



IFC Training Program on "Project Finance"

Pokhara, Nepal / 3 April 2017

Inaugural Address by Dr. Chiranjibi Nepal, Governor, Nepal Rastra Bank

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Participants from Various Institutions
Distinguished Guests,
Ladies and Gentlemen,*

1. It gives me immense pleasure to deliver the inaugural address at this training program on 'Project Finance' organized by IFC with an objective to disseminate best practices on the subject matter. I would like to thank the IFC for providing me this opportunity.
2. At the outset, let me mention that project finance offers a means for investors, creditors, and other unrelated parties to come together to share the costs, risks, and benefits of new investment in an economically efficient and fair manner. Project financing has evolved into primarily a vehicle for assembling a consortium of investors, lenders and other participants to undertake infrastructure projects that would be too large for individual investors to underwrite.
3. Globally, a growing portion of infrastructure and natural resource projects, are funded by project finance. Project finance funds constitute an important and growing portion of foreign investment to developing countries.

Ladies and Gentlemen,

4. Allow me now to focus on two key reasons as to why project finance is a appropriate option for long-term capital, especially for countries like ours, and how it can support economic growth. In the first place, project financing schemes are characterized by a high level of debt and extensive long-term contracting to guarantee an effective risk distribution; as a result, it is often better able to mitigate risk and reduce transaction costs than other forms of FDIs or commercial loans. In addition, it is not dependent on local financial markets, thereby enabling investors to enter economically and politically less stable countries like Nepal.
5. Second, project finance not only enables economic growth by generating revenue through taxes, jobs and royalties, but also creates revenues and spill-over effects by setting up strategically important assets such as power plants and other infrastructure ventures.

Ladies and Gentlemen,

6. As you may be aware, governments across the world are very enthusiastic on using Public-Private Partnerships (PPPs) models to deliver infrastructure and public services, in order to find more ways to satisfy the large demand for infrastructure financing. And one of the most common - and often most efficient - financing arrangements for PPP projects is "project financing. PPP is often seen as the vehicle to bridging the infrastructure gap in countries like ours where governments generally do not generate adequate revenue to fund many projects on their own and refrain from resorting too much on debt financing that can widen fiscal deficit.
7. According to Asian Development Bank, the Asia and Pacific region needs infrastructure investment of at least \$8 trillion from 2010 until 2020. As traditional public funding sources falls far short of this investment need, a number of countries desire to mobilize private funds, including through PPPs.
8. A recent Report released by the IMF two months ago divulges that Nepal has emerged as one of the top 10 low income developing countries (LIDCs) to attract investment in infrastructure projects built under the PPP. The Report also mentions that Nepal has so far attracted \$1.2 billion in 12 infrastructure projects operating on PPP model, which is 1.2 percent of the country's gross domestic product (GDP).
9. I would like to mention that infrastructural bottlenecks are still the major obstacle for development activities in our country. For a resource abundant country like ours, even a small leap in infrastructural front can play a pivotal role in boosting economic growth. Proper infrastructure can lay the foundation for

mega projects such as hydropower and can simultaneously create a platform for SMEs to flourish. And it is through project financing that investment in infrastructures can be encouraged.

10. Let me also note here that the Government of Nepal has been attempting to promote PPP in the country to bridge the infrastructure gap. In this respect, it introduced PPP Policy last year which comprises provisions on project preparatory fund and viability gap funding.

Ladies and Gentlemen,

11. While PPPs are gaining a solid foothold, it is also true that there are a lot of impediments and challenges. I believe there are two areas that will make PPPs through project financing even more effective. First, creating an "enabling environment" is essential to attract private investment. In this respect, good coordination among government agencies is essential in attracting private investors. Effective mechanisms for land acquisition, resettlement and compensation can help minimize delays in approvals and implementation. Secondly, more PPPs can be implemented if we can deepen our knowledge and capacity, especially in project preparation. It is important to choose the right projects to pursue, and to manage fair and transparent bidding.

Ladies and Gentlemen,

12. This training demonstrates the significance that IFC attaches to the role of project finance to mobilize private investment and knowledge transfer through well-structured projects to improve the delivery of public services. Other than this, IFC has also been working closely with the Government of Nepal and the private sector to help improve the enabling environment for doing business in Nepal. IFC's involvement to boost private sector growth through private investment in infrastructure, tourism, financial markets, transportation, and trade finance is equally commendable. I truly appreciate the efforts made by IFC and strongly believe that it will continue to play an instrumental role in Nepal's development process.

Ladies and Gentlemen,

13. Let me conclude. As a large sum of investments is required for infrastructure development in our country, the theme of this training program is very relevant and timely to all of us. Equally, our task is also very challenging. Hence, I hope you will be able to address the specific issues that will be uncovered with regard to project finance. I am looking forward to an active participation and exchange of ideas from the participants during the training. When the training ends on 7 April, I am certain that you all will come out better informed and with a solid understanding of the germane issues relating to project finance.

Thank you very much and I wish you all a fruitful and successful program.