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PERSPECTIVES

READ. THINK. DELIVER.

What investors want?



RETURNS AND INCENTIVES

Lucrative returns and incentives are required for developers to invest in Nepal. Zachary Smith, CEO at Radiance Renewable Technologies said that foreign investors look for lower political risks, ease of doing business, long term incentive packages and policy that bridges between investors and locals to better understand the environment. According to him, the government policy has to be precise and clear and also have a framework that allows flexibility in order to allure investors.

He also stressed that the government provide updated background information to easily analyse the risk. Citing that good economic incentive is key to attract investors, he said, "The government should provide long term incentives to mitigate risks for long term investors otherwise there will be the risk of inviting wrong kind of investors."

Nepal has some of the finest policies. However implementation through Parliament is weak and the biggest challenge for the gov-

assessment of all aspects of the project, including commercial, technical and regulatory factors. The company got survey license in 2007 and completed feasibility studies, environment impact assessment and other required studies in 2011. The project started to negotiate with the government for Project Development Agreement in 2011, however it could not conclude the negotiations and decided to quit the project.

"Lack of viable power off take option, lower electricity price forecasts, insufficient transmission capacity for power evacuation and absence of necessary policies and regulatory framework for operational power sales are to blame," said Dr Sandip Shah, Vice President and Country Director Nepal for Statkraft. He further said, "It also reflects the increased bureaucratic hurdles for foreign investments, a fragile political situation and a geo-political situation leading to a non-conducive project development environment."

According to Dr Shah, the project incurred a USD 10.7 million loss in the project. When asked

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CEO at Infraco Asia, Singapore



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"In 2006-07, the government promised us the same commitment to a favourable environment and we were ready to invest. However, no real improvement has been felt till date."

SANDIP SHAH,
VP and Country Director Nepal for Statkraft



NEPAL'S FIRST POWER INVESTMENT SUMMIT HIGHLIGHTED THE GAP BETWEEN WHAT INVESTORS WANT AND WHAT THE GOVERNMENT TALKS ABOUT BUT SERIOUSLY LACKS IN IMPLEMENTATION

Sujata Awale
Kathmandu

CONDUCTIVE ENVIRONMENT

Lengthy process that stretches out for years to get necessary approvals to initiate hydropower projects is one of the major roadblocks. Moreover, lack of coordination among authorities to get approvals is another challenge. "In Nepal, there is no single authority responsible for providing necessary approvals. There is uncoordi-

obtain dead financing in projects. This is why we have to turn to multilateral agencies. However, the situation has changed and local banks now have liquidity but the risk of finance is still present."

Nooy stressed on the need to have sufficient background information on construction cost, geological conditions and overall operational cost. He said, "As investors, developers and stock invest-

break down barriers between various different authorities. "It is important to have one agency to coordinate with Ministry of Finance, NEA, Department of Electricity Development, Ministry of Environment and other responsible bodies for public private partnership and foreign direct investments (FDIs)." According to him, working on an Energy Policy and transparency on tariff setting is must to attract investment and develop the sector.

Nooy said that Nepal should realise they are competing with other nations and that the more difficult it is to get projects approved here, lesser the appetite there will be for FDIs. He is of the opinion that the government must plan for building transmission line projects and substations as ultimately generated power needs to be supplied. "Access to the project site and dealing with local people also emerges as challenge while implementing the project," he added. He further said, "One should not forget that private sector is spending significant development capital in terms of structuring projects. And time is money for investors."

On the other hand, according to him, no restriction on foreign investment and foreign ownership unlike other countries, improved liquidity status in local banking institutions and requirement of hydropower projects are positive signs to invest in Nepal.



nated approach between authorities and that makes the whole process tedious and lengthy," said Allard Nooy, CEO at Infraco Asia, Singapore. Talking about their experience with financing, he said, "When we initiated Kabeli A (38 MW) project, we faced insufficient liquidity in local banks in order to

tors, we require sufficient and reliable data that provides us detailed information about higher risks of overruns or others factors to project in lifetime costing."

He suggests the government have a more collusive policy framework to implement hydroelectric projects in the country and

ernment. At the summit, Prime Minister KP Oli stressed his commitment to creating a favourable condition for FDIs. However, it is yet to be seen how committed this government is about bridging these gaps in the development of the hydropower sector.

"It is well known fact that Nepal has huge hydro potential which is not something new. The job of the government should be implementing policy to bridge the gap between investors and locals," said Smith. He further said that the government should plan to mitigate financial risk by introducing PPA in dollar denomination for the first couple of years so that investors could recover their equity. According to him, long term vision is required to invite investors in the country.

COMMITMENT IN ACTION NOT TALK

While the government is tall in promises about creating a conducive investment environment, Statkraft a Norwegian investment company has given up on developing Tamakoshi III (650 MW) project a few months ago. The decision came as a result of a thorough

about commitment of the government to create a favourable environment for investment, he said, "In 2006-07, the government promised us the same commitment to a favourable environment and we were ready to invest. However, no real improvement has been felt till date." He further said, "Implementation of signed policy's and agreements is the weakest part of the government," adding that "Due to lack of proper coordination between various ministries and the Investment Board of Nepal, we could not conclude our PDA and had no option than to give up the project."

Citing that 2014 was positive year for hydropower sector, he said, "Two projects got PDAs, PTA was done with India and Nepal signed the SAARC Framework, however even after two years also the government has not been able to introduce regulatory regime to implement those commitments."

He further said that the government needs to revise the regulatory framework in order to make the investment process easy. He said that the investors should focus on domestic supply rather than export oriented projects.