

Presenter 2

Nepal's Experience with Hydropower PPP Public Equity Share Model

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Infrastructure PPPs Responding to Socio-Economic Demand

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Why PPP projects in Developing Countries?

- “Meeting essential needs requires not only a new era of economic growth for nations in which the majority are poor, but *an assurance that those poor get their fair share of the resources required to sustain that growth.*” (WCED (1987), *Our Common Future*, p.25)
- For consumption demand in a low-growth economy it is important that... **policies to achieve a more equal distribution of income and wealth are suitable.** *Dullien, et al (2011). Decent Capitalism: A Blueprint for Reforming Our Economies*
- “Extractive institutions are so common in history because they have a powerful logic: **they can generate some limited prosperity while at the same time distributing it into the hands of a small elite.**” (D. Acemoglu & J. A. Robinson, *Why Nations Fail* (2014), p.149)



Public Private Partnership legal and regulatory framework

- Originally evolution of PPP in Nepal began 1992 when hydropower policy and electricity Act and Foreign Investment and Technology Transfer Act were introduced.
- in 1999 BOT policy and PPP policy in 2015 were introduced, but the PPP Policy was only guidance for PPPIA
- National Health Financing Strategy (2025-2035)
- PPP and Investment Act, 2019
- PPP and Investment Regulation, 2020
- National Health Financing Strategy (2025-2035)



PPP projects in Nepal

- PPP can be Built Transfer, Build Own Operation and Transfer (BOOT), BOT, BTO, Lease OT, LBOT, Development OT, Management OT, Rehabilitation OT or any similar method
- Public-Private Partnership (PPP) projects in Nepal span key sectors like hydropower, transport, and urban infrastructure, often utilizing Build-Own-Operate-Transfer (BOOT) models
- PPP in the health sector of Nepal is supported by various policies and strategies
- Viability Gap Funding provision is there if projects bring positive economic benefits in long-run and there are provisions of other incentives to in Nepal's PPPIA
- So far apart from hydropower, transport and infrastructure, Municipality solid-waste management and airport projects and health sector were explored to have PPP
- Upper Tamakoshi Hydropower Project is a prominent domestic-led financing model blending public entities, public enterprises, and citizen shares to scale up massive generation capacity.



What are Benefits of PPP projects in Nepal

- **Improved Service Delivery**
- **After Govt becomes partner, Project will have better economic viability**
- **Leveraging private investment in infrastructure**
- **Risk Sharing for private investment**
- **Increasing investment opportunity for private sector**
- **Resource mobilization for bigger projects, by involving several stakeholders**
- **Providing benefits to the local people**
- **reduce the local conflict with local people**
- **VGF provision is there if projects bring positive economic benefits in long-run and there are provisions of other incentives to in Nepal's PPPIA**



Getting PPP Hydro Project

- The Government of Nepal (GoN) issues a survey licence and time-bound generation license for the concession period up to 30- 35 years to private company through the Department of Electricity Development (DoED). The countdown begins the day the generation license is issued, meaning the 4–5 years spent on construction
- The developer signs a long-term Power Purchase Agreement (PPA) with the state-owned, sole buyer of power, Nepal Electricity Authority (NEA).
- Projects are generally financed using a 70:30 to 80:20 debt-to-equity ratio, debt from commercial banks or international financiers.
- The private company absorbs all design, cost-overrun, and construction risks.



Getting PPP Hydro Project

- Private operators must pay an annual royalty to the GoN, calculated based on per-kW installed capacity and per-kWh energy generated but for export oriented FDI-hydro, it's based on negotiation.
- Upon expiration of the 30- or 35-year license, the law mandates that the plant (dam, powerhouse, turbines, transmission lines) must be handed over in fully functional, optimal operating condition, ensuring the state inherits a revenue-generating asset.





IPO issuances in Hydropower Companies for Public

- After company approves the IPO proposal the hydropower company appoints a SEBON-licensed issued merchant Banker.
- The company obtains a credit rating from an authorized rating agency.
- Hydropower companies usually apply for an IPO after completing a 30% to 50% of physical construction.
- The company uses the EIA report and project documents to identify affected communities and based on that a 10% shares is reserved for people in the project-affected area to give local communities an ownership stake in the project.
- The remaining shares are offered to the general public 15%. If the issue is oversubscribed, allotment is usually done through a lottery system.



IPO issuances for Public

- After allotment, shares the company then lists its shares on NEPSE.
- This allows investors to trade the shares in the secondary market, however, shares allotted to local residents are usually subject to a 3-year lock-in period.
- Hydropower companies may still issue IPOs even if their net worth per share is below the face value of Rs. 100, However, they must clearly disclose project risks and progress.
- In many cases, hydropower companies can issue IPOs after electricity production begins. Some special projects may have different rules depending on SEBON approval.
- More than 99 hydropower companies are listed in the Nepal Stock Exchange (NEPSE), making it the dominant sector for retail public offerings (IPOs), around two dozens hydropower company are waiting to get approval



Market overview and hydropower share reach

- While total beneficiary (Demat) accounts surpassed 8.1 million in mid-2026 in Nepal, active digital portfolio users stand at roughly 5.15 million, meaning millions participate intermittently primarily to apply for primary market IPOs rather than active daily trading.
- Average share price in secondary market for hydros is Rs 300-400
- So far 2.7 Billion US\$ has been invested by private sector, 320 Million US\$ is invested by public through IPOs. There are 600 thousands investors as founder investors



There are important things to note

- Policies on local shares must find a fair balance between
 - ensuring adequate protection for the local communities and
 - ensuring that these policies do not drastically upend the accepted practices of hydropower development.
- Investments made in a speculative market, are always going to have inherent risks that no policy regime can fully eradicate.
- The best way to minimize risks for local communities is to increase their understanding of capital market, the hydropower company and financial literacy programs in addition to that imposing stringent disclosure requirements to the companies.
- Other local benefit sharing mechanisms can be much more effective, such as skills training, jobs and local business development. Efforts to focus on this group have immense potential to yield tangible outcomes in terms of improved access to wealth, financial literacy, and the ripple effect on family health and education, among others.



Policy weaknesses in PPP projects (Hydro)

- although market has been growing still roles and responsibilities the government, developers, and local bodies are poorly defined.
- Limited local participation in decision-making, communities may not have enough say in how benefits are designed or delivered. The benefits, other than dividends to the local people depends upon the bargaining power of the community.
- Lack of project-specific adaptation, policies may not account well for differences in location, timing, and community needs.
- Weak implementation and monitoring from government authority, even when benefit-sharing plans exist, they may not be effectively carried out or tracked.
- Focus on compensation rather than long-term benefits, policies may emphasize short-term mitigation instead of lasting development gains like livelihoods, infrastructure, and equity stakes.



Weakness and room to improve

- There is a construction delay penalty for hydropower, however there are genuine risks
 - local geological delays,
 - land acquisition issues,
 - grid connection backlogs directly compress the developer's profitable operating window.
- Sometimes these issues are addressed on ad hoc basis
- For mega-projects using foreign loans, foreign currency fluctuations pose a major threat. Although, Nepal utilizes specific hedging mechanisms or FoREX, PPA variants to distribute this risk between the developer, the central bank, and the NEA (the sole buyer), however still not common to all projects



weaknesses and room to improve

- Hydropower policy in Nepal has evolved over time to address the benefit-sharing practices changed from the state-controlled era to liberalization and stronger rights-based demands after the conflict period.
- Nepal has huge hydropower potential, benefit sharing is now a global sustainability issue in Nepal as well, it has become a major topic in hydropower and water-resource debates, linked to sustainability, equity, and community participation but local communities often feel the benefits are not shared fairly, leading to disputes
- The main benefit-sharing mechanisms are royalties, local equity/share offers, employment and training, community development/infrastructure support, and environmental enhancement activities but implementation guidelines often vague or based on community bargaining.



Conclusions

- This also aligns with the spirit of the constitution, which provides local communities a preferential opportunity to invest in infrastructure projects that exploit natural resources within their locality, such that these economic opportunities will enable them to improve their lives.
- The primary assumption here is that these investments are profitable undertakings with guaranteed returns for local investors. Currently, government agencies have various measures in place to minimize risks to the general public, which include SEBON's requirements on different aspects.
- Local shares as a benefit-sharing tool have limited ability to improve the lives of project-affected communities, especially vulnerable and marginalized groups, so to address this in PPP hydro projects, Nepal already has several traditional benefit-sharing mechanisms, including royalty sharing, livelihood support through jobs and training especially entrepreneurship development, and community development projects such as rural electrification, drinking water, and irrigation.
- However, these mechanisms have not delivered enough due to weak implementation and low community trust and local people's bargaining power.
- While local shares can create a win-win situation by offering capital gains to communities and reducing project disruption for developers, their future impact remains uncertain because of instability in the Nepali capital market and the possible oversupply of hydropower shares as well as governance