5 Billion</td>
</tr>
<tr>
<td>900 MW Arun III HEP</td>
<td>1.4 Billion</td>
</tr>
<tr>
<td>750 MW West Seti HEP</td>
<td>1.5 Billion</td>
</tr>
<tr>
<td>600 MW Upper Marshyangdi HEP</td>
<td>1.5 Billion</td>
</tr>
<tr>
<td>Tamakoshi 3 HEP</td>
<td>N/A</td>
</tr>
<tr>
<td>Integrated Solid Waste Management</td>
<td>100 Million</td>
</tr>
<tr>
<td>Chemical Fertilizer Plant</td>
<td>1.4 Billion</td>
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</tbody>
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## Project Bank

<table>
<thead>
<tr>
<th>Project</th>
<th>Amount (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kathmandu Kulekhani Hetauda Tunnel Highway</td>
<td>348.7 Million</td>
</tr>
<tr>
<td>East-West Electrified Railway Project</td>
<td>3000 Million</td>
</tr>
<tr>
<td>East West Railway Link to India Project</td>
<td>227 Million</td>
</tr>
<tr>
<td>Kathmandu valley Metro Project</td>
<td>5471.2 Million</td>
</tr>
<tr>
<td>Second Int’l Airport (Nijgadh)</td>
<td>6565 Million</td>
</tr>
<tr>
<td>Kathmandu Pokhara Railway Project</td>
<td>2830 Million</td>
</tr>
<tr>
<td>Chemical Fertilizer Plant</td>
<td>600-1300 Million</td>
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Way Forward

- PPP Operationalization: PPP ACT & Regulation, PPP Center
- Creation of Viable Gap Funding & Project Development Fund
- Establishment of Project Bank
- Capacity Building for PPP Implementation
  - *Exchange Programs, Visits, Trainings and Workshops*
  - *Sectoral expertise (Law, finance, accounting, development & engineering)*
- Mainstreaming the PPP into provincial and local level.
- Call for attention to PPP: Government, Donors, Development Partners, Private Sector and Beneficiaries
THANK YOU