

KEY HIGHLIGHTS

Benefit Sharing and Sustainable Hydropower in Nepal

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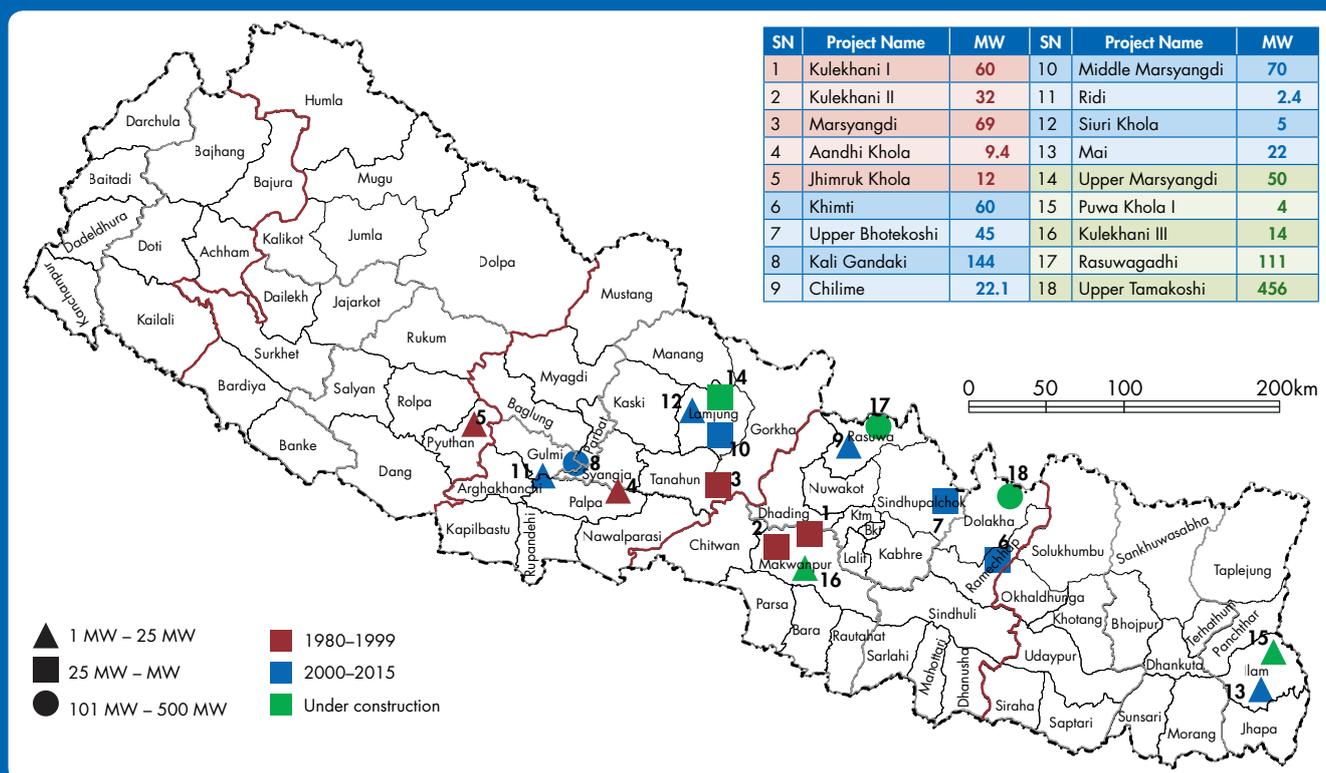
Mountains offer ideal conditions for the development of hydropower, but the uneven distribution of benefits from project development can create friction and development disputes between communities and project developers. How can hydropower projects be designed and implemented in such a way that affected communities derive benefits beyond mere compensation and mitigation? Is there any evidence that benefits can be shared fairly and equitably with mountain communities? These questions are particularly important for Nepal, where despite immense hydropower potential only a fraction has been developed. The objective of this report is to document the various benefit-sharing practices in Nepal by developing a comprehensive typology of the benefit-sharing mechanisms that have evolved in the country over the last four decades and critically analysing each of these mechanisms in terms of what works, what doesn't, and what can be done to fine-tune these mechanisms to better suit mountain communities.

In the global context, the topic of 'benefit sharing' has become an increasingly common theme in debates surrounding sustainable hydropower development and the management of water resources. The existing literature defines 'benefit sharing' as separate from compensation and mitigation. Compensation and mitigation are zero-sum activities, as people are only compensated for their loss, whereas benefit sharing is increasingly defined as going beyond mitigation and compliance to a situation where local affected population directly benefit from the project.

Types of benefit sharing mechanisms in Nepal

In Nepal, despite the slow pace of hydropower development, a diverse array of benefit-sharing modalities have emerged that are unique to the Nepali context. This study looked at 18 hydropower projects of different sizes, ownership types, and phases of development distributed across Nepal, including 13 operational projects (representing about 70% of Nepal's total generation capacity as of January 2016) and five under construction.

Geographic location of hydropower Projects Selected as Case Studies



The data collection methodology focused on the principle of triangulation between differently positioned stakeholders – hydropower developers, government officials, and local beneficiaries and affected populations – with data collected from 317 respondents to capture the diversity of perspectives that exist. For the purpose of this study, we have grouped the diverse models and practices of benefit sharing into five main types, as mentioned below.

1. The royalty mechanism

The royalty mechanism is the single most formalized benefit sharing policy in the hydropower sector and is applied uniformly across all projects generating electricity in Nepal. Based on the prescriptive right given to hydropower projects by the government and prevailing laws, the Government of Nepal collects royalties for the use of water resources from hydropower projects and distributes some of these to communities (affected and non-affected) through local governments. Issues arise due to a lack of clarity in the redistribution of royalties to project-affected villages and uneven distribution when the project is located in two or more adjoining districts.

2. Equity investment: Local share offers in hydropower projects

In recent years, several hydropower companies have conducted equity or 'share' offers allocating a percentage of these shares to local citizens. This market-based strategy of benefit sharing is commonly presented in Nepal as a win-win scenario: a strategy of project capitalization for developers, financial benefits (if profitable) for local populations, and a means of aligning incentives among stakeholders to avoid costly conflicts and contestations. Equity share in hydropower projects for local citizens is a rather unique and innovative mechanism designed in response to the contested nature of foreign investment in hydropower in Nepal and the pronounced demand from local citizens to own shares in hydropower projects. Issues affecting the 'shares' include the lack of uniform legal requirements for different ownership models of hydropower and the lack of knowledge about shares among local citizens.

3. Support for local livelihoods: Employment and trainings

One of the most articulated local demands, primarily during the construction of hydropower projects, is

employment. The majority of local hiring is typically unskilled and casual labour, hired through the project contractor(s), or as drivers or entry-level office staff by project developers. Our analysis indicates that the allocation of these jobs often depends on existing socio-political hierarchies. Trainings, as another important feature of benefit sharing programmes, support local livelihoods over the long term by preparing locals for more skilled jobs with the hydropower project, promote new kinds of economic opportunities within the local economy, and allow trainees to enter new markets beyond the project area. However, our research indicates that patterns of employment and training reflect a significant gender imbalance.

4. Community development, local infrastructure, electrification and water-related benefits

The practice of investing in community development and local infrastructure, though not obligatory, is the most commonly cited example of benefit sharing and is implemented by hydropower developers as a means of gaining social acceptability. In nearly all the case studies, respondents identified contributions in the sectors of health, education, and infrastructure as evidence of the benefits of

hydropower development. Electrification is another major demand by local communities, and some hydropower projects provide electricity to locals through the community rural electrification model. Similarly, many projects also provide water-related benefits, such as provision of water for irrigation, drinking, and religious purposes. The distinguishing line between mitigation and benefits is often blurred when looking at these types of benefits.

5. Environmental enhancement related benefits

Currently, many hydropower projects in Nepal focus only on compliance with formal requirements as per the Government of Nepal's environmental laws and do not go beyond mitigation efforts to improve or enhance the environmental conditions to the point where they could be classified as benefits. Although mechanisms for payment for ecosystem services (PES) have been initiated, they have not been fully implemented. Our research shows that monitoring is weak, and it is also not entirely clear if the legal requirements for environmental mitigation are actually met. Environmental flows and water for other productive uses seems to be the biggest victim of the lack of proper monitoring.





Benefit sharing as an ongoing 'process' in Nepal

Although 'benefit sharing' as a formal concept is relatively new in Nepal, our analysis of the hydropower sector indicates that a variety of models and practices of benefit sharing have evolved with efforts to promote hydropower development over time, reflecting a series of unique innovations and solutions emerging from the process of negotiation with different stakeholders. Despite its complexity, our research suggests that the field of benefit sharing practices is trending toward coherence. Thus, although it would be inappropriate to create a 'one-size fits all' policy, the time has come to establish a more comprehensive policy framework addressing the concerns of all stakeholders.

Chronic failures of governance, including the lack of elected local government, remains a significant impediment to the implementation of benefit sharing and other policies related to hydropower development. This exposes hydropower developers to the just and unjust demands of local populations who feel that their voices have long been ignored. Given the current situation, innovations in benefit sharing by hydropower developers are laudable efforts to promote community development, but it also exposes unnecessary risks leading to a perverse incentive problem.

Further, environmental issues must be considered within larger decision making about water resources management and within the global paradigm of the water, food, and energy nexus. In the current political

and economic climate, resolving the energy crisis in Nepal is indeed important, and environmental impacts are inevitable, but it is also important to establish clear standards for the management of environmental risks, especially long-term risks related to environmental degradation, natural disasters, and the uncertain effects of climate change in the Hindu Kush Himalayan region.

Lastly, it must be acknowledged that benefit sharing is not a panacea to solve all the issues of hydropower development in Nepal. Finding an appropriate mechanism for sharing benefits requires balancing the competing interests and agendas of differently positioned project stakeholders.

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Photo: pp 1, 3 - Padmendra Shrestha; p 4 - Jitendra Raj Bajracharya

ICIMOD gratefully acknowledges the support of its core donors: the Governments of Afghanistan, Australia, Austria, Bangladesh, Bhutan, China, India, Myanmar, Nepal, Norway, Pakistan, Switzerland, and the United Kingdom.