

# ICED Evidence Library

## Case Summary: Nepal Centre for Inclusive Growth

Tags: Investment, Infrastructure, Energy, Programme Design, Case Study



### The Programme

The Centre for Inclusive Growth (CIG) was initially set-up as a think-tank to inform economic policy and help tackle Nepal's growth constraints associated with inadequate infrastructure, flawed macro-economic management and weak policy coherence. It became apparent however that such an approach would not deliver results due to Nepal's governance constraints. As a result, CIG shifted its focus to delivering practical 'projects' that would generate tangible benefits. Unlocking the hydropower potential to accelerate economic development became a priority. CIG seized the window of opportunity to work with the newly created Investment Board of Nepal (IBN), helping it broker and negotiate long-stalled hydro deals. By late 2014, this approach helped get agreement on over US\$2 billion of new foreign direct investment in hydropower.

### Design and Delivery Approach

**Flexible design and delivery model.** A combination of a flexible log frame based on process-based milestones and an output-based contract enabled sufficient room to adapt to evolving circumstances. This adaptable model ensured that lessons learned were taken on board and emerging opportunities were seized rapidly.

**A politically aware arm's length approach.** Effective arm's length support to the Nepali professionals working at the IBN was key to the project's success. DFID placed considerable trust in IBN counterparts, only becoming involved when the IBN advised that external pressure would be beneficial and funding on-demand legal and technical experts to advise on commercial negotiations and technical aspects of the deals.

**Laying the foundations to take advantage of windows of opportunity.** Even once the IBN had been established, it was still a question of waiting for the right opportunity to support reform. The election of Narendra Modi improved bilateral relations between India and Nepal, and the IBN was able to capitalise on its background political economy work to overcome last minute hurdles and push through the India-Nepal Power Trade Agreement (PTA) in September 2014.

## Key Results



**Two 900 MW hydropower deals worth around US\$2 billion** of long-term foreign direct investment were signed. Nepal negotiated these complex infrastructure deals for the first time as a credible partner to a large international corporation and managed to deliver a commercial agreement on projects of this enormous size.



IBN established itself as a credible organisation and **rigorous models for structuring deals were delivered**. CIG developed international best practice project development agreement templates, which were used as **the basis for negotiations with projects developers**.



**India-Nepal Power Trade Agreement (PTA) signed** September 2014 – a significant achievement given the fragmented and contentious political environment.

## Lessons Learnt

**Keep an eye on the political economy environment.** A purely technical approach alone would not have delivered the results. A routine political economy analysis was conducted to broker relationships and influence investment outcomes.

**Align stakeholder incentives for change.** Aligning stakeholder incentives create opportunities for change. A significant effort was made to build a political consensus around the benefits of large-scale hydropower deals.

**Donor trust and commitment is key for institutional reform.** High risk and high return programmes require long-term commitments. This means being bold enough to put and maintain major resources behind programmes that can be transformational, even if the hard results may come years further down the line.

**Don't underestimate the value of flexible and adaptive approach.** This type of design and delivery model enabled the programme to quickly bypass bottlenecks and seize emerging opportunities.

**Sustainability is critical.** The results achieved remain vulnerable to political developments. It takes a long time for large scale infrastructure projects deliver the intended development benefits. Along the way, many challenges need to be managed and mitigated.

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*If you want to find out more about this case study, please contact [iced.programming@uk.pwc.com](mailto:iced.programming@uk.pwc.com) or read the full case study on the ICED website.*