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GLOBAL PROJECT FINANCE GUIDE 2026

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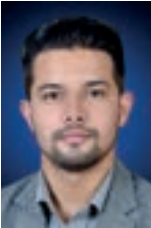
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A. Overview

1. What is the main legislation and international treaties governing the project financing in your jurisdiction?

The following legal instruments primarily govern project financing laws in Nepal:

The primary legal framework governing project financing in Nepal consists of the following domestic statutes, which regulate contract formation, security interests, foreign investment, and sector-specific obligations:

- 1. The National Civil Code, 2017 (“the Civil Code”);** Serves as the foundational law for property rights, the validity of contracts, and general principles of debt and security.
- 2. Public Private Partnership and Investment Act, 2019 (“PPPA”);** Provides the specialized legal framework for large-scale infrastructure development and the regulation of private investment in public projects.
- 3. Companies Act, 2006;** Governs the incorporation, corporate governance, and statutory obligations of the Special Purpose Vehicles (SPVs) typically used in project finance.
- 4. Nepal Rastra Bank Act, 2002 (“NRB Act”);** Establishes the authority of the Central Bank of Nepal (“NRB”) to regulate foreign exchange, master credit circulars, and the movement of capital.
- 5. Banking and Financial Institutions Act, 2017 (“BAFIA”);** Regulates the lending activities, statutory liquidity requirements, and debt recovery powers of commercial banks.
- 6. Foreign Investment and Technology Transfer Act, 2019 (“FITTA”);** Regulates the entry of foreign equity, the protection of foreign investors, and the repatriation of profits and dividends.
- 7. Secured Transaction Act, 2006 (“Secured Transaction Act”);** Modernizes the regime for creating and perfecting security interests in movable and intangible assets through a centralized registry.

8. **NRB Foreign Investment and Foreign Loan Management By-law, 2021 (“NRB Bylaws”)**; Sets the procedural mandatory requirements for approving offshore loans, interest rate caps, and the recording of foreign debt.
 9. **Environment Protection Act, 2019 (“EPA”)**; Mandates environmental impact assessments and compliance standards that serve as critical conditions precedent for project disbursement.
 10. **Insolvency Act, 2006**; Governs the procedures for corporate restructuring or liquidation and defines the priority of secured creditors during default.
- 2. How mature is the project finance market in your jurisdiction, and what are the most significant project financings closed during the last 12 months?**

Nepal’s project finance market has attained a notable degree of maturity in recent years. Foreign lending structures are now well tested, particularly in large hydropower and infrastructure projects, with mechanisms such as security trustees, direct agreements and multi-lender security arrangements having been implemented in practice. Nepali law and regulators have, in general, been accommodating of these structures, allowing project finance transactions to be structured broadly in line with international standards.

In addition, regulatory practice has evolved to address earlier constraints. For instance, NRB has introduced practical reforms in the foreign loan regime, including easing procedural requirements such as not requiring prior approval for each interest payment, which had previously created operational challenges. Similarly, insurance-related mechanisms such as assignment of reinsurance proceeds, direct payment structures and cut-through arrangements

in favour of security trustees have now been implemented and tested in recent transactions.

That said, certain structural challenges remain. In particular, proposals relating to dollar-denominated PPAs and hedging mechanisms have faced parliamentary and public opposition, and the commercial rationale of such structures has not fully resonated in the local context. As a result, a comprehensive and operational framework for allocation of foreign exchange risk has not yet been implemented. In addition, practical implementation issues persist, particularly in relation to delays in land acquisition and compensation, as well as delays in obtaining forest clearances and tree cutting approvals. Accordingly, while the market has matured significantly from a structuring and regulatory standpoint, execution risks at the project level continue to remain a key challenge.

Some significant project financings in the last 12–13 months in Nepal are:

- **Third Bridges Improvement and Maintenance Program (BIMP-III)**
In March 2025, the World Bank approved financing of \$150 million to strengthen Nepal’s bridge infrastructure, focusing on resilience, connectivity and maintenance of the strategic road network.
- **Electricity Distribution and Irrigation Projects (May 2025)**
In May 2025, the World Bank approved a combined financing package of \$257 million to improve electricity distribution services and irrigation systems. This represents one of the largest recent infrastructure-focused financing packages in Nepal.
- **Upper Seti Hydropower Project (216 MW)**
In August 2025, the Upper Seti Hydropower Project achieved financial

closure with approximately NPR 42 billion in financing led by Kumari Bank with participation from other domestic banks, marking a significant recent private sector hydropower financing.

- **Budhigandaki Hydropower Project (341 MW)**

In August 2025, the Budhigandaki Hydropower Project reached financial closure with approximately NPR 52.5 billion in debt financing from a consortium of Nepali banks and financial institutions, making it one of the largest recent domestic project financings.

- **Koteshwor Intersection Improvement Project**

In December 2025, JICA signed an ODA loan agreement of approximately JPY 34.49 billion (around NPR 31.7 billion) for the development of the Koteshwor intersection, representing a significant transport infrastructure financing.

B. Security Interest

3. What are the most commonly used security types in your jurisdiction? project financings

The most commonly used security types in Nepal's project financing regime are:

- **Mortgage: Over immovable property such as land and buildings. Non-possessory mortgage is very common in Nepal where the security grantor is entitled to use the mortgaged asset and the possessory right is transferred to the security beneficiary only in the event of the security grantor's default.**
- **Hypothecation: Over movable assets, especially for the purpose of working capital needs such as inventory management, raw materials, etc.**

- **Pledge: Security interest on movable assets such as share certificates.**
- **Assignment of rights: Security by assigning any or all rights in receivables, contracts leasehold rights) and instruments.**

4. Can the shares of a company be pledged as a security to the benefit of lenders? If so, is there a specific requirement in terms of formalities or procedure to be followed for establishing or perfecting a share pledge?

Yes, shares of a company can be pledged as a security to the benefit of lenders. Share pledge can be perfected through possession of the share certificate. Company law also mandates recording of the pledge in the shareholder's registry book. It is also a practice to have such shareholder's registry book certified from the Office of Company Registrar ("OCR") Perfection of shares in favor of the foreign lenders would also require prior approval from NRB.

5. Is private sale a recognized method for the enforcement of a share pledge? What are the endorsement types typically used for the share certificates?

Yes. Private sale is recognised in Nepal as a method of enforcing a share pledge. Under the Secured Transaction Act, a secured creditor may enforce security over shares through non-judicial means such as private sale, provided the security interest has been properly perfected, for example through possession (in the case of shares). In practice, lenders, particularly banks and financial institutions, may take possession or control of the shares and transfer them by private sale without court involvement, while judicial auction under the Civil Procedure Code remains an alternative route.

As to endorsement, Nepalese law does not prescribe a specific endorsement type for share certificates in the manner of negotiable instruments. Instead, enforcement is effected through corporate and contractual mechanisms, including the deposit of share certificates with the secured party, recording of the pledge in the shareholder register book and getting it certified from the OCR, and the grant of authority, typically through a power of attorney in favour of the security agent or secured party, to transfer the shares upon default.

6. Can security interest be established over future assets, rights and receivables of the borrower?

Yes, security interests can be established over future assets, rights and receivables of the borrower. Secured Transaction Act has provisioned security interest as a property right over collateral- even those arising in the future. This includes assets, rights, and receivables. However, security interests cannot be established over future immovable assets.

7. What are the steps to be taken by the lenders to enforce their security interest, in case the borrower becomes insolvent, is technically insolvent and/or commences composition process?

Under the Insolvency Act 2006, secured lenders are generally entitled to enforce their security interests notwithstanding the insolvency of the borrower. The commencement of insolvency or restructuring proceedings does not, in principle, restrict the secured creditor's right to enforce its security.

However, this position may be qualified where the secured creditor consents to a restructuring plan or votes in favour of such plan, or where a court issues an order restricting enforcement on the basis that

the restructuring should proceed and the interests of the secured creditor are adequately protected.

8. Is the security trustee concept enforceable in your jurisdiction? If not, is an alternative mechanism, such as a parallel debt, available?

NRB has allowed for security interests are collectively created in favor of a security agent/trustee through a circular and it is a tested structure tried across at least two hydropower transactions we have experienced. Nepali banks usually act as the security agent because enforcement of security, if required, is easier for Nepali banks and Nepali banks can fully utilize the remedies provided by BAFIA. One consideration to note is that prior approval from the council of ministers has been expected by regulators in our experience even though security is created in favor of Nepalese banks who are acting as a security agent for an on behalf of foreign lenders. Parallel debt structure is neither tried nor tested structure in Nepal.

C. Incentives and Restrictions

9. What are the main incentives and exemptions for project financing in your jurisdiction?

The principal incentives and exemptions applicable to project financing in Nepal are primarily fiscal in nature and are provided under the fiscal laws, and sector-specific regulatory frameworks, particularly for energy and infrastructure projects.

Under the Income Tax Act, 2002 significant tax incentives are available for renewable energy projects. Hydropower and other renewable energy projects (including solar, wind and biomass) are generally entitled to full income tax exemption for an initial period (typically up to 10 years), followed by a partial exemption (usually 50%) for a subsequent period of up to 5 years. In the case of reservoir and semi-reservoir

hydropower projects with a capacity exceeding 40 MW, and downstream projects operating in tandem, enhanced incentives are available, including 100% income tax exemption for the first 15 years and 50% exemption for an additional 6 years, provided financial closure is achieved within the prescribed statutory deadline (currently linked to mid-April 2029). In practice, such deadlines are frequently revised through annual Finance Acts.

Further, specific incentives are also available for emerging and strategic sectors. Green hydrogen production industries are entitled to a 100% income tax exemption for the first 5 years from commencement of operations. In addition, projects involving construction, operation and transfer of public infrastructure (including PPP projects and power generation, transmission and distribution projects) are eligible for a concession of 20% on the applicable income tax.

From an indirect tax perspective, project imports benefit from significant concessions. Equipment, machinery, tools, spare parts and raw materials required for generation, transmission and distribution of electricity may be imported on concessional terms, including VAT exemption and reduced customs duty (in certain cases as low as 1%), where such goods are not manufactured domestically and the project has obtained the requisite approvals from competent authorities such as the Investment Board Nepal or the Department of Electricity Development. Large hydropower projects achieving financial closure within prescribed timelines are also eligible for similar import-related concessions.

This is in addition to other forms of contractual and legal protection (such as change in law compensation, political risk allocation and force majeure relief) which are addressed elsewhere in this Q&A.

10. Are there any incentives or exemptions specifically applicable to foreign investors?

Yes, although this should be understood primarily in terms of protection and bankability rather than standalone fiscal incentives. Under FITTA, foreign investors are granted core protections such as protection against direct and indirect expropriation, repatriation of capital and returns, foreign currency convertibility, national treatment, and access to business visas, land use and industrial security. However, tax incentives are generally sector-driven and not granted solely on the basis of foreign status, being instead linked to the classification of the project under applicable laws and sectoral regimes.

From a project finance perspective, the more meaningful distinction arises in projects developed under the Investment Board Nepal framework. To date, such projects have largely involved foreign developers and foreign lenders. In these projects, concession agreements are heavily negotiated and specifically structured to enhance lender protection and overall bankability. A key feature is the ability to assign core project rights, including offtake agreements, licences, receivables and, in practice, leasehold interests over government-provided land, in favour of lenders or a security trustee.

In addition, direct agreements between lenders, the project company and relevant government authorities or offtakers are a central feature of these structures. These agreements provide lenders with step-in rights, cure rights and protection against termination.

Concession agreements also contain detailed allocation of political and regulatory risk. Change in law provisions are typically drafted to preserve the project's economic position by providing

mechanisms such as tariff adjustment, compensation, extension of time or other financial relief where legal or tax changes adversely impact the project. Similarly, force majeure provisions distinguish political events and allocate such risks to the government, with corresponding relief including cost compensation, time extensions and, where applicable, termination compensation.

In practice, these concession-based protections and direct agreement structures are a defining feature of foreign-financed, foreign-developed IBN-type projects and are typically required by foreign lenders as a condition to disbursement. Comparable protections are generally not present, or not required to the same extent, in projects financed solely by domestic lenders, where reliance is placed more on conventional security and local enforcement mechanisms.

11. Are there any restrictions for borrowing bank loans and shareholder loans from abroad and/or in a foreign currency?

Nepali entity may, subject to prior approval of NRB, borrow loans from abroad in foreign currency. Such loans must be approved in advance and recorded with NRB within six months of receipt.

Foreign loans from foreign banks and financial institutions are generally permitted, provided the lenders fall within the categories recognised by NRB. These loans are subject to prescribed conditions, including interest rate caps linked to international benchmark rates and minimum and maximum loan tenors (generally ranging from six months to fifteen years).

Shareholder loans are permitted in Nepal but are more closely regulated under NRB Bylaws. Such loans may be extended by foreign investors, parent companies or

group companies to a foreign-invested company, subject to prior approval and compliance with prescribed limits. In particular, the total exposure from shareholder loans is generally capped by reference to the paid-up capital of the borrower (commonly up to two times, subject to limited exceptions), and any additional borrowing is assessed on an aggregate basis against this cap. Interest rates are also regulated, with ceilings linked to internationally recognised benchmark rates (such as SOFR, SONIA depending upon currency denominations) plus a specified margin, and where multiple shareholder loans exist, the weighted average interest rate across all such loans must remain within the prescribed limits.

In addition, the by-laws recognise project-related advances in the context of construction and implementation of projects. In such cases, advances may be provided by a parent company or group company acting as contractor or supplier for project development, subject to NRB approval. These advances must be connected to project construction requirements, are typically linked to construction costs, and are required to be regularised and recorded as foreign loans under the approved structure.

12. Are there any restrictions for foreign investments in your jurisdiction?

Foreign investment by way of equity is restricted in Nepal under FITTA in certain sectors.

These include:

- (i) poultry farming, fisheries, bee-keeping, fruits, vegetables, oil seeds, pulse seeds, milk industry and other sectors of primary agro-production;
- (ii) cottage and small industries;
- (iii) personal service businesses (such as hair cutting, tailoring, driving, etc.);
- (iv) industries manufacturing arms,

ammunition, explosives and nuclear, biological and chemical weapons, as well as atomic energy and radioactive materials; (v) real estate business (excluding construction), retail business, internal courier services, local catering services, money changing and remittance services; (vi) travel agencies, trekking and mountaineering guides and rural tourism (including homestay); (vii) mass media (newspaper, radio, television and online news) and motion pictures in national language; (viii) management, legal, engineering and consultancy services, as well as training services; (ix) consultancy services with more than fifty-one percent foreign investment; (x) ride-sharing services with seventy percent or more foreign investment; and (xi) aviation-related sectors beyond prescribed foreign investment thresholds.

Foreign investment by way of loans is linked to the negative list applicable to equity investment as per NRB Bylaws. However, certain exceptions does exist. For e.g. Nepalese banks and financial institutions are permitted to obtain foreign loans for on-lending purposes in primary agriculture, and cottage and small industries which are restricted under equity investment.

13. Is there any minimum equity requirement, under the legislation or in practice, for project financings in your jurisdiction?

In the context of foreign investment, NPR 20 million (Nepalese Rupees Twenty Million) is the minimum threshold for foreign investment in Nepal, as per the Nepal Gazette notification on 14 November 2022. Such threshold is not applicable to equity investments in the information technology sector.

14. Please explain the registration and filing requirements which are applicable for project finance documents to be valid and enforceable in your jurisdiction.

According to the NRB Bylaws, foreign loans terms must be approved by the NRB. The borrower must also record the foreign loan amount within 6 months of foreign currency inflow. Land mortgage deeds must be registered at Land Revenue Office to ensure priority and perfection, and security interest must be filed at Secured Transaction Registry Office where filing is the mode of perfection.

D. Insurance

15. Can local insurance policies be governed by a foreign law?

While the Civil Code provides for party autonomy in selecting a governing law, applying foreign law to a Nepali insurance policy is rarely seen in practice. Local insurers generally resist such clauses, preferring the certainty and familiarity of domestic law.

16. Can insurance proceeds under the insurance and reinsurance policies be assigned to the benefit of the lenders?

Under Nepalese law and practice, the assignment of insurance and reinsurance proceeds for the benefit of lenders is a recognized and standard component of project finance security packages. In case of reinsurance this is structured through a Reinsurance Assignment Deed or an equivalent security document, where the borrower assigns its rights, title, and interest in the proceeds to a security trustee. To ensure that funds are not trapped at the level of the primary insurer, these arrangements incorporate loss payable clauses and cut-through provisions, facilitating direct payment from reinsurers into designated secured accounts.

Beyond the contractual framework, the enforceability of such assignments is also subject to regulatory approval. Specifically, the Nepal Insurance Authority (“NIA”) must provide formal approval for the direct payment of reinsurance proceeds to a lender or security trustee as per the Directive Related to Reinsurance Business (Management and Operation), 2019. Given the criticality of cash flow control in infrastructure and energy projects, obtaining this regulatory clearance is almost universally treated as a condition precedent to the first disbursement of the loan.

If the security structure involves payments to an offshore security trustee or a foreign currency account held abroad, prior approval from the NRB is highly recommended in advance.

17. What are the other complications, concerns or other issues in relation to the insurance provisions under the project financing documentation, if any?

In Nepal, insurance provisions in project financing transactions present certain practical and regulatory challenges despite the availability of assignment structures. A key issue is that direct payment from reinsurers to lenders or security trustees is not automatically recognised without specific regulatory approval. While cut-through clauses and direct payment mechanisms are contractually included, their effectiveness is contingent on approval from the NIA and NRB.

Further, where reinsurance proceeds are payable to accounts maintained by the security trustee especially in bank accounts abroad, approval from the NRB may be required. In the absence of such approvals, there is a risk that proceeds may be delayed or required to be routed through the local insurer, which can impact the intended cashflow control under the financing structure.

E. Financing of Public-Private Partnership (PPP) Projects

18. Is PPP a permitted method of developing projects, and if so, have any PPP projects been developed to date in your jurisdiction?’

Yes, PPP is a permitted method of developing projects in Nepal. PPP is governed by the PPPA.

Some notable PPP projects being developed are:

- **Arun-3 Hydro Electric Power Project**
- **Upper Trishuli-1 Hydropower Project**
- **Upper Marsyangdi-2 Hydropower Project**

19. Are direct agreements between the public authorities and the Lenders permissible under the local law, and if so, commonly seen in the Project Finance market in your jurisdiction?

Direct agreements between the public authorities and the lender is permissible under Nepali law and has been practiced since few years especially for PPP hydropower projects developed by foreign lenders.

20. Please indicate the types of host government supports (including treasury guarantee, debt assumption etc.) available in your jurisdiction.

Host government support in Nepal does not typically take the form of sovereign guarantees, treasury guarantees or debt assumption as a standard feature. Instead, support is primarily provided through contractual undertakings in concession agreements particularly in large infrastructure projects developed under the Investment Board Nepal (IBN) framework.

Government undertakes to procure the grant, renewal and maintenance of key

permits, licences and approvals required for the project, provided the project company complies with applicable legal requirements. This includes sectoral licences, environmental approvals, import permits, communication permits and other regulatory consents. In practice, this operates as a facilitation obligation whereby the government coordinates with relevant authorities to ensure timely issuance and continuity of approvals.

It should be noted that such structured and centralised support is most developed in IBN-led projects, where IBN acts as both facilitator and implementing agency and assumes a coordinating role across government entities.

A further structural consideration relates to revenue and offtake risk. In the power sector, reliance on a single state-owned offtaker has historically raised bankability concerns, particularly in the absence of explicit payment guarantees. Proposals such as dollar-denominated power purchase agreements and hedging mechanisms have been explored to mitigate foreign exchange and payment risk, but have faced regulatory and policy scrutiny, including review by parliamentary committees and oversight bodies. Accordingly, host government support in Nepal is best understood as a negotiated, concession-based risk allocation framework rather than a guarantee-based regime.

21. Are political risk events usually under the responsibility of the public party or the private party under the PPP agreements?

Under PPP agreements in Nepal, political risk events are generally allocated to the public party (i.e., the Government of Nepal), although this allocation operates within a structured contractual framework rather than as an absolute transfer of risk. In concession agreements and PDAs, events

such as politically motivated strikes, riots, civil commotion, insurrection, state of emergency and similar disturbances are typically classified as GON force majeure events, provided they are beyond the reasonable control of the affected party and materially affect performance.

In such cases, (i) the private party is entitled to relief, primarily in the form of suspension of performance and extension of time; (ii) both parties are subject to a duty to mitigate, with the government often required to provide reasonable assistance to facilitate resumption of project operations; and (iii) the private party may be entitled to recover additional costs and, in certain cases, loss of revenue, subject to compliance with contractual procedures such as notice, substantiation and mitigation. However, compensation is not automatic and is typically structured through mechanisms such as set-off, royalty adjustments or reimbursement, and termination is permitted only as a last resort in cases of prolonged force majeure.

22. Are investors and lenders usually protected against a change in law passing subsequent to the signing of the relevant concession agreement?

Investors and lenders in Nepal are generally afforded protection against changes in law through a combination of statutory guarantees and contractual risk allocation under concession agreements. While Nepalese law does not provide a single, comprehensive stabilization regime akin to some jurisdictions, certain sectoral statutes and, more importantly, project agreements provide meaningful protection in practice.

Under the Industrial Enterprises Act, 2076, a form of statutory stabilization is available in respect of incentives, exemptions, facilities and concessions granted to industries. The Act provides that no subsequent legal provision shall reduce such benefits once

granted, although additional benefits may be introduced. It also ensures continuity of benefits across legislative transitions, particularly where an industry was registered under earlier laws. However, this protection is limited in scope and applies primarily to fiscal and regulatory incentives rather than broader legal or economic changes affecting project performance.

Accordingly, in project finance transactions, the principal protection against change in law is typically derived from concession agreements. These agreements contain detailed and lender-oriented change in law provisions, which go significantly beyond the general statutory framework.

In particular:

- (i) change in law is expressly defined and includes both general legal changes and specific changes in tax affecting the project, its sponsors, lenders or contractors;
- (ii) the project company is entitled to relief where such change adversely impacts project costs, revenues or tax liabilities, including recovery of additional costs and loss of revenue;
- (iii) contractual relief mechanisms include extension of time for performance, monetary compensation, and tariff or royalty adjustments, as well as the possibility of tax exemptions or other governmental measures to restore the project's economic position;
- (iv) where compensation is not fully provided, the concession term itself may be extended to enable the project company to recover its losses; and
- (v) termination is only contemplated as a last resort, typically in cases where the effects of change in law persist for a prolonged period (for example, beyond twenty-four months) and materially prevent continued performance.

In addition, concession practice in Nepal often incorporates elements of economic equilibrium, ensuring that the project company is placed, to the extent possible, in the same financial position as prior to the change in law. This is reinforced by structured compensation mechanisms, including set-off against government dues, royalty reductions, or direct reimbursement.

23. Is force majeure specifically regulated under the local legislation?

Civil Code treats events beyond human control (such as floods, landslides, earthquakes, etc.) as a fundamental change in circumstances permitting non-performance of contractual obligations. In effect, this operates similarly to the doctrine of frustration, whereby contractual performance may be discharged. However, this default position is not particularly suitable for project finance transactions, where continuity of performance is critical and outright discharge is generally avoided.

Accordingly, in practice, force majeure is primarily governed by concession agreements, which contractually displace or refine the Civil Code position.

Under such agreements:

- (i) force majeure events are specifically defined and subject to qualification criteria, ensuring that not all unforeseen events automatically trigger relief;
- (ii) the project company is required to promptly notify the relevant government authority of the occurrence and impact of the force majeure event;
- (iii) both parties are typically subject to a duty to mitigate, with the government often required to provide reasonable assistance to enable resumption of project operations;

- (iv) the primary contractual reliefs include suspension of performance and extension of time, rather than discharge of obligations; and
- (v) termination is treated as a measure of last resort, generally permitted only after prolonged force majeure and failure of mitigation efforts.

24. What are the general environmental and social requirements in project financings?

The Nepalese regulatory framework in relation to environmental and social requirements in project financings is not contained in a single ESG statute. Rather, it is spread across a number of laws and project documents, including the Environment Protection Act, 2076 (2019) and the Environment Protection Rules, 2077 (2020), the Forest Act, 2076, the Labour Act, 2074, the Industrial Enterprises Act, 2076, and, for large concession-based infrastructure projects, the relevant concession agreements. In practice, Nepal's regime focuses on environmental clearance, forest and land-use restrictions, resettlement and community impacts, labour and occupational safety, and certain mandatory community-benefit measures.

Under the environmental legislation, projects are generally required to obtain approval of the applicable environmental study report, which may take the form of a brief environmental study, initial environmental examination (IEE) or environmental impact assessment (EIA) depending on the nature, scale and thresholds of the project. As part of that process, public notice and comment, impact identification, mitigation measures and ongoing compliance obligations are built into the approval framework. Where forest land is used or trees are felled, separate forest-law compliance is also required. In practice, this has included

compensatory plantation / afforestation obligations and, following recent amendments to the forest regulatory regime, a more structured system for use of forest land for nationally significant and IBN-approved projects, including compensation and maintenance-related payments through the forest framework.

On the social side, Nepalese law and project practice go beyond generic corporate responsibility language. The Industrial Enterprises Act, 2076 requires qualifying industries to set aside at least 1% of annual net profit for corporate social responsibility in specified sector such as health, education.

In addition, current concession practice in major hydropower projects shows that project documents themselves often import a more detailed E&S package. They require compliance with the EIA/ IEE and agreed performance standards, and specifically mandates a Local Benefit Sharing Plan, Resettlement and Rehabilitation Plan, Occupational Health and Safety Plan, Employment and Skills Training Plan, Nepal Industrial Benefits Plan, a community-level grievance mechanism, periodic E&S reporting, and, in that sector, issuance of 10% local shares to project-affected families and local residents in the project area.

F. Jurisdiction, Waiver of Immunity

25. Are submission to a foreign law and the waiver of immunity provisions enforceable?

Yes, submission to foreign law and waiver of immunity provisions are enforceable. Developers negotiate them and such waiver-clauses are found in concession agreements.

26. Can financing documents provide for arbitration clauses?

Yes, Nepal's law does not restrict financing documents to have arbitration clauses. In case of security agreements, it is advisable to use local courts as a forum so that security enforcement can be undertaken swiftly. Arbitration is also used as a dispute settlement mechanism in concession agreements.

G. Trends and Projections

27. What are the main current trends in project financings in your jurisdiction?

The main current trend in Nepal is that project financing continues to be driven primarily by hydropower and core infrastructure. Recent financings show a combination of large sovereign and multilateral-backed transactions, such as the World Bank financings for bridges, electricity distribution and irrigation, alongside sizeable domestic-bank-led hydropower financings.

A second trend is the increasing normalization of more sophisticated project finance structures. Direct agreements, security trustee arrangements and BOOT-style concession structures are becoming more entrenched in the market. This is reflected in recent IBN approvals relating to the Arun-III direct agreement and the continued advancement of the Lower Arun project under the IBN/SJVN framework, showing that foreign lender protection mechanisms and concession-based bankability structures are now more accepted than before.

A third trend is regulatory easing in relation to foreign investment and foreign loan administration. Recent NRB amendments indicate a shift away from an approval-heavy approach towards greater reliance on licensed banks and post-transaction

supervision, including relaxation of some prior approval requirements for foreign investment inflows and repatriation.

At the same time, there is a parallel trend of tighter prudential scrutiny over project lending, particularly hydropower exposure in the banking sector. NRB and market commentary indicate growing concern over concentration risk, stalled projects and provisioning discipline, meaning that although project financing is expanding, lenders are becoming more selective and risk sensitive.

28. Are any significant development or change expected in the near future in the project finance market?

Yes. In the near future, Nepal's project finance market is expected to evolve through a combination of sectoral prioritisation, regulatory liberalisation and reform in risk allocation structures.

A key development is the strategic shift in the energy sector towards storage-based hydropower and hybrid renewable systems. The Government of Nepal is prioritising reservoir and pumped storage projects to address seasonal imbalances in electricity supply, with large-scale projects such as Dudhkoshi setting the benchmark for future financings. In parallel, the regulatory framework has begun to recognise the higher cost structure of such projects, with differentiated PPA tariffs introduced for reservoir-based hydropower, allowing developers to factor in financing costs and foreign exchange risks. There is also a growing push towards solar and hybrid models, with solar integration being promoted to complement hydropower generation and stabilise the grid.

A second important trend is regulatory liberalisation in foreign investment and foreign loan administration. The Fifth Amendment to the NRB Bylaws reflects a move towards a less approval-driven

regime. It removes the requirement for prior approval for certain equity inflows, allows commercial banks to approve repatriation of dividends and disinvestment proceeds, and introduces limited outward investment flexibility for Nepali companies. For project finance transactions, this is expected to reduce transaction friction and facilitate more efficient structuring of cross-border investments, including the use of offshore SPVs.

A third development relates to refinement of bankability in power purchase arrangements. Recent policy debates around transitioning to a “take-and-pay” model have led to market uncertainty; however, this approach has been partially reversed, with “take-or-pay” structures continuing for smaller hydropower projects and export-oriented projects. This indicates a continued recognition by the government of the importance of bankable offtake arrangements for attracting private and foreign investment.

Further, there is an emerging policy focus on introducing new procurement and financing models for infrastructure projects. Investment Board Nepal is currently working on procedures for the Swiss Challenge method for unsolicited proposals and the Hybrid Annuity Model for roads and bridges. These models are expected to enable greater private sector participation while sharing early-stage construction and revenue risks between the government and private developers.

At the same time, large-scale infrastructure such as airports, roads and bridges is likely to continue being financed primarily through sovereign borrowing and multilateral support, rather than pure limited recourse project finance structures.

29. What are the alternative reference interest rates which are being commonly used in your jurisdiction during the LIBOR transition period?

In light of the global cessation of LIBOR, Nepal has transitioned to a specific set of risk-free reference rates (RFRs) as mandated by the NRB. For new foreign currency loans and the renewal of existing ones, the alternative reference interest rates commonly used in this jurisdiction are currency-specific: SOFR (Secured Overnight Financing Rate) for USD, SONIA (Sterling Overnight Interbank Average Rate) for GBP, SARON (Swiss Average Rate Overnight) for CHF, TONA (Tokyo Overnight Average Rate) for JPY, and €STER (Euro Short-term Rate) for EUR.

For legacy contracts that transitioned after December 31, 2021, the NRB permits the use of these new benchmarks in conjunction with a Credit Spread Adjustment (CSA). Specifically, if a fallback provision was in place or if the parties mutually agree to switch from LIBOR to one of the new RFRs, an additional all-in-cost margin of up to 50 basis points may be added to the previously approved LIBOR-based margin to account for the structural differences between the rates.