



USAID
FROM THE AMERICAN PEOPLE

SARI/EI



South Asia Regional Initiative for Energy Integration (SARI/EI)

Draft Terms of Reference of the 2nd TF-1 study on “ Regional Investment Policy Guidelines and Investment Framework for promoting investment in Power Sector and Cross Border Electricity Trade Infrastructure Power Projects in South Asian Region ”

Rajiv Ratna Panda
SARI/EI/IRADe

Combined Meeting of SARI/EI Task Forces

5th - 6th August, 2015 at New Delhi, India





Outline of Presentation

1

Back Ground

2

Objective of the study

3

Terms of Reference (TOR) of the Study

4

Deliverables

5

Timeline



USAID
FROM THE AMERICAN PEOPLE

SARI/EI



Back Ground



Back Ground

Being Capital Intensive, Large Scale Investment is required.

Most of the countries have undertaken policy reforms and are encouraging investment.

Significant Cross Border Electricity Trade projects are being kick started. Bangladesh is stepping up its power import targets to 7000 MW.

Bangladesh has shown interest for making investment in hydro Power Projects being developed in Nepal and Bhutan (Regional Investment). SAARC has conducted prefeasibility studies for Regional /Sub-regional Power Plant.

Inadequate large scale domestic finance (Lack of a robust integrated capital market in SAARC region). Need to leverage all source of finance for infrastructure(power) projects.

Need to create an investor friendly policy environment for promotion and protection of Investment. Draft SAARC agreement on promotion and protection of investment.



USAID
FROM THE AMERICAN PEOPLE

SARI/EI



Objective of the Study



Objective of the Study

The Key objective of the study is to : 

A circular icon showing a key and a pocket watch, with the word "Investment" written on it.

1) Review and Analyze the Current Investment Scenario/Investment trends in South Asia and review the various Investment related prevailing Policies/Guidelines/Regulations/Frameworks prevailing in each South Asian Countries (SAC) related to Power Sector and Cross Border Electricity Trade and

A circular icon showing a power plant with smokestacks.

2) Assess its impact on the investment in South Asian Power Sector and in particular on the Cross Border Electricity Trade Projects and

A circular icon showing a document with the word "Investments" written on it.

3) Develop an Regional Investment Policy Guidelines (IPGs) and a Regional Investment Framework for Promoting Investment in South Asian Power Sector (SAPS) particularly in Cross Border Electricity Trade Infrastructure Power Projects (CBETIPPs).



USAID
FROM THE AMERICAN PEOPLE

SARI/EI



Scope of Work /Terms of Reference (ToR) of the Study:



Scope of work


Scope of Work /Terms of Reference (ToR) of the Study:

A small image showing a stack of coins with a small green plant growing out of the top.

1. Review and Analyze the current investment scenario and investment trends in South Asian Power Sector (SAPS) and in particular on the Cross Border Electricity Trade Projects.


A small image showing a pen and a document with the text "Policies and Procedures".

2. Review and Analyze Investment related policies/guidelines/regulations/frameworks etc. prevailing in each south Asian countries including FDI policies ,fiscal benefits, Incentives for Investors (both domestic and foreign),standards for investment protection, security of investment, policies on private sector participations and policies on Public Private Partnership (PPP) etc. related to in South Asian Power Sector (SAPS) and in particular on the Cross Border Electricity Trade Projects.

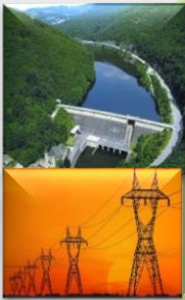
A small image showing three stylized human figures and the text "PUBLIC PRIVATE PARTNERSHIP".

3.The above review and analysis will also include the various Laws/Regulations/Policies/Provisions related to environment, Land Acquisition, Competition laws/policies, Trade policies, Taxation Policies, Corporate Tax Regimes, Royalty Regimes, Contract enforcement & Dispute Settlement Mechanisms, Policies related to Investment promotion & facilitation, Rehabilitation and Resettlement policies, etc. and its impact on investment in South Asian Power Sector and in CBETIPPs.

Scope of Work /Terms of Reference (ToR) of the Study: Contd.

Two small icons: the top one shows a document with the word "investors" and a signature, and the bottom one shows a classical building with columns and the word "BANK" above the entrance.

4. Assess & Analyze the key concerns/issues of Investors, Lenders, MDBs, Project Developers for making investment in South Asian Power Sector and in particular in the CBETPs.

Two small images: the top one shows a large dam with water flowing through its spillways, and the bottom one shows several high-voltage electrical transmission towers against a sunset sky.

5. The review & analysis of investment policies/guidelines/regulations should cover specially on energy resources development particularly relating to Hydro power resource and associated transmission Infrastructures.

A small graphic showing a stack of books with the words "BEST PRACTICE" and "Best Practices" written on them.

6. Analyze the international best practices on investment policies /guidelines/regulations and institutional mechanisms for promoting investment and suggestion/ recommendation on the same.

Scope of Work /Terms of Reference (ToR) of the Study: Contd.



7.Based on the above review & analysis, develop a template covering investment policy guidelines/regulations etc. containing a framework on key ingredients required for promoting investment in SA region/ CBETPPs.



8.Based on the above detailed analysis , develop an Regional Investment Policy Guidelines and a regional investment framework for promoting investment in SA region/CBETPPs.



9.Based on the above detailed analysis of various investment policies/guidelines/regulation, suggest/ recommend the key amendments/changes required to be made on the same to promote investment in the SA region/ CBETIPPs.



USAID
FROM THE AMERICAN PEOPLE

SARI/EI



Scope of Work /Terms of Reference (ToR) of the Study: Contd.



10. Prepare a time bound, practicable and doable strategy and roadmap (both regional and each country wise) for implementation/adoption of suggestion / recommendations among SA countries.



USAID
FROM THE AMERICAN PEOPLE

SARI/EI



Deliverables:



Deliverables:

Deliverable

1

- Detailed Draft report on findings covering of the review and analysis of the investment policies/guidelines/regulations prevailing in South Asian Countries (SAC) and its impact on the investment in South Asian Power Sector and CBETIPs, Review of the international best practices etc. as per the TOR.

Deliverable

2

- Template covering investment policies/guidelines/regulations containing a framework on key ingredients for promoting investment in Power Sector in South Asian Countries and in CBETPPs.

Deliverable

3

- Detailed report on Key amendments/changes required to be made in investment policies/guidelines/regulations of each SA countries for promoting investment.



Deliverables:

Deliverable

4

- **Regional Investment Policy Guidelines and Investment Framework for promoting investment in SA region/CBETPPs.**

Deliverable

5

- **Time bound, doable strategy and roadmap (both regional and each country wise) for implementation/adoption of suggestion and recommendations among SA countries.**

Deliverable

6

- **Final Report of the Study .**





USAID
FROM THE AMERICAN PEOPLE

SARI/EI



Time Line



Time Line

Time Line:

Tentative time line of the study is 6-8 months.





USAID
FROM THE AMERICAN PEOPLE

SARI/EI



Discussions and Suggestions



USAID
FROM THE AMERICAN PEOPLE

SARI/EI



Thank You





USAID
FROM THE AMERICAN PEOPLE

SARI/EI



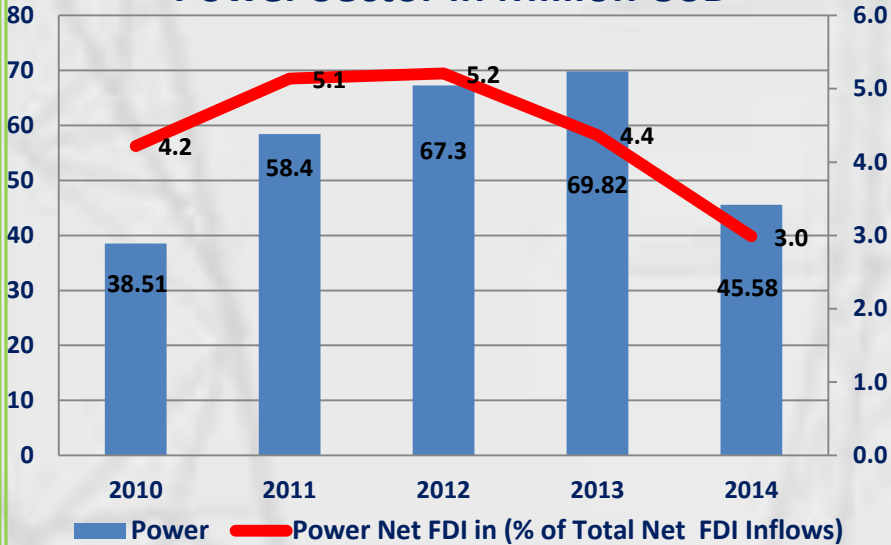
IRADe Integrated Research and
Action for Development

Supporting Slides



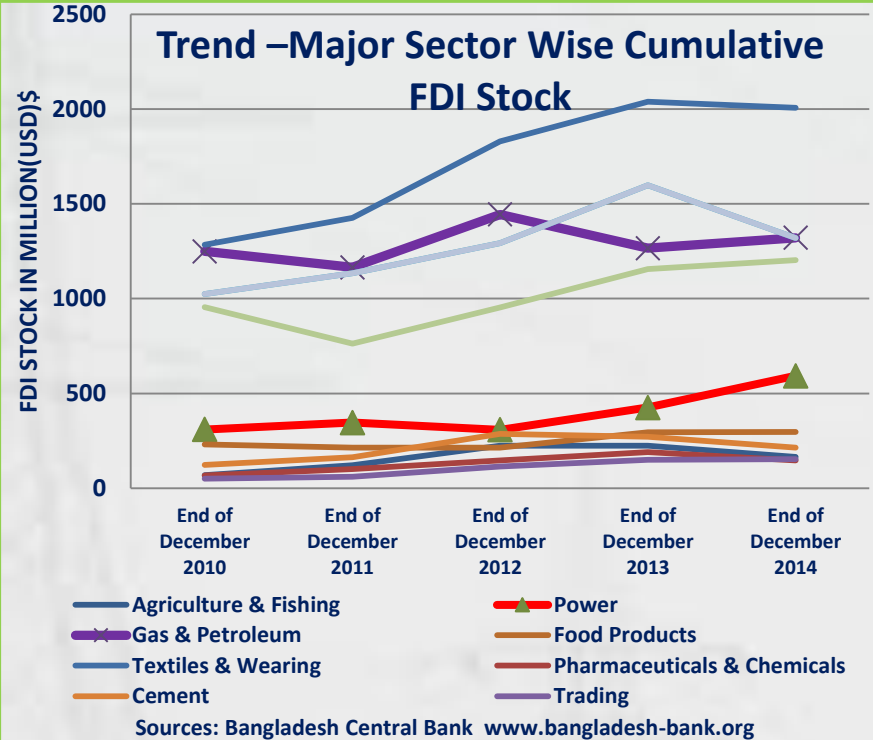
Investment Scenario: Power Sector FDI in Bangladesh

Bangladesh: FDI Inflows (Net) in Power Sector in Million USD



Sources: Bangladesh Central Bank www.bangladesh-bank.org

Trend –Major Sector Wise Cumulative FDI Stock



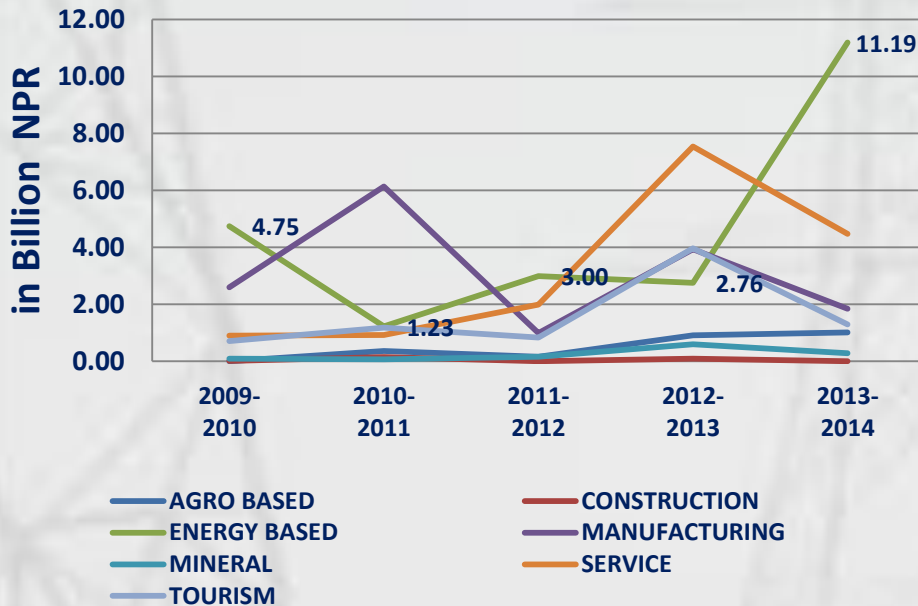
Sources: Bangladesh Central Bank www.bangladesh-bank.org

Net FDI Inflows in Power Sector increased from 2010 till 2013 but declined in the year 2014.

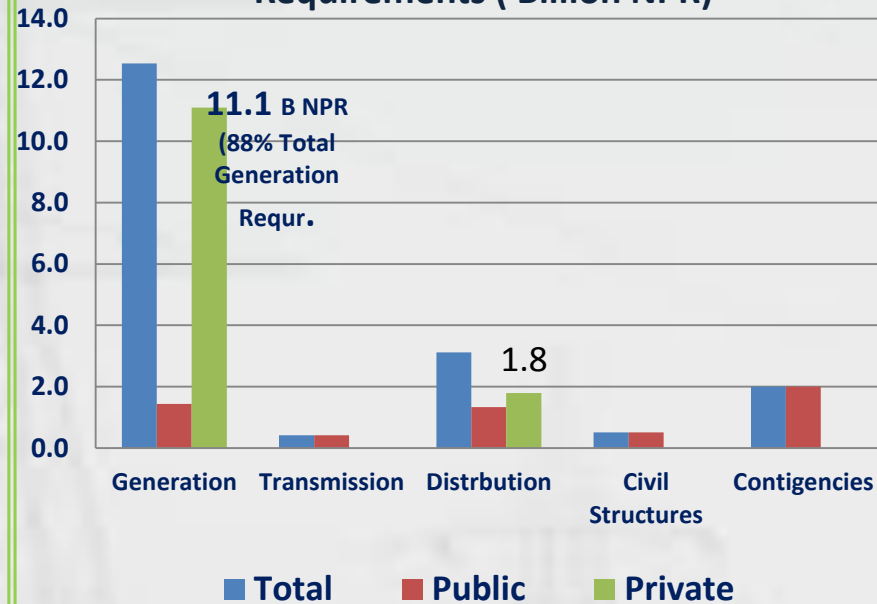
FDI stocks in power as on end December ,2014 -Million US\$ 592.51 (6.33 % of the total FDI stock)

Investment Scenario : Energy Sector FDI in Nepal

Nepal Last 5 Fiscal Year-wise Sector-wise Trend of FDI



Nepal Post Earthquake: Reconstruction Requirements (Billion NPR)

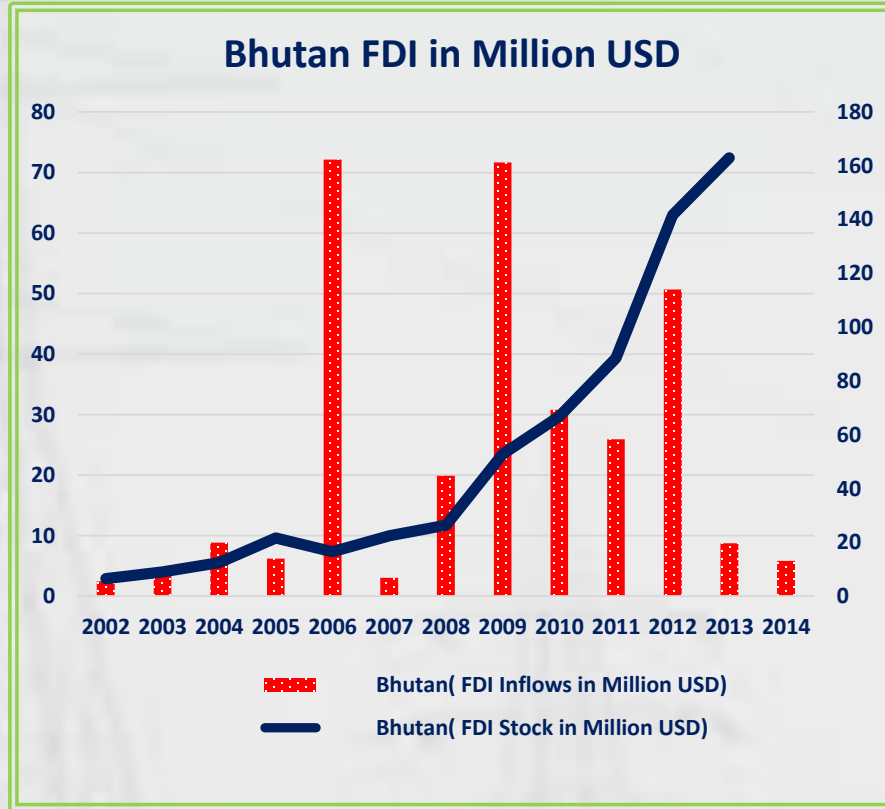
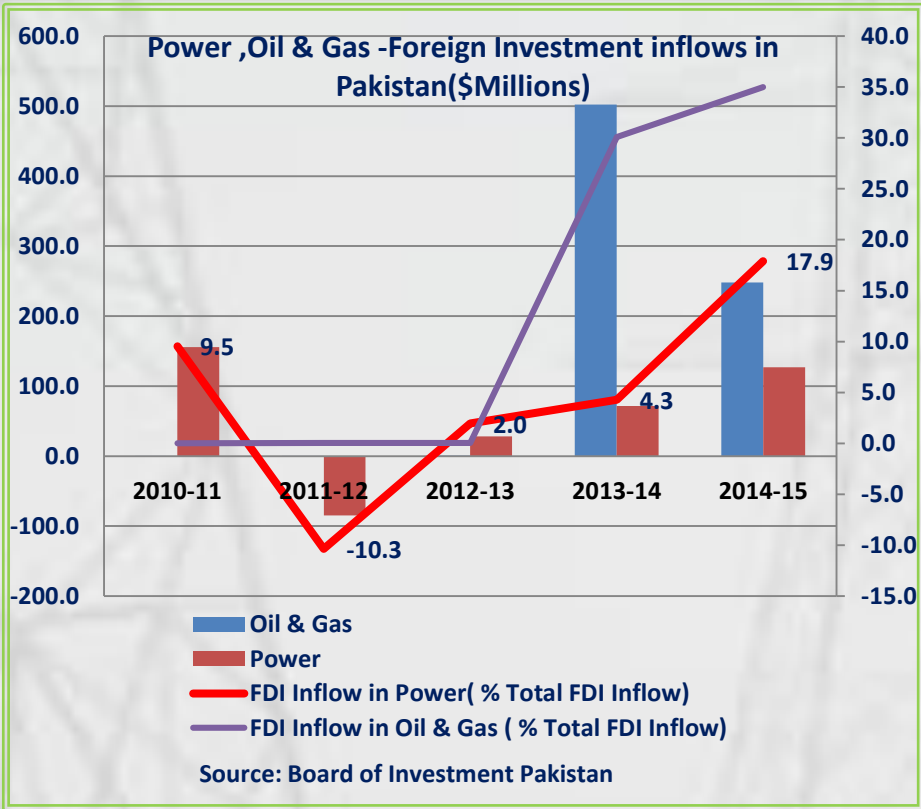


Energy sector receives highest FDI. Increasing Trends of FDI in Energy sector.

Nepal Earthquake : Requirement for Power Sector is -18.58 Billion NPR. (Public Sector -5.8 and Private Sector 12.89 Billion NPR .

Private Sector Lead : On Generation 11.1 Billion NPR is expected from Private Sector

Investment Scenario :Energy Sector FDI in Pakistan and FDI in Bhutan



FDI in Power Sector is on increasing trend even though there is a 58.2% decrease in Net FDI in 2014-2015 as compared to 2013-14.

FDI in Bhutan increased till 2012 . FDI stock is on increasing trend.

Investment Scenario: FDI equity inflows in India

SECTORS ATTRACTING HIGHEST FDI EQUITY INFLOWS

	2012-13	2013-14	2014-15 (April- March)	2015- 2016(April, 15- May, 15)	Cumulative Inflows (April '00 - May '15)
SERVICES SECTOR **	4,833	2,225	3253	488	43202
CONSTRUCTION DEVELOPMENT:TOWNSHIPS, HOUSING, BUILT-UP INFRASTRUCTURE	1,332	1,226	758	2	24066
TELECOMMUNICATIONS	304	1,307	2,895	364	17422
COMPUTER SOFTWARE & HARDWARE	486	1,126	2200	2273	17291
DRUGS & PHARMACEUTICALS	1,123	1,279	1523	159	13280
AUTOMOBILE INDUSTRY	1,537	1,517	2570	1007	13390
CHEMICALS (OTHER THAN FERTILIZERS)	292	878	669	150	10487
POWER	536	1,066	657	155	9712
METALLURGICAL INDUSTRIES	1,466	568	472	74	8621



Foreign Investment Policy Regimes in South Asian Countries

Areas	Bangladesh	India	Nepal	Pakistan	Sri Lanka	Bhutan	Maldives
Repatriation of Profits and tax on expatriates income	100% repatriation of capital and dividends is allowed	100% repatriation of capital, profits and dividend is allowed after payment of tax	100% repatriation of dividends and capital is allowed	100% repatriation of capital, dividend and profits is allowed	i) 100% repatriation of profits and dividend is allowed ii) expatriates income is taxed at a concessional rate of 15% for 5 years	100% repatriation of profits and dividend subject to approval	100% repatriation of profits and dividend
Minimum capital requirement	None	US\$2100	None	Agriculture and infrastructure: \$0.3mn	US\$500,000	Manufacturing: US\$1Mn Services: US\$0.5 Mn	Non
EPZ status	Yes, in some designated area	Yes, in some designation area	No	Yes, in some designated area	Yes, country-wide		
Protection of Foreign Investment	i) Guarantee against nationalization ii) International convention for settlement of industrial disputes	i) Settlement of disputes is governed by the Indian Arbitration Act 1940 ii) UN Convention for the recognition and enforcement of foreign arbitral awards	i) Guarantee against nationalization ii) Dispute settlement through mutual consultations and in accordance with the arbitration rules of UN Commission on International Trade Law	i) Guarantee against nationalization ii) Settlement of dispute through the International Commission on Settlement of Investment Disputes	i) Protection against nationalization under the bilateral investment agreements and constitutional guarantee ii) International Convention for the Settlement of Investment Disputes		
Outward direct investment	All foreign investment require prior approval	Overall limit of \$100 million in one financial year subject to approval. Investment by Indian nationals in Pakistan was not permitted under the approval route.	Nor permission is given for foreign investment for Nepalese citizens except by Only by government notice	All foreign investment require prior approval	All foreign investments require prior approval. Priority to investments which promote domestic exports	Strict controls on all foreign investments	Strict control foreign investment

Illustrative



Foreign Investment Policy Regimes in South Asian Countries

Areas	Bangladesh	India	Nepal	Pakistan	Sri Lanka	Bhutan	Maldives
Limits on foreign Equity Participation		Up to 51% in most industries; Up to 24% in small scale industries; and 100% in export-oriented industries, power, electronic and software technology parks. Investment from Pakistan remained prohibited until 1 September 2012	100% foreign owned or joint venture in all sectors, except for a negative list industries	100% in all sectors.	100% in all sectors	74% in all sectors. 100 per cent equity share allowance in selected sectors is permitted.	100 %
Fiscal Incentives	i) Tax holiday for 7 years ii) Tax exemption on royalties, interest on foreign loans and capital gains from the transfers of shares iii) 5% import duty on capital equipment and spare parts for initial installation	i) Income tax holiday of 10 year for EPZ firms and 5 year for other investors. ii) Access to finance for export-oriented industries at concessional interest rates iii) Tax relief under Avoidance of double taxation agreements iv) 10 year income tax holiday for firms located in EPZ.	(i) Corporate tax rate for export-oriented industries is 8% of profit or 10% of export earnings ii) Corporate tax rate for import competing industries is 20% iii) 2.5% duties on imports of M/E and spare parts iv) 5-10% duties on most industrial intermediate inputs refunded to export-oriented industries under the duty draw back scheme	i) No custom duty on imports of plant, machinery & equipment for export-oriented and hi-tech industries ii) zero import tariff on plant and machinery (not available locally) used for agriculture	i) Exempted from income tax on capital gains arising from share transfers ii) income tax??? iii) Duty draw back for export-oriented industries	Selective tax exemption	No specific incentives

Illustrative



Investment Scenario : Intra Regional Investments in South Asia

Majority of FDI inflows are outside of Region.

Intra regional FDI has been limited.

Intra-regional investment constrained by restrictive policies i.e. excluded sectors, equity restrictions, lack of sufficient protection for investors, underutilisation of bilateral investment treaties and lack of strategic promotion of intra-regional investment. (ADB and FICCI (2010).

However in recent past ,increase tendency in intraregional investment. In 2012 India invested US \$ 28 million in Bangladesh. Pakistan and Sri Lanka invested 9, 11 Million US \$ in Bangladesh.

Equity Financing : Total Equity Market size SAARC is US \$ 716204 Million.

India has the highest equity turn overvalue US \$ 690216 Million followed by Bangladesh (US \$ 10693 Million) and Pakistan (US \$13675 Million)

	Year	Top 5 Sources of FDI	Share of TOP 5 countries(%)	Share of Traditional OECD countries(%)	No of Identified source countries
India	2010-2011	Mauritius, Singapore,USA,Japan,Net herlands	65.4	27	100
Bangladesh	2010-2011	UK,USA,Hong Kong,South Korea and Egypt	61.3	51	44
Pakistan	2010-2011	USA,UAE,UK,Hong Kong and China	57.6	61	33
Nepal	2010-2011	India, China,South Korea, Japa and Canada	67	22	25
Sri Lanka	2010	USA,Malaysia,UAE	62	NA	NA

Intra Regional FDI Inflows in SAARC Countries (% of country total)

Invest. to:	India		Bangladesh		Nepal		Sri Lanka	
	2007-2008	2009-2010	2006	2010	2008-09	2009-10	2009	2010
India	0.00	0.00	0.52	14.96	43.72	43.89	19.33	28.74
Sri Lanka	0.54	0.31	0.00	0.44	0.00	0.00	0.00	0.00
Nepal	0.00	0.11	0.00	0.00	0.00	0.00	0.00	0.03
Maldives	0.02	0.09	0.00	0.00	0.00	0.00	0.07	0.37
Bangladesh	0.00	0.00	0.00	0.00	0.53	1.10	0.00	0.00
Pakistan	0.00	0.00	0.18	0.00	0.04	0.00	0.00	0.00
Bhutan	0.56	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Share of South Asia	1.12	0.50	0.70	15.41	44.29	44.98	19.40	29.13

Equity Market Size of SAARC Countries, 2012

SAARC Member	Number of Listed Companies	Market Value (\$ million)	Number of Brokers	Number of Stock Exchanges	Equity Turnover Value (\$ million)
Bangladesh	229	17,479	357	2	10,693.0
Bhutan	20	322	3	1	4.0
India	5,191	1,263,335	1,269	2	690,216.0
Maldives	6	504	4	1	0.1
Nepal	216	4,160	60	1	51.0
Pakistan	573	43,676	261	3	13,675.0
Sri Lanka	287	17,046	29	1	1,565.0
Total	6,522	1,346,523	1,983	11	716,204.0