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

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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

<table>
<thead>
<tr>
<th>Type of Project</th>
<th>Average Direct Cost (Million NRs)</th>
<th>Average Forgone Revenue (Million NRs)</th>
<th>Average Remobilization Cost (Million NRs)</th>
<th>Total Cost (Million NRs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small</td>
<td>4.96</td>
<td>17.61</td>
<td>6.72</td>
<td>29.29</td>
</tr>
<tr>
<td>Medium</td>
<td>18</td>
<td>166.04</td>
<td>--</td>
<td>184.04</td>
</tr>
</tbody>
</table>
# Financial Feasibility of Projects

<table>
<thead>
<tr>
<th>Type of Project</th>
<th>Feasible percentage of total budget</th>
<th>Feasible Amount (Million NRs)</th>
<th>Direct Cost of Benefit Sharing (Million NRs)</th>
<th>Total Cost of Benefit Sharing (Million NRs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small</td>
<td>2</td>
<td>10</td>
<td>4.96</td>
<td>29.29</td>
</tr>
<tr>
<td>Medium</td>
<td>0.5</td>
<td>50</td>
<td>18</td>
<td>184.04</td>
</tr>
</tbody>
</table>
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.