



There is a phrase (erroneously) attributed to the Chinese that says, “May you live in interesting times.” It’s called the Chinese curse, because it is commonly accepted as a euphemism to actually mean “May you experience disorder and trauma in your life.” However, others have translated this phrase to mean something positive. “Interesting” in that sense connotes possibility, opportunity and unexpected developments.

The past six months in Nepal’s hydroscape have been “interesting,” to say the least. Let us hope that all the action and commotion of the summer 2014 follows the latter interpretation of that phrase.

Beware of Indians bearing gifts?

What to say when a “secret” power trade agreement (PTA) from India to the Ministry of Energy (MoEn) is leaked to the media and the newly-elected Narendra Modi becomes the first Indian Prime Minister to visit Nepal in 17 years and offers a one billion dollar soft loan? In just a month, these developments seemed to confirm both Nepal’s strongest cynicisms and most generous hopes about its southern neighbor. Are India’s actions the sign of country realizing it must be more concessionary to Nepal given recent Chinese interest in the country? Or is this the Trojan Horse that enables Indian interests to capture Nepali water and rivers?

The PTA draft sent to the Ministry of Energy in early July raised a hue and cry from civil society water and energy experts who read the document as dictating terms that would not be in Nepal’s long-term interests. In particular, critics of the PTA draft were chagrined by clauses in Article III which seemed to lock Nepal into doing hydro-business with India or no one else. In response, Indian officials said the draft was merely a preliminary for conversations about Nepal’s hydro future and India’s role in that plan. This statement drew scoffs from skeptics while others in the hydro development community said Nepal shouldn’t squander this chance to capitalize on developing hydroelectricity and making profits quickly. Your position on this matter likely depends on your view of Indian interests. Can both countries mutually and equitably benefit by allowing India to take a stronger hand in Nepali hydro development?

Many in the professional hydro community would answer affirmatively the previous question. Not only would Indian companies provide needed capital and manpower to construct Nepali dams, they argue, but this is the route that will provide the quickest solution to load shedding in the urban areas and, later, in the rural parts as well. However, critics of the PTA draft say that moving too quickly into projects in the short term may deprive Nepal of reaping additional gains in the form of payments for downstream benefits for India (e.g., flood prevention and control; irrigation; dry season water release).

So, what to make of these conflicting actions – Modi’s gentle praise for Nepal against a hydro future developed

with India?

The roller coaster ride of IBN

In 2011, Baburam Bhattarai’s announcement about the formation of the Investment Board of Nepal (IBN) was greeted with enthusiasm from the business community who had long complained about the difficulty of attracting and negotiating foreign investors through the byzantine departments of Singha Durbar. Proponents of IBN believed its staff of western-educated lawyers and financial advisors would expedite mega-projects that would catalyze the nation’s economy while also providing much-needed infrastructure for long-term development.

That was the plan. Three years later, IBN has yet to close on a single mega-project and the hydro projects under its purview are still under discussion. However, this is not to say that people are questioning the ability and intentions of CEO Radesh Pant and his team. Rather the opposition has been institutional. In my research, I learned that the Ministry of Energy, in particular, felt insulted by the IBN Act, as if its competence had been doubted to such a degree that it was necessary to form a new group to handle foreign investment, which would require a wide range of technical knowledge, that MoEn did not feel IBN would have. And in this respect, they were correct. For hydro questions, IBN needs to consult with MoEn and associated agencies. This is, allegedly, where the slowdowns have occurred. Some of my respondents have said that MoEn has engaged in a small bit of foot dragging on IBN technical information requests, thus slowing the process to the point where people are now questioning the necessity of IBN altogether. Furthermore, other critics have pointed to the IBN Act itself, saying that it does not provide enough clarity on what group should take the lead after IBN would sign a development agreement.

So, with these confusions and hurdles abounding, it perhaps was not surprising when the newly-elected Minister of Energy, Mrs. Radha Kumari Gyawali, called for the IBN to be disbanded. Her call was subsequently echoed in a series of editorials in several Nepali newspapers. One has to wonder how much of this institutional conflict has been the result of the

dissolution of the Ministry of Water Resources, and the quiet relegation of the Water and Energy Commission Secretariat.

How to measure downstream benefits?

The World Bank's 2012 Ganges Strategic Basin Assessment drew fire from many Nepali hydro experts (see SB Pun, *Hydro Nepal*, July 2013) because it encouraged priority for run-of-river projects to generate electricity for export. Opponents of this report argued for a greater balance of multi-purpose reservoir projects in order to serve multiple needs in Nepal and for India. But India has been reluctant to encourage these constructions because they do not intend to pay for the downstream benefits that multi-purpose projects would afford them. And, in fact, the World Bank report claimed that reservoir projects in Nepal had overstated benefits for India (thus leading critics to call the report "pro-Indian").

The debate, however it is to be decided, raises an important question: how do we quantify downstream benefits from a reservoir project. This seems a particularly salient question at this writing, given the monsoon floods that are currently ravaging through southern Nepal and northern India (as they did last year in Uttar Pradesh). If Nepal hydro is to successfully make a case for reservoir projects, investors and governments will want hard numbers to appreciate the benefits: prices for dry season water, damages prevented through flood control, etc. This is a particularly daunting task but an essential one for those parties who wish to see more reservoir projects built in Nepal.

To PPA or not to PPA? – Is that the question?

The Nepal Electricity Authority (recently celebrating its 29th year) has been under constant fire in recent years for its parsimony with issuing power purchasing agreements. NEA is not keen to accumulate many more PPAs that will only bring them additional debt. By charter, NEA is obligated to buy all the electricity produced in Nepal, and for this reason they have run at a deficit for more than 20 years, owing largely to leakage, power theft, and a devaluing rupee. It is the rupee that is particularly troubling to NEA. Hydro companies (foreign and domestic) would prefer to deal in US dollars, but that scheme has meant that NEA takes on losses as the rupees falls in value. In the most famous example, the Khimti PPA was signed to be exchanged in US dollars when one dollar equaled 48 rupees. Today, with the dollar valuing around 90 rupees, Khimti alone forces NEA to accrue substantial losses. So NEA finds itself between a Scylla of fulfilling its financial obligations and providing more electricity to the country, and Charybdis of working in

a world of hydro development that will only work in dollars. *Ke garne!*

Remembering Jeewan Dai

I want to conclude my contribution to this edition with a word about Editor-in-Chief Jeewan P. Thanju, who tragically passed away earlier this year. I met Jeewan Dai in the summer 2013 when starting my own research on hydropower in Nepal. I e-mailed him out of the blue and he responded immediately with a gracious invitation to his home, including a carefully drawn map. I was so touched that someone so busy and veteran would make time for a greenhorn scholar like myself. We talked for nearly two hours about his experiences in hydropower and it seemed there wasn't an idea he hadn't already considered. And in everything he said, Jeewan Dai always came back to the same point: he wanted to see people in Nepal have better lives.

Toward the end of our talk, Jeewan Dai mentioned *Hydro Nepal*, which I had been reading online for some time. I had found it incredibly helpful in my studies and marveled at the range of scholars who wrote for the publication. I immediately offered that I had editing and journalism experience and if needed, I would like to work with the journal. Jeewan Dai accepted my offer and thus the relationship began.

But as with many relationships with someone who is a true mentor, I have learned and received so much more from Jeewan Dai than I have been able to give. In fact, I think it's safe to say that through his leadership of this publication, all professionals engaged with hydro – past and present – have benefited from *Hydro Nepal*. The purpose of a journal is to disseminate ideas and spur healthy debate among its readers. In that regard, I think Jeewan Dai succeeded admirably and his legacy will live on among those who continue to read, support, and contribute to this very important publication.

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