LOCAL SHARES WORKSHOP

SUMMARY

February 2017
This technical workshop – the third of its series – on Advancing Sustainable Hydropower in Nepal was organized by IFC and USAID with support from the Japanese and Australian governments on January 23 and 24, 2017 at Gokarna Village Resort, Kathmandu, Nepal.
BACKGROUND
The emerging practice in Nepal for hydropower developers has been to offer project-affected individuals a direct stake in project equity to either raise capital or to build local partnerships or both. This has now been encouraged by the Government of Nepal as a unique benefit sharing mechanism for hydropower projects with developers now expected to set aside local share offerings of up to ten percent of project equity.

While this has the potential to provide unprecedented opportunity for project affected communities, the mechanism also has the potential to jeopardize desired outcomes and exacerbate risks for vulnerable groups especially in the context of ad-hoc applications by project developers in the absence of an overarching policy.

In this context, a workshop was organized in Kathmandu on 23 and 24 January 2017 to update and exchange information on recent developments concerning local shares, the financial, socio-economic and fiduciary risk involved, and identifying any outstanding issues that need resolving to ensure desired outcomes.

OBJECTIVE
This workshop aimed to provide a platform for inter-disciplinary knowledge exchange and a discussion on tools and models to define a framework to deliver local shares schemes in the hydropower sector in Nepal to benefit communities and enhance resilience, defined as their ability to continue to sustain permanent stresses while at the same time be prepared to withstand unpredictable shocks.

The discussions during the workshop and knowledge outcomes will feed into a public knowledge product on local shares commissioned by the IFC.

PARTICIPANTS
The workshop was attended by over 42 people including representatives from government, development partners, civil society, independent power producers, financial sector regulators, community based organizations and media.

DAY ONE - SESSION PRESENTATIONS
The first day was divided into four sessions. Each session discussed a particular theme related to benefit sharing and included presentations from relevant sector experts. Each presentation was followed by a plenary discussion, where key points are captured under each takeaway section below.

Session 1 – Hydropower’s social impact & benefit sharing experiences
This session looked at global experiences in benefit sharing mechanisms and tools aimed at maximizing social benefits from this potential new source of revenue for affected communities. The session also included a landscape assessment of benefit sharing in Nepal.

IFC’s Debra Sequeira and Sunrita Sarkar presented case studies from Pangue Hydro Foundation, Tata Tea Amalgamated Plantation Employees Shares
Ownership Program, Newmont Mining: Ghana’s Community Development Agreements and Local Equity Sharing in South Africa Renewable Energy Program, which all highlighted the necessary conditions for equitable access and distribution of benefits. Key takeaways were:

1. Share of benefits is driven by degree of impact.
2. Identifying poorest, vulnerable groups and ensuring they have access to benefits is critical to avoid elite capture.
3. Full involvement of communities in planning, designing and implementation necessary to build local ownership and understanding, enhance accountability, and improve company-community relations.
4. Informed investments require specialized understanding of financial issues, beyond common knowledge.
5. Role of independent mediator helps manage conflicts better.
6. Role of developer is to work with Government, not replace it.
7. Focus on quality, not quantity - for trainings and awareness programs.

Niti Foundation’s Nirjan Rai and Saumitra Neupane shared their study findings on benefit sharing in Nepal’s context and how the issue of local shares was changing the political discourse and quickly emerging as a ‘rights’ based movement. Key points identified were:

1. Benefit sharing is an evolving process in Nepal’s hydropower development.
2. Significant information asymmetry exists, critical to effectively communicate risks and benefits of investing in local shares with local communities.
3. There is a need for a dedicated grievance mechanism to manage and address local expectations.
4. This is a public policy problem and is used to fuel the political economy narrative that Nepal can finance its own hydro and Nepalis can afford to buy shares.

**Session 2 – Delivery of local shares**
The second session discussed the delivery of local shares via two case studies from within the country.

Vice President of Independent Power Producers Association of Nepal (IPPAN), Kumar Pandey opined that the issue of local shares had become a developer’s dilemma. He shared a case study of “National Hydro Power Company” that had offered shares to locals to invest in a new project Lower Indrawati but shareholders never saw any dividends arrive, as unfortunately the project never took off. Underscoring the importance of ensuring a developer’s ability to utilize funds, need for a regulator in the sector and a need to educate the public, he highlighted the following:

1. Initial Public Offering (IPO) is good way to raise capital if done properly.
2. Public shares can ensure local ownership.
3. Regulator is vital to ensure developers properly utilize public funds.
4. Public needs to be educated on risks and project handover to government.
5. Policy that differentiates ‘local’ and ‘general’ public with exposure to risk taken by promoters is required.
6. Policymakers should not assume that long term funds are available for hydro as general enthusiasm is only for short-term premiums.

Upper Tamakoshi Hydropower Project’s Ganesh Neupane and Shankar Nepal presented the 456MW project’s experience in addressing local expectations for shares in the project. The project relied on a District Coordination Committee to define the eligibility criteria for local shares and have approached banks to offer loans to local people under the central bank’s deprived sector financing policy. However, following a 21-day strike by local laborers, the committee set up as task force to refine the eligibility criteria for distribution of shares. This committee is expected to develop the criteria for local shares before the end of the fiscal year in line with the revised SEBON regulations. A key challenge identified here is that:

1. Although each project and its local share provisions are unique, how Upper Tamakoshi decides to structure its local share allocation may expect to set a precedent for other projects.

Session 3: Institutional, legal, financial & corporate governance framework
This session discussed an overview of the legal framework and current practice to issue local shares and explored potential issuing mechanism models.

SEBON’s Niraj Giri discussed the current regulatory framework around issuing, transfer, sale and exchange of securities in private companies. He also shared recent amendments in the revised regulations of the Securities Board of Nepal. Key highlights of his presentation included the following:

1. Each project’s Environment Impact Assessment (EIA) will identify project-affected persons, which will define the eligibility criteria for local shares.
2. Regulations stipulate the timing of share offer by prescribing certain conditions like Power Purchase Agreement, Financial Closure (Letters of Intent from banks must be issued) and land acquired before going for an IPO.
3. SEBON is slowly moving away from paper-based systems and using banks for IPO. Although not yet compulsory for local people, trading will soon become possible only via DeMat accounts.
4. Challenges highlighted were a lack of corporate governance, weak compliance of reporting requirements, lack of effective regulatory body in hydro sector, investment centered on capital gain rather than company returns.
5. SEBON is developing a corporate governance code for hydro companies.
6. SEBON working with government agencies to devise policy – clarity required on what happens to shares at the expiry of the license period.
7. The policy will also need to look at ways of addressing other issues – for e.g., after the 3-year lock in period, the tendency to sell off shares and then place additional demands on project – how can this be avoided.

This was followed by a presentation on the importance of balancing stakeholder interests in securing social license by Kiran Vergis from USAID’s Nepal Hydro Development Program. Key highlights were:

1. Lack of financial awareness and education raises risks of project failure and equity risk, therefore the need for a financial awareness and education campaign.
2. Non-standard processes for timing, eligibility, and pricing raises the risk of project delays, therefore the need for a comprehensive policy on shares.
3. According to current SEBON regulation, companies that have more than 50 shareholders must be publically listed. The challenge to accommodate multiple small shareholders and become a publicly listed company raises administrative difficulties, regulatory burden and developers and lenders discomfort, therefore there is a need to define different models to issue shares to accommodate lenders concerns and allow private companies to retain private status.

**Session Four: Emerging trends**
The fourth session looked at emerging trends in the local hydropower industry with a presentation by ICIMOD’s Aditi Mukherji and Devesh Belbase. Key highlights were the findings of a randomized control trial participated in by 72 local hydropower companies under various stages of construction:

1. There is a general willingness to offer shares to locals.
2. An overwhelming majority prefers to make a local share offering during the construction period for raising capital for their current project.
3. Remaining companies that choose to offer shares during the operation phase did so mainly as a response to local demand.
4. Understanding on eligibility criteria and whether or not shares could be sold to institutions in addition to individuals is mixed amongst the 72 respondents.

**DAY TWO – CIVIL SOCIETY REFLECTIONS**

**Session Five: Reflections of civil society**
The final session discussion included civil society members from Nepal Forum of Environmental Journalists (NEFEJ), National Federation of Irrigation Water Users’ Association of Nepal (NFIWUAN), Federation of Community Forest Users, Nepal (FECOFUN) and Himalayan Grassroots Women’s Natural Resource Management Association (Himawanti), where participants shared personal experiences and expectations relating to purchase of local shares.

While participants had some understanding of risks and benefits associated with shares, the general perception was that investing in shares of hydropower
projects was seen to be highly profitable, which explains the rising expectations of project affected people to be granted the right to purchase shares.

- “In addition to individuals, shares have to be made available to community groups like community forest user groups. Amendments should be made in CFUG working procedures to allow a portion of our profits to be used for share purchase for poor people as well as the forest users group.” – FECOFUN

- “Remittance money should be utilized for investing in hydro.” – HIMAWANTI

A need was also felt to give preference to community shares rather than individual shares, as this would generate more accountability.

- “And when communities are given this privilege, also give them an obligation to deliver. This will make them more accountable.” - NFIWUAN

Emphasis was placed on the need for quality education on risks and benefits of share purchase in a language and form that is easily understood by local communities especially highly marginalized groups. Working in coordination with local representatives would ensure objectives are met.

- “Run awareness campaigns in coordination with local committees and local indigenous groups that are already in existence.” - NEFIN

Participants felt that the identification of target audiences and timing was equally relevant, meaning, there would be little advantage in educating people who have limited access to or no immediate opportunity to participate in share purchase and applying the classroom teaching in the field.

- “A shares programme was organised in Kalikot but afterwards, people had no access to any project company where they could apply for shares so the entire programme became irrelevant.” - FECOFUN

Participants’ also recounted personal experiences where a member had sold off land to buy shares but unfortunately saw his investment collapse as a result of project related delays and eventual cancellation.

- “In the villages, people are risking their livelihood by buying shares they cannot afford. They go to cooperatives, they go to banks and when access to finance from these institutions is not possible then the last resort is money lenders.” - NEFEJ

Participants agreed that a general lack of awareness at the local level in addition to little or limited access to information only helped aggravate vulnerability levels of poor project affected communities.
• “There are no pressure groups present at the local level because people do not know about either royalties or local shares.” - NEFIN

Participants also pointed out that a lack of elected bodies at the local level and a lack of transparency had exacerbated mistrust and confusion and prevented royalties from flowing back to the communities. There also seemed to be lack of understanding of the different Benefit Sharing schemes, and thus confusion between equity shares, royalties, and other mechanisms by which affected communities can and do benefit from hydropower projects.

• "Many communities are not even aware that royalties flow back into their region from hydro projects. The Constitution requires a natural resources allocation commission, which is yet to be set up, that needs to revisit revenue allocation to affected areas...” - FECOFUN

• "Revenue from royalties is also being mismanaged and funds are being diverted to other areas. For e.g., a certain project is building a road instead of using it for watershed management.” - FECOFUN

A need was also felt to include local voices in national decision making processes while a careful demarcation needed to be made between rights and politics.

• “Community movements are becoming highly politicized so a careful demarcation between what is people’s individual right and what is politics needs to be drawn.” - NEFEJ

But most alarmingly, the dangers of what could unfold was highlighted, if the issue was not taken up seriously by policymakers and local people continued to make uninformed speculative decisions lured by the promise of quick capital gains.

• “What people need to understand is that share is an investment, not a right. This could be a huge political issue if it gets out of hand.” - NEFEJ

CONCLUSION

While it is clear that the current trend of local shares has been moving on an upward trajectory as investor confidence increases, the risks of it going the other way are equally high. Unfortunately, what is fueling local demand is based on an uninformed and unrealistic expectation founded on stock market behavior that is primarily driven by speculation.

With the majority of rural population lacking even the basics of financial literacy, the need for a comprehensive education campaign so the people understand not only the benefits but also the risks are a necessary condition to enable informed decision making in the purchase of shares, followed by measures that ensure easy access to affordable finance. Extra attention must be paid to ensure free and active participation of poor, vulnerable and socially excluded groups in the process to maximize social benefits in marginalized communities.
Equally important is the need to create a fine distinction and appropriate modality between publicly traded shares and private shares. The current regulations have been devised for publicly listed companies and not private companies, where investors and lenders may want the company to retain their private status for various commercial reasons but are expected to make a share offering to project affected people that constitute a portion (up to ten percent) of their project equity.

An overarching policy that addresses current gaps and gives all stakeholders – the local people, the developer, the lenders and relevant line agency clear guidelines on the issuance of local shares is critical to prevent further developments from setting bad precedents.

A need to investigate the applicability of community shares as an option to individual shares or as a preference over individual shares from a regulatory perspective is required. That this delivery option may ease the process of eligibility and delivery, help raise accountability of local shareholding bodies and in the process help retain local ownership in the project needs to be carefully assessed and explored with key government agencies, parliamentarians, and local leaders while gauging local appetite for the same.

Key structural issues that need further clarity include the definition of what constitutes a project area especially in light of impending federal boundaries, who is eligible for local shares and who is clearly not, who or what factors contribute to or should contribute to deciding the quantum of local shares per project, timing of offer and if and whether that has an impact on unit price, and the fate of such shares during project handover to government. Also, assessment of share structuring methods and financing structures to mitigate risk for individual shareholders as well as encourage long-term ownership in the project is critical. Similarly, there are governance issues like who bears prime responsibility for regulating the hydropower sector and the market that needs to be addressed.

While SEBON regulations attempt at narrowing down the eligibility criteria, standards need to be clarified and identified so there is uniformity in understanding and applicability across the industry.

Lack of information and communication is an area where both government and developers need to work extremely hard at. Despite 16 years since the introduction of the royalty distribution regime, local people are oblivious of the hydropower royalties flowing back into the villages and districts. The role of media as an evident intermediary to channelize accurate information, raise awareness and make local voices heard at the national level is indispensable. This also points to a need to assure greater understanding of the overall Benefit Sharing plans and mechanisms required from hydropower development in Nepal (e.g. royalties, taxes, rural electrification and other social infrastructure, local
employment, local skills training, etc.), and assure that Local Shares are contextualized as one component of overall Benefit Sharing plans.

**NEXT STEPS**
Following the workshop, IFC is in the process of carrying out an in-depth study to cover all aspects of local shares that will culminate in a public knowledge product, which will seek to identify long-term sustainable options by assessing current practices and lessons learned. The final product is expected to support Nepal’s policy efforts to showcase an innovative benefit-sharing scheme that can truly benefit and economically empower local people – particularly women and marginalized groups – impacted by hydropower projects.
ANNEX 1: Workshop Agenda
### Day 1: Monday, 23 January 2017

<table>
<thead>
<tr>
<th>Time</th>
<th>Activity</th>
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<tbody>
<tr>
<td>9:00-9:15</td>
<td>Registration, tea and coffee</td>
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<tr>
<td>9:15-9:30</td>
<td>Opening remarks</td>
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<td></td>
<td>Rehan Rashid, Resident Representative, IFC</td>
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<td>Rob Taylor, Chief of Party, USAID funded Nepal Hydropower Development Project</td>
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<tr>
<td>9:30-10:00</td>
<td>Introduction to the technical workshop objectives/purpose</td>
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<td>Introductions of participants</td>
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<td>Kate Lazarus, Team Leader E&amp;S Hydropower Advisory, IFC</td>
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**SESSION ONE - INTRODUCTION**

**HYDROPOWER'S SOCIAL IMPACT AND BENEFIT SHARING EXPERIENCES IN NEPAL**

Ensuring hydropower is developed sustainably is crucial to addressing social risks upfront. This session will explore project stakeholders and the benefit sharing mechanisms in place globally, and in Nepal.

*Moderated by Pablo Cardinale, Principal Environmental Specialist, IFC*

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<tr>
<th>Time</th>
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<tbody>
<tr>
<td>10:00-11:00</td>
<td>Presentation: Global Experiences in Benefit Sharing Mechanisms and tools to maximize the social benefits of this potential new source of revenue for affected communities</td>
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<td></td>
<td>Debra Sequeira, Principal Team Leader Policy, Environment, Social and Governance, IFC</td>
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<td>Sunrita Sarkar, Operations Officer, IFC</td>
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<td>11:00-11:15</td>
<td>Coffee Break</td>
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<td>11:15-12:00</td>
<td>Presentation: Benefit sharing in Nepal – a landscape assessment of experiences</td>
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<td>Nirjan Rai, Executive Director, Niti Foundation</td>
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<td>Saumitra Neupane, Niti Foundation</td>
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<tr>
<td>12:00-12:30</td>
<td>Moderated discussion</td>
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<td>12:30-13:30</td>
<td>Lunch</td>
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**SESSION TWO - CASE STUDIES**

**DELIVERY OF LOCAL SHARES**

This session will provide insight into two local case studies where hydropower projects have dealt with local shares. This session will include 20 min presentation followed by 10 min discussion and exchange. *Moderated by Austin Lord, Cornell University*

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<th>Time</th>
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<tr>
<td>13:30-14:00</td>
<td>Local shares in Hydropower: Developer’s dilemma</td>
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<td>Mr. Kumar Pandey, Vice President, IPPAN</td>
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<tr>
<td>14:00-14:30</td>
<td>Case Studies for modalities of share offerings: successes and challenges in Nepal</td>
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<td>Upper Tamakoshi hydropower (456MW)</td>
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<td></td>
<td>Dr. Ganesh Neupane – Environment &amp; Public Relations Chief</td>
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<td></td>
<td>Mr. Shankar Nepal - LDO of Dolakha district</td>
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<tr>
<td>14:30-15:00</td>
<td>Moderated Discussion</td>
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<td>15:00-15:15</td>
<td>Coffee break</td>
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**SESSION THREE - INSTITUTIONAL, LEGAL, FINANCIAL AND CORPORATE GOVERNANCE FRAMEWORK**

This session will provide an overview of the legal framework and current practice, and will dive into the potential issuing mechanism models of shares. *Moderated by Stephane Barbeau, Energy & Resource Efficiency Advisory, Clean Energy Program Manager, Nepal, IFC*

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<th>Time</th>
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<tr>
<td>15:15-15:45</td>
<td>Presentation: Regulatory framework around issuing, transfer, sale and exchange of securities of private companies</td>
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<td>Mr. Niraj Giri, Executive Director, SEBON</td>
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<td>15:45-16:15</td>
<td>Presentation: Facilitating investment in hydropower: Balancing stakeholder interests in securing social license</td>
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<td>Kiran Vergis, Manager, USAID NHDP (Deloitte)</td>
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<td>16:15-16:45</td>
<td>Moderated discussion</td>
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### Session Four: Emerging Studies

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<th>Time</th>
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| 16:45-17:15 | Presentation: Preliminary results of study on future hydropower plans announcing local shares  
Aditi Mukherji, Theme Leader, Water and Air, ICIMOD |
| 17:15-17:30 | Wrap up discussion and summary of the day’s findings  
Louisa Zhang, IFC |
| 17:30   | Cocktail reception                                                    |

### Day 2: Tuesday 24 January 2017

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<th>Time</th>
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<tr>
<td>9:00-9:15</td>
<td>Registration Day 2- Tea and Coffee</td>
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### Session Five: Reflections with Civil Society

This session will be interactive with a panel discussion, before breaking into groups.
Chair: Dipak Gyawali, chair of Nepal Water Conservation Foundation

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<th>Time</th>
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| 9:15-9:30 | Introduction – achieving shared prosperity  
Dipak Gyawali, chair of Nepal Water Conservation Foundation |
| 9:30-10:30 | Panel discussion with civil society  
Mr. Ramesh Bhusal, General Secretary NEFEJ  
Mr. Shambhu Dulal, General Secretary NFIWUAN  
Mr. Birikha Bahadur Shahi, FECOFUN  
Mr. Sulav Gauttam, Himawanti |
| 10:30-10:45 | Coffee Break |
| 10:45-11:45 | Moderated break-out group discussions to be defined during workshop.  
For example: Designing and implementing local shares (defining eligibility criteria; identifying key stakeholders); Alternative approaches and models and global experiences; Delivery mechanisms (distribution mechanisms; allotment of shares; financing of prospective local buyers of shares, etc); Considering specific needs of women (gender). |
| 11:45-12:15 | Discussion on findings from the break out groups in plenary session |
| 12:15-12:30 | Conclusions and workshop summary  
Kate Lazarus, Team Leader E&S Hydropower Advisory, IFC |
| 12:30   | Lunch                                                                 |