

Cost of Benefit Sharing to private developers of hydropower projects in Nepal

Dr. Dhruba Bhandari
Samriddhi, The Prosperity Foundation

What is benefit sharing?

- Sharing of long term benefit to affected locals, in addition to one time compensation for their land.
- Reason: One time compensation for the land is not enough for locals for what they have to give up: land, access to forest, access to irrigation, access to fishery etc.
- Examples of Benefit sharing: Free electricity, employment, equity, infrastructure like roads, schools, health clinic etc.

How benefit sharing works?

- Rent or profit from hydropower is captured either through taxation or royalty and is redistributed to the affected locals by the government
- Norway uses taxation mechanism.
- Japan has both one time compensation of land and also the land is leased from locals till the life of the project.
- Brazil uses the royalty mechanism for benefit sharing.

Why benefit sharing is problem in Nepal?

- Private developers are required to pay energy royalty to the government (if size is greater than 1 MW), ideally this should take care of benefit sharing issues
- Since the royalty provision has not worked, locals expect developers to provide basic infrastructure and services
- Ballooning of locals to demands and repeated halts in construction and operation of project if the demand is not met

Examples of Benefit Sharing in Nepal

- Khimti- provided schools, road, irrigation during its construction phase. Now locals demand equity
- Bhote-koshi- After 13 years of operation the company had to provide 6% equity to locals due to local demand and halt to blocking the building of transmission lines
- Upper Tamakosi- 10% equity was allocated but locals feel this is not enough, they want more.

Method of the study

- Use of the survey data.
- Sample size= 10 projects (6 small (less than 10 MW), 4 medium (20-60 MW))
- Questions: Demands from locals, causes and agents of halts, duration of halts, where do benefit sharing rank among other causes of time and cost overrun
- Cost of benefit sharing to developers= Direct cost + Forgone revenue + Remobilization cost after the halt to meet the schedule

Findings

- All developers in our survey faced demands from locals
- 7 developers faced halts, 1 not yet, 2 No
- Common demands faced by developers: Road, Health Clinic, School, Employment, Irrigation and equity (ranging from 5-10%)
- Top agents involved in halt of projects: Local people, local youths with frequently changing party loyalty, Political leaders, Local dons/goons, Employee
- Top causes of halt of projects: Relocation compensation, Environmental damage, local politics, Unreasonable benefit sharing expectation, Lower standard of living and lack of alternative means of wealth generation

Cost of Benefit Sharing

Type of Project	Average Direct Cost (Million NRs)	Average Forgone Revenue (Million NRs)	Average Remobilization Cost (Million NRs)	Total Cost (Million NRs)
Small	4.96	17.61	6.72	29.29
Medium	18	166.04	-----	184.04

Financial Feasibility of Projects

Type of Project	Feasible percentage of total budget	Feasible Amount (Million NRs)	Direct Cost of Benefit Sharing (Million NRs)	Total Cost of Benefit Sharing (Million NRs)
Small	2	10	4.96	29.29
Medium	0.5	50	18	184.04

Conclusion

- Lack of clear benefit sharing regulation is adding the cost of doing business
- New policy should take into account- size, budget, feasibility and source of funding to be spent on benefit sharing instead of one size fits all regulation.
- Other problems like: PPA, Extension of generation License, One-stop policy also should be pushed together with benefit sharing issues
- Local government should be empowered to handle to issues of benefit sharing and to provide security

Thank You.