Agenda

• A possible tomorrow
• NHDP mandate
• Why benefits sharing?
• Nepal’s model & challenges
• Way forward
A possible tomorrow
Benefits of Nepal-India power trade

Source: IRADe / SARI-EI report
Where are we starting?

Pace of capacity addition

<table>
<thead>
<tr>
<th>Year</th>
<th>MW</th>
<th>NEA Hydro</th>
<th>NEA Thermal</th>
<th>IPP Hydro</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY09</td>
<td>158</td>
<td>53</td>
<td>53</td>
<td>53</td>
</tr>
<tr>
<td>FY10</td>
<td>167</td>
<td>53</td>
<td>53</td>
<td>53</td>
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<tr>
<td>FY11</td>
<td>175</td>
<td>53</td>
<td>53</td>
<td>53</td>
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<td>FY12</td>
<td>188</td>
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<td>FY13</td>
<td>231</td>
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<tr>
<td>FY14</td>
<td>256</td>
<td>53</td>
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<tr>
<td>FY15</td>
<td>292</td>
<td>53</td>
<td>53</td>
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<tr>
<td>FY16</td>
<td>324</td>
<td>53</td>
<td>53</td>
<td>53</td>
</tr>
</tbody>
</table>

Capacity under development

- NEA - under construction, 1,047, 18%
- NEA - planned & proposed, 2,177, 38%
- IPP - pre FC, 784, 14%
- IPP - Under construction, 1,722, 30%

Source: NEA Annual reports
NHDP Mandate
NHDP mandate

Objectives
- Expand access to high quality hydropower services for citizens of Nepal
- Realize the potential for Nepal’s export of hydropower in South Asia

Approach
- Facilitate private sector investment in Nepali hydropower in environmentally & socially sustainable manner
- Support restructuring of electricity sector to create viable, efficient national power services
- Promote expanded electricity trade between Nepal & India

Specific actions
- Provide advisory support to facilitate development & closure of large & medium hydropower projects to IBN (primary) & MoE / NEA (secondary)
- Provide advisory support to MoE & NEA on designing & implementing targeted electricity reforms
Why benefits sharing?
Infrastructure development – benefits and human costs

**Benefits**
- Providing / enhancing services
- Productivity improvement
- Economic growth
- Job creation
- Tax revenue

**Involuntary displacement**
- Loss of shelter
- Loss of livelihood
- Loss of assets / access to assets
Compensation, mitigation & benefits sharing

Restore PAPs to previous or better

Direct compensation for lost assets / access to assets

Local area development – roads, power, water, sanitation, healthcare, education

Skills training & provision of jobs

Earmarking specific portion of Govt revenues (royalties, taxes) for direct spending

Participation in the project
Nepal’s model & challenges
Components of Nepal’s model

**COMPENSATION**
- Loss of assets / access to assets

**INFRASTRUCTURE DEVELOPMENT**
- Negotiated, ad-hoc

**JOBS & TRAINING**
- Negotiated, ad-hoc

**ROYALTY**
- 50% - central government
- 38% - development area
- 12% - DDC

**EQUITY**
- 10% equity participation
Equity participation - legal, policy, regulatory backing

**Constitution of Nepal**
- Section 59(4) & (5) – benefits sharing & investment facilitation for local community

**Securities registration and issue regulation**
- Company *may* issue 10% of equity to PAPs

**Concept paper - national energy crisis prevention & electricity development decade, 2016**
- 10% share of equity of the project to the project affected communities and persons of the district
- Priority to PAPs

**Land Acquisition, Resettlement and Rehabilitation Policy for Infrastructure Development Projects, 2071 (2015)**
- Clause 8.2.10 - Provision shall be made to allocate certain percentage of shares issued by the project exclusively for the purchase of affected individuals/households
## Motivations for direct equity participation

### Domestic Projects

<table>
<thead>
<tr>
<th>Company</th>
<th>Plant COD and IPO Timing</th>
<th>IPO Price</th>
<th>Listing Prem.</th>
<th>Share Price Performance*</th>
</tr>
</thead>
<tbody>
<tr>
<td>API Power Company</td>
<td>Aug 2015 Nov 2015</td>
<td>NPR 100 (FV)</td>
<td>201 %</td>
<td>Returns 61%</td>
</tr>
<tr>
<td>Arun Valley Hydro Development Co.</td>
<td>Sept 2003 Aug 2009</td>
<td>NPR 184</td>
<td>184 %</td>
<td>Returns -37%</td>
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<tr>
<td>Chilime Hydropower Company</td>
<td>Aug 2003 Mar 2011</td>
<td>NPR 408</td>
<td>121 %</td>
<td>Returns 18%</td>
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<tr>
<td>Ngadi Group Power</td>
<td>Oct 2012 Aug 2016</td>
<td>NPR 100 (FV)</td>
<td>177 %</td>
<td>Returns 8%</td>
</tr>
<tr>
<td>Ridi Hydro Development Co.</td>
<td>Oct 2009 Jul 2014</td>
<td>NPR 100 (FV)</td>
<td>206 %</td>
<td>Returns -22%</td>
</tr>
</tbody>
</table>

* Since Listing
Challenges of equity participation model

### PAP perspective

<table>
<thead>
<tr>
<th>Lack of financial education &amp; risk awareness</th>
<th>Non-standardized process – eligibility, timing, pricing</th>
<th>Sufficient capital to invest in share offering</th>
<th>Lender step-in consequences</th>
</tr>
</thead>
</table>

### Developer perspective

<table>
<thead>
<tr>
<th>Administrative difficulties - multiple, small shareholders in project SPV</th>
<th>Regulatory compliance requirements – public company, local listing</th>
<th>Non-standardized process – eligibility, timing, pricing</th>
<th>Sufficient buyers for quantum of capital for large projects</th>
<th>Lender comfort</th>
</tr>
</thead>
</table>

Challenges of equity participation model

Nepse dops 17.3 points

POST REPORT
KATHMANDU, Jan 21

Nepal Stock Exchange (Nepse) last week shed 17.3 points to close at 1,462.56 points as the demand for shares slowed amid banks’ reluctance to offer margin loans at existing interest rates due to liquidity crunch.

The secondary market that opened at 1,479.86 points on Sunday fell 2.14 points to close the day at 1,477.72 points. On Monday, the market shed 11.63 points and closed at 1,466.09 points.

The index slipped 3.05 points and 0.81 points on Tuesday and Wednesday, respectively, before posting a gain of 0.33 points on Thursday. Overall, the market closed the week 1.16 percent lower.

Santosh Mainali, general secretary of Stockbrokers’ Association of Nepal, attributed the fall in Nepse to investors’ dilemma over banks’ liquidity position. “Investors were unwilling to invest due to unclear information about liquidity situation in financial institutions,” he said.

Mainali said the market could have also dived due to higher supply of shares. “The number of shares has increased due to the listing of new rights and bonus shares, initial public offerings and further public offerings,” he said. “On the other hand, the demand has dived as banks have been delaying sanctioning of margin loans.”

Along with the Nepse index, the sensitive index that measures the performance of group ‘A’ companies also dipped 2.44 points to close at 317.32 points. Total value of shares listed on the exchange declined by Rs14.65 billion, with the market capitalisation diving to Rs1,640.52 billion from Rs1,660.27 billion.

Almost all sub-indexes, except for trading (up 1.13 points), shed points. The insurance sub-index (down 78.37 points) was the biggest loser. Mainali termed the fall in the insurance sub-index after scaling new highs “market correction”.

The insurance sub-index was followed by manufacturing (down 25.96 points), hydropower (down 25.45 points) and commercial banks (down 21.03 points), finance companies, others, hotels and development banks.

Last week, Prabhu Bank (promoters’ shares) posted the biggest turnover of Rs209.9 million. Standard Chartered Bank Nepal stood second with a transaction of Rs140.96 million. Prabhu Bank (ordinary shares), Siddhartha Bank and Nepal Life Insurance rounded out the top five. Nabil Balance Fund 1 took the pole position in terms of the number of shares traded (3,362,000 units).

Last week, shares of 153 listed companies were traded. Despite the fall in the Nepse index, the transaction amount rose 6.96 percent to Rs1.85 billion. The number of shares traded also increased to 19,870 units from 10,033,790.
Way forward
Addressing key challenges

Lack of financial awareness & education
• Project failure
• Lender step-in
• Profit sufficiency for dividends
• Project performance for capital appreciation

Equity risk

Financial awareness & education campaign
Addressing key challenges

Non-standardized process
• Eligibility
• Timing
• Pricing
• Market making

Project delays

Comprehensive policy on local shares
Addressing key challenges

Administrative difficulties, regulatory burden, lender comfort
- Multiple, small shareholders
- Public / listed company

Unattractive regime

Investment SPV / mutual fund structure for holding local shares.
Covered in comprehensive policy
Addressing key challenges

Capital constraints, sufficient buyers
- PAPs with insufficient capital to purchase eligible quantum
- Project faced with insufficient buyers

Equitable approach

Bridge financing for PAPs / clarity on excess
Covered in comprehensive policy
USAID NEPAL Hydropower Development Project
Kathmandu, Nepal