Water, Water Everywhere…but Will Everyone Have a Drink?

Christopher Butler

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The elder bank executive looked me straight in the eye and said, "We have two choices. Energy comes from two places... the heaven or the hell. Water comes from heaven. Coal and oil come from hell." He folded his hands and sat back in his chair. To him, there was nothing left to talk about. In today's setting of climate change, load shedding, and the need for economic development in Nepal, the logic of hydropower was unassailable: a renewable source of energy with little to no emissions that could be used not only for electrifying rural parts of the country, but also to generate revenue for infrastructure projects throughout Nepal.

The bank executive had even more reason to feel satisfied. The time for developing large hydropower has never been more positive. In April 2013, the World Bank officially changed its position after nearly 20 years, rebranding big dams as "green energy" and renewing its commitment to make funding available for construction. For those who still bitterly remember the controversy around Arun III HEP, the World Bank's about face was as surprising as it was welcome. In this article, I will not cover any new ground with regard to large hydropower development in Nepal: the readers of this journal are far more experienced than me. Rather, I wish to explore a recurring question I have heard people ask during several interviews in my research: Will strong investment in a single resource help or hinder Nepal's overall development? Let's discuss the issue here in brief.

Is there a reason for Nepal to fear "single resource curse"? Certainly no one doubts the potential for large hydropower to generate significant revenue for Nepal, but how certain are we that this revenue will be distributed in such a manner that delivers benefits to the widest swath of Nepalis possible? Of course, there is no mandate for equal distribution of profits; however, most people with whom I've spoken have expressed serious concerns as to how the benefits of large hydropower will be used to enrich not just those who invest directly or receive electricity, but those whose low standard of living and lack of access to social opportunities prevent them from contributing to the economy. The lessons learned from primary-resource wealthy countries could be instructive.

Research has shown that economic development arrives more slowly or is less successful in primary-resource based economies. Perala (2003) has argued that, with very few exceptions, countries suffering growth failure have relied on a primary resource for a substantial portion of the national income. Oil-producing countries (e.g., Saudi Arabia, UAE, Qatar) have escaped this definition due only to rising fuel costs, and yet in terms of UNDP human development they still rank very low. So, why does resource wealth, contrary to expectations, result in underdevelopment in those countries?

Part of the answer lies within the set of institutions responsible for distributing benefits and providing channels and incentives for the population to capitalize on the arrival of newfound revenue. Acemoglu and Robinson's (2012) recent book points to the importance of the political institutions that determine economic institutions in a country. They theorize that political institutions can be divided into either "extractive" or "inclusive" institutions. "Extractive" institutions, as the name implies, tend to create economic institutions that seek short-term gains to enrich a small group of elite individuals. In the case of Nepal, the potential benefits of hydropower, Acemoglu and Robinson might argue, could be captured by small percentage of the population. "Inclusive" institutions, on the other hand, engage a deep and deliberative democratic process, which can generate economic institutions that create incentives, reward innovation, and allow more people to participate in economic activities. If economic growth is greater, and more widely distributed, and the political institutions are inclusive, then, the argument goes, the population can better act to see that newly-gained state revenue is used to provide social safety nets and infrastructural development that benefit all citizens. How would we characterize Nepali state institutions at the moment?

But there is another reason to be mindful of primary-resource dependency. If Nepal pursues electricity for export, the power generated will be subject to global market forces which- in the case of energy trading-have been recently marked by precipitous rises and falls. Too many eggs in one basket would mean that the Nepali economy would suffer the same fate. Wide vacillations in revenue are not amenable to sustaining long-term economic growth. A secondary, but related, concern is "Dutch disease," when a sharp rise in windfall revenue from exporting a resource can trigger a contraction in the output of non-resource sectors. Stevens (2003) found that soaring oil revenue in OPEC countries raised the prices of non-traded goods such as land and labor, while at the same time, running down the prices of traded goods. As a result of poor profits, many people left those ancillary industries and when oil prices fell, OPEC countries did not have other sectors of the economy to help them weather the storm. I think the lesson here is that no matter how important or attractive hydropower becomes, it will always be important for state institutions to be mindful of pushing diversification in the economy.

People may argue that water is not like oil or coal or another type of mineral. Unlike oil or carbon, which is finite, water is renewable and will continue to flow as long as there are snow and rain in the Himalayas. I am not a scientist and I cannot tell you much about climate change. But I do know that the unpredictability of weather patterns and the global economy's continuing reliance on fossil fuels suggest that we should not make assumptions on any resource being infinitely renewable and/or reliable.

You can reasonably argue that this essay is looking too far down the road. You might say that the challenges of power transmission, cross-border politics, and stability in Singha Durbar are far more pressing issues. I would agree. However, as hydropower development moves forward, if it is to satisfy Nepal's desire for long-term and sustainable development, the hydro industry, the state, and the public will need to keep an equally long-term view of the institutions and economic forces that will determine how many Nepalis will be able to drink from this new found resource.

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03 - 04 September, 2013: Myanmar Energy Investment Summit Organizers: Confexhub and BOZEC International, Email: gael.bozec@bozecinternational.com URL: www.myanmarenergyinvestmentsummit.com

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26 - 28 September, 2013: BIT's 3rd New Energy Forum 2013 Xi'an, Location: China Organizers: Organizing Committee of NEF-2013, BIT Congress Inc, Email: Ashley@lcesummit.com URL: www.bitcongress.com

02 - 04 October, 2013: Renewable Energy World Asia, Location: Bangkok, Thailand Organizers: Penn Well Publishing UK Ltd, Email: rlogan@pennwell.com URL: www.renewableenergyworld-asia.com

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17 - 20 October, 2013: GREENEXPO/ Alternative Energy Location: Ukraine Organizers: ESHA, Email: ben.dewitte@esha.be , URL:www.euroindex.ua

20 - 23 October, 2013: International Conference on Renewable Energy Research and Application (CRERA), Location: Madrid, Spain. Organizers: ICRERA, URL: www.icrera.org

24 - 25 October, 2013: Local Renewables 2013 Conference Freiburg Germany, Organizers: ICLEI, URT: www.localrenewables-conferance.org

15 - 16 October, 2013: REF2013 (5th International Renewable Energy & Energy Efficiency Forum), Location: Kiev, Ukraine, Organizers: Tatyana Ignatenko, Head of Industry Events Department, Email: tatyana.ignatenko@rencentre.com

16 - 18 October, 2013: 5th International GREENEXPO / Alternative Energy Trade Show Location: Kiev, Ukraine, Organizers: Elena Liashenko, Email: liashenko@eindex.kiev.ua , URL: www.greenexpo.kiev.ua

24 - 26 October, 2013: CREC2013 (Chinese Renewable Energy Conference & Exhibition) Wuxi Taihu International Expo Center, Location: China, Organizers: China Council for the Promotion of International Trade, Wuxi Branch, Email: zhouting@crecexpo.com, URL: www.crecexpo.com

14 - 20 September, 2014: 22nd International Congress on Irrigation and Drainage, Location: Gwangju Metropolitan City, Republic of Korea. E-mail: kcidkr@gmail.com, kcid@ekr.or.kr, Website: http://www.icid2014.org

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