

# Hydropower Development in Nepal: Five Month Reflections

Christopher Butler



It's been my privilege and pleasure to serve as an editor for *HYDRO Nepal* Journal for the July 2013 issue and this one you're currently reading. I am in Nepal studying the negotiations around the Upper Karnali dam as well as how the terms of negotiation are communicated and dispersed at the local levels. To prepare for this research, I've been spending time talking with hydro-related professionals in the private sector, civil society, and the government. To date, I've conducted more than 70 interviews and attended several conferences related to hydropower and water more generally. The *Hydro Nepal* masthead has asked me to share some research reflections in the hope it might shed some light on the current state of hydropower development in Nepal.

I have made ten visits to Nepal in the last thirteen years, spending, in aggregate, more than two years living in country. But I have only been studying hydropower for a year. I am far from an expert. I am not even a hydropower specialist per se; I am a sociologist who studies development and social movements, both of which relate strongly to hydro development in Nepal at this moment.

When people talk about hydro development, I only hear the word "development." When people talk about strengthening Nepal's energy resource base, I hear people attempting to lift Nepal's economic future by providing a foundation for industry and consumption. When people talk about achieving greater energy independence from India, I hear people calling on a proud identity as Nepali, eager to see the nation stabilize and prosper. Lately, I have been grouping the concerns of hydro development as follows:

## Entry into Global Market

From February 1951 when King Tribhuvan and members of the Nepali Congress returned to cheering crowds in Kathmandu, Nepal has moved surely, if slowly, toward greater liberalization of its markets and economy. By formally introducing popular-based governance in the form of a legislature, King Tribhuvan, perhaps unknowingly, ushered in a new era in which Nepal would take on a more active and intentional economic relationship with its neighbors, particularly India. However, since that time the economy has remained strongly state-centered as policy decisions and the vast majority of spending has come through Singha Durbar, the administrative center of Nepal.

The German sociologist Max Weber argued that if complex societies are to live in peace and harmony, bureaucracy represents the most efficient way to address the needs of the citizenry. However, Weber also wrote, bureaucracies develop qualities that, ironically, create inefficiencies and tend to concentrate power and resources in a few offices. At best, bureaucracy seems like a necessary evil.

In more recent times, the market place has been an oft-suggested remedy for bureaucracy. Indeed, the cries at the 2013 IPPAN Power Summit suggest as much. It seemed that every session including a long list of questions and comments from the audience that challenged the ability of the government to develop hydropower at a pace sufficient for Nepal's present needs. The government officials present at the conference had a weary look to them, as if to say they understood the complaints but that the nature of bureaucracy (and politics, more generally) prevented them from acting more strongly. The collective comments of the developers could be summarized in one word: "bankability." In other words, developers and investors understood

that hydro represented an opportunity to make money while providing Nepal with a much-needed product (electricity), but the current state of policy and politics made those projects too risky and thus unfeasible.

As hydro projects become more "bankable," money will start coming from abroad. And it's important to note that the market place and capital, while arguably quicker to act, do not have loyalty to the public in the same way that civil servants working in government halls might feel an obligation to represent their friends and neighbors. Many Nepalis are expressing this concern as well. Every dollar borrowed from another country represents another obligation that Nepal will have to a foreign power. In this time of shoring up boundaries and affairs, retaining national focus and sovereignty while establishing a reliable energy base will be a delicate balancing act, to be sure. Nepal has plenty of experience negotiating water projects, but lacks the stable governance and regulatory frameworks to support this potential advantage.

Perhaps now here is this balancing act more acutely felt than around the Upper Karnali dam. Identified more than 30 years ago as an ideal site for hydropower (thanks to its magical bend), the Upper Karnali Hydropower Project has long been offered as one of the more profitable sites in all of South Asia. Thus, considerable alarm was raised when the Indian infrastructure company GMR won the contract with an offer to provide 12% free electricity and a 27% equity share to the government of Nepal. Advocates for the dam believe this arrangement positions Nepal to receive handsome revenue for government coffers while adding much-needed power to the Karnali region. As for the 27% share, some hydro observers have suggested that portions of that equity might be sold to local people and Nepalis living abroad for investment. Critics of the project, however, question the decision to award the contract to a foreign corporation. If Upper Karnali is an

ideal site for hydro, they ask, why not have Nepalis build it? Critics also object to exporting hydropower produced on Nepali rivers while load shedding and rural darkness persist in Kathmandu and beyond, while advocates for the dam claim this argument is beside the point so long as Nepal lacks the transmission lines to take the power elsewhere and power trading with India becomes a viable option in the future.

All of these debates around Upper Karnali will take a higher pitch sometime in early 2014, as the Investment Board of Nepal recently announced that PDA negotiations with GMR have reached the final stages (Karoobar, 28/11/13).

### **Rise of the Private Sector**

More than ever the private sector is asserting its role in hydro development. Developers have no shortage of facts and figures to use when arguing for changing policy and legislation related to hydropower: 700 MW, 83,000 MW, 10,000 employees, 4.8 rupees per unit, 6,000 rivers, etc. All told, their calls for improved administration of hydropower seem to be taking hold.

### **Wait and See No More**

The elephant in the corner of nearly every hydro discussion is politics. Indeed, for all the interviews I conducted, the topic of politics and the CA 2 (Constituent Assembly) elections rarely came up because the respondents seemed to feel that politics were beside the point. In the minds of private developers, and many in the civil sector, the issue of electricity has become a popular imperative and can no longer wait for the government to sort out its differences.

### **Adaptation – Ducks in a Row**

While the private sector attempts to move forward with hydro projects, all are aware that they face considerable challenges due to the lack of updated state policy regarding corporate social responsibility, environmental concerns, ILO 169, power purchasing rates, and licensing. One of the first tasks of the new government will be to review, update, and ratify new hydropower and water legislation. This will not be an easy task. The hydro industry may forge ahead at the risk that some policy gaps may be used to levy legal challenges down the road.

Similarly, the calls for unbundling the Nepal Electricity Authority (NEA) underscore this idea to change with the times. Many private developers, and some people within NEA, say that the institution was suitable at its creation in 1983. But, as Nepal's energy demands have grown, NEA can no longer keep pace. The decision to unbundle NEA seems inevitable in the minds of many hydro professionals, but the speed, logistics, and politics of how to unbundle will be a significant challenge. The most common plan for unbundling suggests three

separate companies for generation, transmission, and distribution with NEA retaining distribution responsibilities.

### **Oasis Institutions**

In an attempt to accelerate hydro development while also presenting a more “investor-friendly” appearance to the market, the government has formed two oasis institutions: the Investment Board of Nepal (IBN) and the Hydropower Investment and Development Company Limited (HIDCL). Both groups hold a significant level of autonomy from the government offices and are staffed primarily with financial expertise. However, the creation of these groups represents a curious strategic move. Is the government of Nepal acknowledging that its own offices cannot move quickly enough or lack the ability to develop and finance hydropower projects? Or do the IBN and HIDCL mark the government's recognition that its institutions must strike a proper appearance to attract capital from in country and abroad. The next two years will be crucial for IBN and HIDCL as a new government could elect to dismantle these groups if they do not show immediate returns.

### **What's Left Unsaid – Risk as Part of the Equation**

Finally, my research has been interesting not only for what it contains as for what it does not. I have encountered a surprising lack of environmental discussion and risk assessment. Indeed, it seems that the need for hydropower and the drudgery of load shedding has outpaced people's concerns about the dangers of earthquakes and climate change-related potentials such as GLOFs and rising water temperatures. This should not be read as a criticism, however. I think it marks a notable shift in the discourse around hydropower. While environmental and indigenous concerns dominated talk during the 1990s (e.g., Arun III and Narmada), twenty years later those risks have deemed as acceptable, if not inevitable.

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