



# Capturing Hydropower's Promise

## REPORT SERIES

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## Case Studies on Local Benefit Sharing in Hydropower Projects



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## Acknowledgements

These case studies were prepared by Eduard Wojczynski, who was commissioned by IFC to carry out the research as part of Manitoba Hydro International. An IFC team led by Maria Arsenova, with research support by Amanda Diaz and Anna Vorotniak, provided overall guidance, support, and additional content. The research was supported by a Manitoba Hydro International team that included Elissa Neville and Thomas Restiaux. Ann Moline was the editor and Rikki Campbell Ogden designed the publication.

The team thanks the experts, companies, and communities that participated in developing these case studies, including those associated with the Wuskwatim, Miel, Rusumo Falls, Theun-Hinboun expansion, SN Aboitiz Power, and Tina River Hydropower projects. The author is especially grateful to the community members and hydro personnel interviewed during the field visits to Theun-Hinboun expansion in Lao People's Democratic Republic (communities of Phonthong, Phousaat, Sopphouan, Nong Hang) and Miel in Colombia (La Habana, Moscovita, San Jose, Norcasia, Sasaima, Victoria).

The author also expresses his gratitude to the leaders and community members of the five Indigenous communities in Canada that patiently worked with him in his role as the developer's project manager on several hydro projects. These include: the Nisichawayasihk Cree Nation on the Wuskwatim project and the Tataskweyak Cree, Fox Lake Cree, War Lake Cree, and York Factory First nations on the Keeyask projects.

The team gratefully acknowledges the government of Japan for its generous support.

During the process of developing this volume of case studies, the team benefited from additional advice and guidance from multiple sources. For this support, the team thanks the International Hydropower Association's Cristina Diez Santos and Richard Taylor. We are grateful to Shailendra Guragain, President, Independent Power Producers Nepal, for providing valuable perspective on local shares practice in Nepal. We also thank IFC colleagues Arjun Bhalla, Pablo Cardinale, Laurence Carter, Bertrand De la Borde, Nadine Ghannam, Maham Iftikhar, Veronica Nyhan Jones, Thomas Michael Kerr, Nuru Lama, Kate Lazarus, Meng Liu, Shamiela Mir, Valerie Prassl, Aaron Rosenberg, and Sophia Tamot. Finally, we thank World Bank colleagues Erik Caldwell Johnson, Pravin Karki, Callie Phillips, William Rex, Ekaterina Romanova, Vincent Roquet, Sunrita Sarkar, and Yadviga Semikolenova.

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Agriculture is still a main source of income and livelihood for locals in the Haku Bensi village, a community near the Upper Trushili-1 hydro project in Nepal. Credit: Md Shahnewaz Khan



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## OVERVIEW

Local benefit sharing is an important aspect of hydropower projects' support for the development aspirations of project-affected people and communities—beyond direct impact mitigation. To learn more about what hydro projects are doing and how they are embedding local benefit sharing into their operations, IFC embarked on an extensive two-year study, involving field visits to project sites around the world, interviews with project personnel and community stakeholders, and desk research to capture the current state of practice. The result of this research is a compendium of case studies and good practices collectively called *Capturing Hydropower's Promise Report Series*.

This publication features in-depth case studies on how local benefit-sharing approaches are put into practice. The case studies provide an inside look at the opportunities and challenges for hydro project developers as they strive to incorporate benefit sharing into their operations. The experiences of projects detailed here serve to underscore the complexities associated with identifying an optimal path—and the importance of attending to the unique circumstances of the individual project and affected communities. Clearly, there is no single one-size-fits-all approach or template that companies can follow to achieve optimal outcomes, especially since what represents an optimal outcome will vary from project to project, even with the same sponsors.

The case studies draw from different regions around the world, with an eye toward demonstrating the ways in which national and regional norms influence the approach.

It is hoped that readers will glean important lessons from the range of experience provided here so they are better equipped to initiate and implement their own local benefit-sharing programs.









The Wuskwatim Generating Station is located at Taskinigup Falls, on the Burntwood River in northern Manitoba, Canada. Credit: *Manitoba Hydro*





## Wuskwatim Generating Station

### Partnering with Indigenous Community on Project Development and Ownership

Located on traditional Nisichawayasihk Cree Nation (NCN)<sup>1</sup> territory in northern Manitoba, Wuskwatim is a 200MW generating station developed by Wuskwatim Power Limited Partnership, a legal entity that includes Manitoba Hydro and NCN. While Manitoba Hydro and NCN had a long history of engagement prior to the project, Wuskwatim represents the first time the two engaged as equity partners. Its success through the years, despite changing financial fundamentals, demonstrates the value in such a structure—for both partners.

- **For NCN**, the value lies in the ability to exercise influence and control over a project in their traditional territory. Beginning before construction and continuing through the construction and operational phases the community has reaped significant benefits, including important intangibles, such as empowerment.
- **For Manitoba Hydro**, the partnership approach has enhanced its relationship with a key community where many of its existing projects

are located. It also has helped generate strong support from this same impacted community as the company moved forward with the new project. In addition, NCN has proven a strong ally as the company promoted the sale of its power in both domestic and U. S. markets.

#### ABOUT THE PARTNERSHIP

The joint venture came about following lengthy negotiations that began in 1997 and concluded in 2006 with the ratification of a project development agreement (PDA). At the time it was a novel concept, although it is common practice today.

Under the terms of the PDA, NCN was entitled to a 33 percent equity stake in the project. Other negotiated terms included: pre-project training, business and employment opportunities, and an impacts mitigation/compensation agreement.

In addition, NCN was involved in all stages of project planning and design, including joint management of



The Wuskwatim Generating Station was developed as a partnership between Manitoba Hydro and Nisichawayasihk Cree Nation (NCN). Credit: Manitoba Hydro

environmental studies and processes. Equal consideration was given to scientific and traditional knowledge during the environmental assessment process.

Manitoba Hydro underwrote NCN's costs associated with the assessment process to ensure NCN's participation. These expenditures, as well as those associated with project planning, studies, and negotiations, were rolled into the project's capital costs.

A six-member board of directors oversees the partnership's business affairs, including the operation, maintenance and control of the Wuskwatim project. Manitoba Hydro has four representatives and NCN has two representatives on this board.

The PDA also called for the creation of three advisory committees—monitoring, construction, and employment—which gave NCN additional opportunities to offer input, while providing another avenue for communication on issues as they arose. The monitoring committee will continue throughout the life of the project, while the construction and employment committees wound down once the operations phase began.

### With deteriorating financial outlook, a revised agreement

Shortly after operations began, changing economic circumstances threatened the viability of NCN's investment in the project. Both parties agreed to conduct a review of the PDA, resulting in a supplementary agreement that aimed to address the partnership's deteriorating financial outlook, which was completed in 2011. But conditions continued to deteriorate, and the two parties renegotiated the project's income arrangements for a second time.

"Given the uncertainty associated with the project's financial outlook, the related benefit-sharing arrangements became a greater challenge than anticipated," recalls one former Manitoba Hydro executive, who led the negotiations.

Still, he notes that the added effort involved in negotiating the supplementary agreements was well worth the trouble. "It ensured that the spirit and intent of the original 2006 agreement regarding the level of benefits to NCN were more fully realized than would have been the case without these measures."

## THE TAKEAWAY

Eight years into Wuskwatim's operational phase, the community-developer equity partnership continues to run smoothly. Those interviewed for this case study attribute the success to several factors, which can serve as a guide for other developers interested in pursuing such arrangements.

1. **Acknowledge the past.** At the outset of negotiations, many community members were apprehensive about working with Manitoba Hydro on a new hydro project in their traditional territory due to prior negative experience with such projects. By acknowledging this checkered legacy, Manitoba Hydro began to lay a foundation of trust, which helped foster the positive relationship that proved critical in reaching a mutually acceptable partnership agreement.
2. **Invest the necessary time and resources.** Given the complexity of the arrangements—and the fact that such an approach had never been tried before for a large hydropower station—both parties needed to seek out additional consultation and review before decisions were made, with NCN hiring external advisors to provide guidance. Sensing the importance of gaining full community support before ratifying the agreement, NCN leaders also engaged extensively with community members to ensure that they fully understood project details. Such efforts took longer than initially anticipated and required more resources than initially planned.
3. **Prepare for the culture shift that might be needed.** The Wuskwatim equity partnership was a novel concept for both parties. Manitoba Hydro was accustomed to maintaining full independence on and control over its projects, while inviting public participation at certain key stages. The new approach, involving shared responsibilities, required a significant shift in corporate culture. For NCN, the change involved an adjustment in attitude toward hydro developers and overcoming concerns about potential negative impacts of the new project. Ultimately, the community needed to feel confident that the strong environmental protection measures embedded in the agreement and the



promise of economic and community development opportunities meant the project would be an overall net benefit for their members.

4. **Gain buy-in from leadership and set the tone at the top on commitment.** Manitoba Hydro's senior executive and board played key roles in advocating for the partnering arrangement and all it entailed. NCN's leaders also stepped up, engaging heavily in the partnership agreement process to ensure that community interests were represented and frequently communicating their commitment to the effort. Another key factor: the continuity of project staff and community leaders who were committed to the partnership's success.
5. **Ensure that interests are aligned.** Manitoba Hydro's goal was to develop clean hydroelectric generation. NCN wanted opportunities that went beyond a strict financial stake in the project—employment and business opportunities, pre-project training, capacity building, public acknowledgement of the effects of past projects, fair and equitable compensation for negative project effects, an ongoing role in project decision-making processes, and long-term project benefits among others. Success meant finding a way to align these interests.
6. **Allow time for capacity building.** While NCN had retained a team of advisors, it was equally important that community members involved in the negotiations develop the knowledge and skills to analyze and assess what was being proposed. This way, they could feel comfortable recommending the partnership agreements to their community.
7. **Communicate regularly.** The negotiations, planning, and licensing phases were characterized by regular interactions between the parties through formal and informal channels. This ongoing engagement proved critical to cultivating and maintaining a strong relationship. The focus on communication continues today, with representation from both partners on the board of directors and project-related committees, and through both partners' partnership implementation staff.

### At Wuskwatim, a blend of traditional wisdom and science for rigorous environmental monitoring

*Ethinesewin*—the traditional knowledge and collective oral wisdom of the Nisichawayasihk Cree Nation, passed down through the generations—is an integral part of Wuskwatim's rigorous environmental monitoring activities, along with scientific methodologies.

Like the traditional knowledge systems of other Indigenous Peoples, *Ethinesewin* includes observation, classification, description, and recording observations and results. The central focus of *Ethinesewin* is on relationships with and between the land, nature, and people.

In addition to the environmental monitoring activities handled by Wuskwatim project staff, routine *Ethinesewin* monitoring trips are conducted by NCN elders, who then share the results. The elders say that the process is critical to ensuring that the project treats all things with respect and honor, based on their people's lore and in accordance with *Kihche'othasowewin*—the Great Law of the Creator.

Source: Wuskwatim Annual Report 2019



NCN Elders 2018 *Ethinesewin* Monitoring Tour. Credit: NCN





Beneficiaries of the Program for Development of Communities supported by ISAGEN's Miel project in Colombia. Credit: ISAGEN



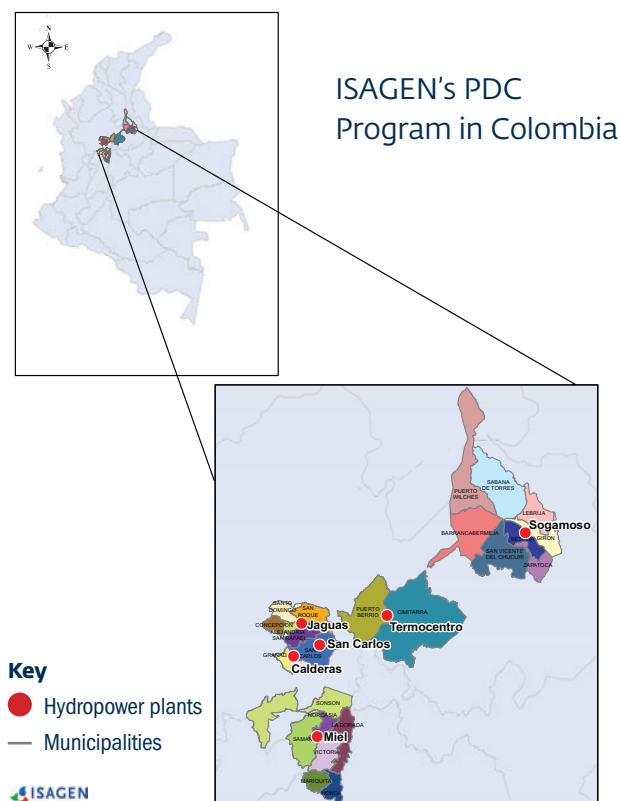
# COLOMBIA



## Miel

### Multi-Faceted Local Benefit-Sharing Program in a Post-Conflict Project Environment

Miel is a 396 MW hydropower plant located on Colombia's La Miel River, owned and operated by ISAGEN, which was acquired by Brookfield in 2016. In service since 2002, the plant added two diversion projects in 2010 and 2013. Given the project's location—in a remote, poor region under the influence of armed guerillas during the nation's conflict—the developers understood that the local community was in need of healing and new opportunities. At the project's outset, ISAGEN was the only company operating in the region. Through the company's extensive and multi-faceted benefit-sharing efforts, the communities in the vicinity of the plant are tangibly better off today, and community leaders have acknowledged the important role Miel has played in improving the quality of life for local residents.<sup>2</sup>



#### OVERVIEW: MIEL'S BENEFIT-SHARING APPROACH

Miel undertakes an extensive set of voluntary benefit-sharing measures in addition to ongoing mandatory environmental and social compensation. Of note, no resettlement was required as part of the project, meaning that the project did not have to address issues associated with relocation. Mitigation and compensation measures address both upstream flooding and downstream flow changes. The main benefit-sharing components include:

- Program for Development of Communities (PDC):** This long-term program supports local village initiatives related to sanitation, health, education, sports, culture and productivity projects.
- Territorial partnerships:** Distinct from PDC, which works at the local village level, this component involves supporting community development projects undertaken and cofunded by a municipality. Benefits extend to impacted villages not covered by PDC. It allows for a broader reach and more expansive efforts such as improving hospital and water treatment facilities, and establishing a public health unit to visit villages.
- Good neighbor actions:** Under this non-financial component, ISAGEN offers villages use of its own resources as needed, such as ambulances, machinery to clear landslides, surplus equipment, and furniture.
- Coexistence and human rights:** This component is designed to specifically address issues faced by local residents given the recent history of armed conflict and dislocation in the area of Miel. Programs are aimed at helping citizens learn how to live together peacefully and come together as a community.

“Over the last 15 years ISAGEN helped our village with many processes. We have always been good neighbors. As a leader ISAGEN carries out social investment projects which we know very well are voluntary. We have received so much; we are so happy.”

—Community leader in La Habana village

## PDC PROGRAM SUPPORTS RANGE OF COMMUNITY DEVELOPMENT GOALS

PDC is ISAGEN's largest community development program. Focus is on building local capacity in surrounding villages; supporting initiatives to improve sanitation, health, education, and livelihood productivity; and promoting sports and cultural activities. The community itself was involved early in the planning for this extensive program. The approach called for communities and organizations to decide on their own priorities, developing proposals and implementing projects, managed through local community action

### PDC in 24 Colombian towns

San Carlos · Granada · Alejandría · Concepción · Santo Domingo  
San Roque · San Rafael · Sonsón · Puerto Berrío · Cimitarra  
Honda · Mariquita · La Dorada · Norcasia · Victoria · Samaná  
San Vicente De Chucurí · Betulia · Lebrija · Barrancabermeja  
Zapatoca · Giron · Sabana De Torres · Puerto Wilches



**139**  
participating  
organized  
communities

**51**  
communities  
with seed funds for  
productive projects



**89**  
projects developed  
in 2019

**2,442**  
students in  
the community  
development school

boards, whose members are elected by villagers. As of 2019, the program's reach extended to 139 communities across all ISAGEN project areas. In the immediate vicinity of Miel, the program started with about 20 villages; today, it includes 34.

## Adaptive approach leads to restructuring and addition of training

While the plans seemed solid, implementation issues began to arise. Communities seemed to have trouble organizing and executing projects. The reason: lack of skills and knowledge on core competencies such as group decision making, planning, implementation and accounting. In 2010, the company and the community jointly recognized that a shift in approach was needed. It was not enough to learn by doing. Rather, community members needed additional education on the fundamentals of project management.

## Emphasis on education and empowerment

To address the capacity gaps, ISAGEN set up a formal, 15-module education program, with coursework in humanities, entrepreneurship, and the design, tracking, and execution of projects. Individual module topics are based on learning needs as identified by local residents of the areas surrounding ISAGEN projects. For example, one module focuses on community revolving funds and how to organize and operate them—created after community leaders said they had difficulty arranging bank financing for community projects.

Primary program participants include members of the local community action boards. Other community members who had expressed strong interest also have joined on occasion. Socya, an education and sustainable development non-profit organization, provides instructors and manages the program, which also draws on the expertise of local ISAGEN staff.

Formal classroom schooling is supplemented with practical workshops involving seven villages at a time and a two-year cycle of coursework. Since many of the students are illiterate, school staff created customized textbooks using pictures and other graphics.





- **In Year 1**, students learn the fundamentals of community organizing, including humanitarian training and project tracking. Students formulate a project idea and apply their learning by designing it.
- **In Year 2**, students implement their project, including project scheduling and tracking, accounting and project management. At the same time, students continue to build on their learning through additional coursework.

The cycle repeats every two years, with the goal that every village would undertake at least five projects within a ten-year time frame.

Participants have praised the program as providing real-world skills they can use. “I have learned much from the modules and have life skills that will help me,” said one young participant, who completed several modules at age 14. “I graduated from high school young and now am going to college obtaining agricultural technical training. I encounter some of the same topics in college I learned in the modules.”

### Partnering on project sponsorship

To move forward, projects developed by participants in the community development school are assessed for viability and must align with municipal development plans. Projects to be implemented are co-sponsored by ISAGEN, the community action boards, and the municipality. ISAGEN and the municipality share the funding responsibilities, while villages sometimes

contribute as well—either with cash or as in-kind donations. ISAGEN also handles coordination among the entities and provides materials required for the project, such as construction equipment. Villagers provide the labor.

Currently about 139 villages in ISAGEN project areas participate in the school program, which has 2,442 students. According to ISAGEN staff, some communities have made strong progress. In one village, La Habana, the community has 16 projects underway or completed. “We have learned how to receive tourism customers, how to cook, how to service customers, how to make yogurt, how to make artisan creations, how to live, and how to get ahead,” said one La Habana community leader, of ISAGEN’s efforts. “We have grown stronger together by having an active community action board, fisherman’s association, and tourism committee. These organizations are all part of the village people working as a team for the common good.”

The company has committed to providing continuing support, although the goal is that communities achieve full self-sufficiency by the end of the ten-year program. Plans are underway to determine the company’s level of support as the original time frame comes to an end in 2020.

## BENEFIT-SHARING ACTIVITIES TO ADDRESS POST-CONFLICT TRAUMA

In addition to the community development projects, ISAGEN understood that the Miel project was operating within a difficult context, due to the on-going armed conflict. Government services had all but ceased. Many families were dislocated and impacted by the violence.

ISAGEN’s programs under the coexistence and human rights component support peaceful resolution of community disputes and build community cohesion. While some activities are national in scope, focus is on the regions and communities influenced by ISAGEN’s hydro projects.

One company official explains ISAGEN’s rationale behind integrating this component into the community development program. “We wanted to

encourage development where we can foster values and transparency; where we can learn how to solve conflicts in a peaceful way,” he says. “These are conflicts that are related to living with your neighbors, how to solve problems with authorities or with ISAGEN itself. How can I deal with settling a conflict and handle it through dialogue and consultation so that we can come to agreement?”

Villagers report that in addition to supporting local economic development, ISAGEN’s program is accomplishing this additional goal, helping to bring communities together and resolve their differences in a healthier way—a significant change for the better. “[In the past], when we had disagreements, half the village was on one side and the other half had an opposing view,” said one resident of San Jose village. The skills built through the ISAGEN program gave the community a different way to handle disputes, he said. “We learned how to use community processes to deal with the issue and bring the village back together again.”

## Initiatives to strengthen communities

Several other ISAGEN initiatives under the coexistence component are designed to strengthen communities. Among them:

- **Rural Youth Enterprises:** ISAGEN partners with two youth-oriented organizations to work with youth affected by violence. Focus is on individual healing and education, which complement ISAGEN programs which focused on communities as a whole. In 2019, 16 young people participated in this program.
- **Peace and Development Program:** Co-founded in partnership with Colombia’s national transmission company and other firms, this program is designed to promote dialogue. To enhance communities’ trust in the program, the company invited the participation of the Catholic Church and several universities. Through the program, working groups from 10 regions gather throughout the year, creating a forum in which participants can raise political

## Music brings healing to children traumatized by violence

The children in the communities surrounding Miel have faced significant trauma in their young lives. They live in a region hard hit by violence. Many of their parents have been directly involved as combatants in the fighting. These children are considered particularly vulnerable.

ISAGEN believes that music can be a powerful way to get through to them, helping them to heal. The company is a major supporter of youth choirs and orchestras in the urban areas of Norcasia municipality, reaching 150 young people.

“The choir and orchestra is the best strategy for kids, youth, and teenagers to make the best possible use of their free time, so that they are not attracted to gangs and life on the street,” says one music director at a local school supported by the ISAGEN program. “We teach not just music but also coexistence with other people, and values such as the responsibility they learn from taking care of their musical instruments,” she notes. “The music experience helps the children be more focused and to work better as a group in school.”

Adds the mayor of Norcasia, “The music program enhances social cohesion between the children and between the adults and the whole community. The band and choir bring everyone together. They give the town an opportunity to celebrate which, also helps bring people together.”



ISAGEN-sponsored youth choir and orchestra in performance.  
Credit: Amanda Diaz



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“It is not possible to have a viable company in an unviable region.”

—CEO of ISAGEN partner company,  
on the reason for corporate involvement  
in peace-making activities

issues and ideas in a respectful environment without the fear of being verbally attacked. Participants have come to understand the role of citizens, including their rights and responsibilities, and the role of the state in serving its citizens. The program also puts significant focus on the strengthening of the family unit, recognizing that it will be either the source of stability in society or a source of crime and violence. Though focused on adults, the program also sponsors citizenship and environmental programs in rural and urban schools.

- **Apoyar Education Support Program:** Apoyar, a non-profit foundation, works to mitigate the impacts of the violence and prevent the recruitment of youth into armed militias. This program is aimed at rural youth who live in remote regions that were hard hit by armed violence for many years and that lack functioning schools. With support from ISAGEN, the foundation maintains student housing in five municipalities for 274 young people. These accommodations enable access to education for rural youth, while allowing them to return home to their family farms on weekends. The program also provides students with additional support and training, including agriculture-related training.

## THE TAKEAWAY

ISAGEN's experiences with local benefit sharing at Miel and other projects in Colombia have yielded several recommendations.

1. **Customize program approaches to the specific situation of the community.** ISAGEN varies the institutional arrangements for management of the programs depending on the

realities on the ground and community-specific situations. This has enhanced effectiveness and helped foster positive working relationships between the company and local communities, while strengthening community bonds.

2. **Provide formal education and practical training to build community governance and project management capacity.** By designing the community development program to encourage self-management, ISAGEN has enhanced the sustainability of positive outcomes and reduced the risk that the community will become too dependent on the company.
3. **Collaborate with communities and others to provide training and programs to address post-conflict impacts.** In Colombia, such programs have helped with community cohesion and dispute resolution.

In addition, Miel staff identified several factors that have enhanced effectiveness and contributed to program success:

- Long-term commitment: ISAGEN will be a presence for 50 years
- Direct dealings with communities: ISAGEN does not delegate engagement responsibilities to others.
- Practical, user-friendly programs, delivered in the local language
- Community-driven programming: ISAGEN does not impose programs. Rather, the community proposes them and develops specifications and requirements.
- Flexibility, adaptability, and alignment with specific needs and expectations of each community: ISAGEN understood that they did not have to provide the same offerings for everyone.
- Demonstrated interest in and commitment to community welfare: ISAGEN hires locally for its community development staff, many of whom have forged close relationships with villagers. Frequent visits serve to deepen these relationships and reinforce the idea that the company truly cares about the communities where it operates.



Regional Rusumo Falls Hydroelectric Project powerhouse construction work in East Africa. Credit: Rusumo NELSAF



# EAST AFRICA



## Regional Rusumo Falls Hydroelectric Project

### Designing a Transboundary Local Area Development Program<sup>3</sup>

In East Central Africa, the Kagera River forms the border between Rwanda and Tanzania. Here, in the crook of the river at scenic Rusumo Falls, an 80 MW hydroelectric project is underway, a joint development of Burundi, Rwanda, and Tanzania financed by the World Bank. The hydro facilities straddle the river, with the power production plant located along the southern riverbank in Tanzania and the substation located on the northern riverbank in Rwanda.

The site offers a singular advantage, with the promise of more reliable power for three nations. It also comes with its own set of challenges, including working through the logistics of cross-border construction and creating a multi-national benefit-sharing strategy. To manage these details in a coordinated manner, the Rusumo Power Company Limited—jointly owned by the three national governments—delegated oversight for the project to a well-established regional organization, the Nile Equatorial Lakes Subsidiary Action Program (NELSAP). Created by 10 Nile River Basin countries, NELSAP implements investment programs aimed at increasing electricity supply and improving energy import/export capacity among member nations.<sup>4</sup> NELSAP's oversight includes project construction, along with environmental, social, and resettlement programs and local benefit-sharing programs.

#### COLLABORATIVE, INCLUSIVE, AND MULTINATIONAL PLANNING PROCESS

Led by NELSAP's regional coordinator and project manager, the core planning group was composed of 10-member NELSAP teams from each of the three shareholder nations. These NELSAP teams included

technical specialists such as electromechanical and civil engineers, and finance, procurement, social development and resettlement, environmental management, communications and legal experts. The lead environmental and social safeguards specialist (LESSS), spearheaded the management of environmental, social, and resettlement programs, including the development of the Livelihood Restoration Program (LRP) for Tanzania and Rwanda, and local benefit-sharing programs.

Out of this collaborative planning process came the Local Area Development Program (LADP), with programming that extends across borders and into the three shareholder countries. Country team responsibilities for LADP programs included consulting with local communities, conducting situational and needs analyses, identifying and prioritizing needs, and determining activity costs. As part of the process, the teams also met regularly with their counterparts and other stakeholders to share findings.



The Rusumo Falls Livelihood Restoration Program in Rwanda includes poultry farming. Credit: Rusumo NELSAP

## ABOUT THE LOCAL AREA DEVELOPMENT PROGRAM

Funded out of capital costs, the \$15.5 million LADP covers a period of up to four years with an overarching goal to enhance regional economic and social development in the project area, spanning communities in the three shareholder countries. While the funding is divided equally among the three nations, each is responsible for implementing its own programs. Developed in conjunction with the environmental and social impact assessment and the relocation action plan, the LADP also was integrated into the hydropower development program. This would ensure socioeconomic benefits throughout the region.

The program's focus is on the needs of the wider range of communities in the three countries, with a particular emphasis on the most vulnerable, including the poor and women-led households. Efforts include community-based integrated watershed development and strengthening of communities' organizational capacities. Another priority: investments in infrastructure such as primary schools, health facilities, road construction and rehabilitation, a vocational training academy, and modernized water supply and distribution systems.

Each country has its own action plans, based on locally identified needs and priorities. With the program now underway, all planning is done by district communes. NELSAP country planning team responsibilities have shifted to supporting implementation and monitoring activities in their respective communities, in areas such as finance, procurement, technical requirements, and safeguards. NELSAP country coordinators monitor these efforts, reporting to the district administration and working in tandem with local, regional, and national experts.

## ABOUT THE LIVELIHOOD RESTORATION PROGRAM

Designed to address impact mitigation, the LRP specifically targets project-affected people in the immediate vicinity of the hydropower development area in Rwanda and Tanzania. The goal is to restore, improve, and diversify affected people's livelihoods. Activities under the LRP include community-driven projects such as sustainable agriculture, livestock, beekeeping, non-farming businesses, and entrepreneurship.

## PROACTIVE COMMUNICATIONS STRATEGY

From the outset, NELSAP recognized the importance of a proactive communication strategy for the Rusumo Falls hydro project. Designed to build a positive image of the project, address stakeholder concerns, and increase understanding and buy-in, it is informed by annual community surveys to gauge perceptions of the project. The strategy is reviewed regularly to ensure that it continues to meet communications needs.

Emphasis is on frequent outreach to provide updates on project progress and inform local communities in the three countries about benefits provided or planned. The multi-pronged effort targets both internal and external stakeholders, using a variety of approaches, including:

- **Multi-media campaigns:** Designed around a specific theme, these campaigns build knowledge about the project and both the short- and long-term benefits to the local community. To increase awareness, clothing, tote bags, and other items printed with positive project-related messages are distributed.
- **Media advocacy:** A key aspect involves building relationships with the media, to create strategic communications partnerships. For example, NELSAP hosted workshops to enhance journalists' understanding of the project and created an awards program to incentivize media coverage of project progress and benefit-sharing activities.
- **Special events:** Open, town hall-style village meetings allow for direct engagement with community members and an opportunity to gather real-time feedback. Other special events include ceremonies to launch new programs or projects.
- **Visits to churches:** At the conclusion of services, during fellowship time, Rusumo staff mingle and chat with local stakeholders.
- **Unified messaging:** The formal and informal communications efforts of the project's participating institutions are carefully aligned.
- **Internal campaigns:** These efforts are designed to build the knowledge base of participating institutions about the project and associated benefit-sharing activities.



### Tracking effectiveness of the communications program

To track effectiveness, the NELSAP team uses a set of quantifiable indicators built around the strategic objectives of the communications program. Indicators measure outreach efforts such as number of meetings convened and amount of content shared—for example, the volume of advertisements placed. Others measure changes in attitude. Among the indicators: increases in the number of local authorities and opinion leaders who speak factually about the project in public and growth in the percentage of adults living inside and outside the project area who support Rusumo’s activities.

### KEY CHALLENGES IN IMPLEMENTING A TRANSBOUNDARY LOCAL DEVELOPMENT PROGRAM

According to those involved in the LAPD’s creation, the regional nature of the project itself—and the diverse systems, processes, and approaches of its three shareholder countries—posed the biggest challenge in designing the LADP.

For instance, given the varying degrees of government decentralization among the three nations and with local—rather than national—oversight for livelihood restoration and benefit-sharing programs’ design and implementation, concern arose about the capacity of the various local authorities to lead the process. A capacity analysis revealed that while Rwanda had sufficient local resources, Tanzania and Burundi government teams needed more support, requiring the addition of local LADP coordinators.

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“The biggest challenge in designing and implementing the LAPD program was the difference between the three countries in terms of the capacity of the local district governments to lead the process.”

—Social programs consultant to Rusumo Falls project staff

Burundi’s commune administration also lacked local-level expertise in areas such as finance, procurement, engineering, and project management, given its nationally centralized government systems. To close these gaps, NELSAP recommended the hiring of an accountant and procurement specialists. Provincial authorities and national ministries provided additional technical assistance.

Another issue: Rwanda already had in place a district development strategy that incorporated local community consultations, which helped to streamline the process of defining and moving forward with their program. However, neither Tanzania nor Burundi had implemented such strategies. So, for these two nations, things took longer.

### THE TAKEAWAY

The Rusumo Falls project experiences yielded several lessons:

1. **In a multinational benefit-sharing program, a centralized entity is needed to coordinate design of the local benefit-sharing activities.** For the regional Rusumo Falls project, NELSAP was responsible for all aspects of the project construction and operations planning, which included local benefit sharing. Even with this centralized entity, the coordination challenges can be significant. Rusumo staff reported that they underestimated the effort needed to follow up and troubleshoot on local benefit-sharing activities. They overcame these challenges, however, by working closely with district/commune coordination teams and providing supplemental technical, procurement, finance, environmental and social expertise. Site visits and meetings were organized to fast track the implementation. NELSAP experts also provided assistance in preparing safeguards reports to meet World Bank requirements.
2. **Multinational benefit-sharing programs should have built-in flexibility so that efforts can be tailored to the needs of each country.** For instance, the livelihood restoration program and benefit-sharing activities in the three Rusumo project countries differ. They reflect individual country priorities as identified during the consultation process.

## EAST AFRICA | Rusumo Falls

3. **Not all local governments have the same capacity to take on roles in benefit sharing, so supplemental expertise might be needed.** The Rusumo Falls benefit-sharing team evaluated the capacity of each local government and arranged for additional resources when needed.
4. **An appropriate monitoring framework is critical to a well-functioning benefit-sharing program.** Monitoring on the Rusumo Falls program happens at the community, district and NELSAP levels. Selection of indicators depends on the benefit-sharing activity—typically two or three per activity. For instance, to measure the success of a road construction project that connected a village to the market, indicators such as number of jobs created during the construction and number of people benefiting from the access to the market were used. The monitoring process also uncovered a need for more gender-disaggregated data, particularly since it was clear that some programs, such as beekeeping, benefited more women than men.
5. **There are differences in local government capacities, making it even more important to ensure accountability and transparency on the use of funds.** Accountability systems should enable tracking of funds usage and this information should be shared with all interested stakeholders. At Rusumo Falls, before a local district can disburse money for services rendered, NELSAP must sign off with a “no objection,” which depends on the amount requested.
6. **The coordination among the three countries, although challenging, created opportunities for learning and knowledge exchange.** After sharing their experiences from the implementation of the LADP program, Tanzania and Burundi representatives learned that Rwanda’s benefit-sharing activities focused more on improving public infrastructure, such as health centers and water supply. As a result of this exchange, they shifted their spending to allocate more funding for similar efforts, including vocational training, primary and secondary schools, health facilities and water supply.
7. **Local stakeholders might not make the connection between benefits received and the project so it is important to communicate this connection.** For maximum effectiveness, tailor the approach to the audience and include a communications component in all aspects of the benefit-sharing program. For example, a public launch ceremony kicks off every Rusumo Falls benefit-sharing activity, while community-wide ceremonies signal the completion of activities such as road building or public facility construction.

### Increasing access to clean water in Rwanda

Some villagers on the Rwanda side of the Rusumo Falls hydro project spend the better part of most of their days fetching water. It’s a two-hour walk from Nyamuganda village to Gatonde, where the nearest water kiosk is located. It takes three hours to get home, because the weight of the water can slow their pace. This burden falls primarily on women and girls.

But change is on the way: Under the Rusumo Falls Local Area Development Program, new potable water supply centers are under construction nearby. The efforts include construction of a water pipeline and a more centrally located water kiosk. Eventually, the new system will supply 10,500 households in the region with a convenient source of clean water. By reducing the time devoted to water collection, villagers are freed up to focus on other more productive and educational activities. The project is part of a broader program designed to increase access to potable water as the region’s population grows, economic activity increases, and demand rises.

Source: Rusumo Falls project news, August 28, 2019



Water kiosks such as this one are bringing clean water closer to Rwandan villages, representing a significant quality of life improvement for villagers who must walk long distances to fetch their water. Credit: Rusumo NELSAP



### Bringing health care closer to Tanzanian communities

The Ngara District Hospital is about 25 miles (40 kilometers) from the local villages on the Tanzania side of the Rusumo Falls hydro project—quite a distance for villagers in need of medical care, particularly for those without cars or other motorized transport.

The project's country planning team identified this critical health care gap in the early stages of the benefit-sharing development process, after consulting with local communities. In devising a benefit-sharing plan for the Tanzania Local Area Development Program—LADP—the team prioritized the renovation of rundown local facilities. The goal: to bring modern health care closer to the local communities, thereby improving well-being and reducing the amount of time spent traveling to and from medical appointments.

To date, two of the three projects are complete. The newly renovated Rusumo dispensary now serves nearly 11,000 local residents of Rusumo and Kyenda villages. The revitalized Lukole Health Center features new construction, updated equipment, and improved medical technologies to better serve the 35,000 residents of the Kasulo and Rusumo districts. Initially set up to meet the health needs of those living in a nearby refugee camp, the Lukole facility continued to serve local residents after the refugee camp closed, even though it was outdated and over capacity. For this project, health education was viewed as an important component. The upgraded facilities include meeting spaces to convene public gatherings.

Upon completion, the third project—the Rusumo Health Center—will serve approximately 27,425 people including those seeking economic opportunities associated with the Rusumo Falls project.

A cost-sharing agreement has funded these critical infrastructure projects. The LADP is financing facilities construction and equipment purchases, while the Ngara district will cover health center staff wages and other recurrent costs.



Lukole Health Center. Credit: Rusumo NELSAP

### In Burundi, overcoming challenges in meeting basic needs: clean water, health, education

Access to clean water—and, during times of shortage—any water at all—has been a major challenge in Burundi's remote Giteranyi and Busoni communes. Seventy-five percent of local residents face water-access difficulties, particularly during the dry season, when the cost of water soars. This situation will soon change, following the completion of a Burundi LADP project to rehabilitate the water system. This project has two goals: increase availability and affordability of clean water and reduce the time it takes to collect water by bringing outlets closer to home.

A second component of the Burundi LADP aims to bring health care closer to local residents, with the construction of the Bugoma and Rugando Health Centers.

A third component of the program is designed to improve economic opportunity, particularly for local youth. To create new investment in these communities, the LADP sponsors short courses on trades such as tailoring, carpentry and other artisanal services. To house these classes going forward, vocational training facilities in each of the communes are now under construction.



Vocational training facilities in Burundi. Credit: Rusumo NELSAP



THPC constructed this footbridge to connect the local village with roadways in Lao PDR. Credit: E. Wojczynski





## Theun-Hinboun Expansion

### From Required Actions to Sustainable Community Development

Originally commissioned in 1998 along the Nam Theum River in Lao PDR's Bolikhamxay province, the 240 MW Theun-Hinboun hydropower plant underwent a 280 MW expansion in 2012, creating a facility with a total capacity of 520 MW. The initial project came without any impact assessments or resettlement plans. By the time of the proposed expansion, the Lao government had further developed its resettlement policies and procedures. As a result, the expansion project included a formal environmental and social impact assessment, along with a resettlement action plan.

#### MEETING MITIGATION AND COMPENSATION OBLIGATIONS

The licensing agreement between the national government and the Theun-Hinboun Power Corporation (THPC), which created the joint venture for the expansion, specified clear obligations to address project-related social and environmental impacts.

Commitments associated with the expansion process involved relocating 35 villages, including creating new farm plots for the 12 villages whose farmlands were affected by the project.

#### Livelihood restoration program for resettled and relocated communities

As part of these commitments, THPC implemented a large-scale livelihood restoration program. Aimed at rural resettled and relocated communities, along with those affected by seasonal flooding or reduced fish populations, the program was designed to address reduced farm crop output and fish catches. It also aimed to address challenges for farmers given the Lao government's newly mandated ban on slash-and-burn agriculture in the basin uplands areas—the longstanding farming method used in

local communities. Focus was on working directly with the affected villages and the district government to either boost low yields or develop alternate livelihood activities.

In addition to mitigating and compensating for project impacts in accordance with the licensing agreement, the program provided some benefit sharing during the obligation period. This was seen as a way to build on and enhance the mitigation efforts. Among the benefits beyond the required actions:

- Because it proved difficult to establish the degree of impact for all downstream villagers, the company decided to extend eligibility for compensation to all. The company considers this as benefit sharing since there is a high probability that some non-impacted downstream villages received compensation.
- Some non-impacted villages had improved road access and better electrical and water supply.
- The program provided improved health and education services and village infrastructure to villages that were not directly impacted.
- The program supported a biodiversity protected area for 10 years, beyond the scope of licensing agreement obligations.



Downstream village families have better access to clean water as a result of THPC's livelihood restoration program. Credit: THPC

## POST-OBLIGATION PERIOD, A SHIFT TO BENEFIT SHARING

As the obligation period winds down, THPC is moving towards creating a multi-faceted benefit-sharing program, known as the Village Development Fund. Between 2018 and 2019, the company laid the groundwork for this ambitious new vision for community-driven development by consulting with community and district government leaders to determine local needs and preferences. A key part of the process was an assessment to understand the status of resettlement programs and whether halting programs would negatively impact the communities that have benefited.

“We do not want a situation in which livelihood development successes and other results collapse once the obligatory contributions and programs stop at the end of the licensing agreement,” explained one company representative. The idea is that the company will deploy a flexible, adaptive management approach to enable a careful and non-disruptive transition from the mitigation and compensation period. While not yet finalized, plans for the new Village Development Fund are well underway. The program features four key components, none of which are required by the licensing agreement:

- **Poverty Reduction Fund:** to finance new community-driven development projects
- **Agricultural subsidies:** for cash crops and dry rice irrigation
- **Local hiring and procurement:** to build the local supply chain for goods and services
- **Programs targeting ethnic minorities and vulnerable groups:** focused on the poorest of the poor, including the disabled; subsidies for food, fertilizer, education, and health; and training and assistance to support agricultural, fishing, and alternative livelihoods

### About the Poverty Reduction Fund

The company considers poverty reduction the most important aspect of the new program and has prioritized its efforts in this area. All impacted villages will be eligible to receive support from the fund. Specific funding

levels and project opportunities will be determined by the village’s degree of vulnerability, based on a socioeconomic assessment conducted by the company.

Funds will go towards projects aimed at reducing poverty, as proposed by the villages themselves. Among other criteria, projects will be evaluated and selected based on whether they provide collective—rather than individual—benefit, and whether the village is committing its own resources, such as cash or labor. The idea is that communities should have a stake in their own development efforts.

Instead of a fixed annual amount, the fund’s budget will vary from year to year, depending on projects proposed and the degree of community need. According to company staff, the rationale behind this approach was to prevent a rush to access funds before they ran out. Having a fixed budget might have created a disincentive for undertaking the important preparatory work needed to ensure quality programs. Another argument against a fixed annual budget was the concern that it could lead to disagreement about whether distributed funds were meeting targets. By allocating funds based on availability of quality project proposals—meaning that in some years there could be more funds disbursed than in other years—such issues become less of a concern.

## THE TAKEAWAY

THPC has dedicated significant efforts to impact mitigation, including livelihood restoration measures, as part of the Theun-Hinboun expansion during the obligation period covered by the licensing agreement. These efforts have yielded important lessons learned, which have relevance for the design and implementation of benefit-sharing activities.

### 1. Take the time to adopt a grassroots approach.

THPC devoted nearly three years to extensive, hands-on consultations with communities and local district government staff to develop program plans and designs. This was time well spent, according to THPC staff, because it helped build relationships and a bond of trust with the community. These interactions gave community members confidence that THPC staff had villagers’ best interests at heart. “Whatever THPC wants to do they consult with all



villagers first and plan together,” said one. Of note, the 15 staff hired for these consultations brought strong communications skills to the table. They lived among the residents of the resettled villages for the duration of the resettlement period. They helped villagers work through a variety of community issues, ranging from infrastructure to education, sanitation, and health, among others. Villagers reported that they learned more from hands-on interactions with project staff—in their role as informal coaches—than through formal workshops.

2. **Prepare for the possibility of inadequate government capacity and for the continuing need to build capacity.** Although THPC staff worked closely with district government staff and communities so they could manage the various agricultural and commerce programs themselves, these efforts did not always go according to plan. For instance, frequent turnover of government staff meant a continuing cycle of training. And because the district government typically juggled multiple priorities with limited funds, there was often little appetite for additional responsibilities. This increased the risk that improvements would not be sustainable over the long term, causing THPC staff to circle back and resume the program management roles that they had initially turned over to local authorities. Such was the case when it was time to hand over maintenance of upgraded roads to the

district government. With limited resources and other pressing priorities, the government did not conduct the necessary maintenance. As a result, roads became nearly impassable, especially in the wet season. To maintain positive community relations and ensure the sustainability of the road improvements, THPC decided to provide an on-going—albeit limited—road maintenance program. Similarly, THPC is continuing to provide limited funding for the farming and garden demonstration centers in the resettlement villages it had established. The involvement has continued even though THPC had already met its concession agreement obligations related to these centers and the government was supposed to have assumed responsibility after the agreement period ended. Going forward, THPC plans to continue meeting with village members and district government staff, with a focus on building the human capital resources needed to assume full responsibility for programs.

3. **Use culturally sensitive approaches to engage with ethnic minorities and other vulnerable people.** Rural populations in Lao PDR and throughout Southeast Asia include many ethnic minorities—known in other regions as Indigenous Peoples—along with a variety of cultures, languages, and socioeconomic levels. Often, this creates situations in which some groups exploit others. In some instances, for example, villagers renting land were treated as slaves by the landowning villagers. With the advent of the project, THPC staff worked diligently and sensitively to ensure that disadvantaged and vulnerable people—including the disabled—received a fair allocation of resources and support, even though the project did not categorize groups as indigenous or ethnic minorities. However, in certain cases, this led to violent interactions between formerly privileged villagers—often privileged due to government support—and formerly subservient villagers, requiring the intervention of project staff. Staff took actions to reduce the risk of such conflict, for example, by giving less-privileged villagers priority access to available new homes so they had more options from which to choose. This also gave them additional time to get settled into their new surroundings before other villagers arrived.



At a demonstration garden established by THPC, villagers learn sustainable agricultural methods. Credit: E. Wojcynski

### Long-term support needed for rice production program

Originally intended as a way to shift farmers away from traditional slash-and-burn agriculture following the enactment of the new law restricting the practice by replacing or upgrading existing rice paddies, THPC's rice production program faced many challenges during its implementation.

Among the problems: the new rice fields themselves. Lack of knowledge about how to identify fertile ground and appropriate spots for planting meant that the selected spots were characterized by poor soil health, sloping ground, and poor drainage. Neither THPC staff nor the villagers knew how to prepare the fields, treat the soil or address the drainage issues. In addition, the district government was insistent on assigning specific spots to specific villages—which might not have been the optimal locations for rice paddies.

Given these issues, THPC has committed to providing ongoing and enhanced support for the program well beyond the end of the license agreement obligation period. The company also funded a national research institute to explore ways to improve soil quality, increase productivity, identify stronger seed varieties, and find alternative crops. Called the National Agriculture and Forestry Research Institute, it operates under the auspices of the Lao Ministry of Agriculture and Forestry.

4. **Plan for the long term, beyond the mitigation and compensation period. THPC's experiences with the livelihood restoration programs highlight the value of a long-term approach.** Many of the programs created as part of the project's compensation and mitigation activities require continuing support and ongoing monitoring, often extending beyond the obligatory time frame. As a result, it became clear that post-obligation period, continued support for the livelihood restoration programs would be needed.
5. **Include sustainability and exit considerations as part of the design and management of community development programs.** Can the program sustain itself after the company pulls out? What plans are in place for the transition from project sponsorship to community-run program management? These issues must be part of program design. THPC

learned this lesson the hard way, through its experience setting up the Livestock Revolving Fund, a microfinance facility that gave villagers access to capital to purchase livestock. To remain sustainable and avoid creating dependency on the hydro project for continuing support, community development programs should:

- Ensure community ownership and responsibility from the very start.
- Feature clear processes that define eligibility and participation criteria, and detail roles and responsibilities of all parties.
- Include up-front training so that the community has the capacity to manage the program.
- Incorporate an external oversight function to monitor village implementation, offer advice as needed, and intervene if the program is not working properly or if abuses are spotted.



## Livestock Rotating Fund: After initial success, roadblocks, review, and redesign

THPC envisioned the Livestock Revolving Fund as a microfinance facility to enhance livelihoods in the resettled and relocated villages. The company set up the fund by providing seed money to the villages. The money would revolve through the fund on a three-year cycle. The concept was simple: Individual villagers could request loans to purchase livestock. The village livestock committee evaluated loan requests and decided on loan approvals. Recipients were obligated to repay the loans with interest, according to an agreed schedule.

### *Early wins, but loan repayment an issue*

In the fund's early stages, THPC had significant hands-on involvement, as it helped villages set up the program and build capacity. While village committees handled day-to-day operations, the company provided strong guidance and oversight. The fund achieved some strong early wins. Villagers were able to purchase livestock, helping to improve their livelihoods.

Soon, however, the program hit a major roadblock. Villagers were not repaying their loans on time, leaving a rapidly dwindling pool of funds from which to provide new loans. The result was that the program could not be sustained.

### *Assessment of what went wrong yields insights and redesigned process*

After reaching the painful conclusion that a program designed with all the best intentions was not working well, THPC, the local government, and village leaders combined forces to understand the root causes of the issues. Among the problems uncovered: a mid-stream revision in repayment amount requirements; lack of clarity in loan tracking forms and processes; lack of compliance with agreed-on rules by some village authorities and committees; turnover in village personnel and resulting loss of expertise; village committee challenges in resolving disputes, especially if conflict involved village head; and limited village ownership and responsibility due to heavy THPC involvement.

This created a dependent relationship instead of independence.

Armed with an understanding of what went wrong, the group undertook a significant restructuring of the fund. Among the changes:

- Redesigned forms for ease of monitoring and reporting
- Clarified roles, with village committees determining loan recipients and managing the fund and the district government serving as regulator
- Increased emphasis on business viability evaluation prior to loan approvals and on continued evaluation and monitoring throughout the life of the loan
- Addition of third party oversight: with required quarterly reporting on repayment and financial results to district government
- Addition of twice-yearly fund audits by the district's Agriculture and Forestry Office
- Creation of bank accounts to hold funds' cash: prior arrangement involved the villages holding the cash
- Standardized procedures across all funds: previously, each fund created its own processes

While it is too early to measure results, the program's organizers are optimistic that the new approach will enable increased sustainability and long-term progress.



Caring for livestock. Credit: THPC





Trishuli River. Credit: Shutterstock





## Lessons from Experience with Local Shares<sup>5</sup>

With approximately 1 gigawatt of grid-connected installed capacity, hydropower provides about 95 percent of Nepal’s domestic electricity generation according to the International Hydropower Association. More projects are in the works. As demand grows, the government has set an ambitious plan to develop 15 gigawatts of total hydropower capacity by 2030.<sup>6</sup>

In this nation, it is common practice for hydropower companies to issue local shares directly to individual investors—either as a way to raise capital for projects or to grant an equity partnership in the project to local communities. This practice helps to build ownership and support among local communities with a view toward mitigating project disruption risks. It is an evolving concept of equity participation, in which project-affected communities have a constitutional right to invest up to 10 percent in a hydropower project company.<sup>7</sup>

While there are other examples of projects enabling equity participation by local communities, the Nepali approach

is unusual in its focus on the individual. In most other countries, the revenue-sharing opportunity is offered to a community or local government as a whole, by way of a trust or another entity. The accrued earnings help fund a range of community development projects and activities.

### ABOUT THE LOCAL SHARES MECHANISM

The local shares practice emerged with the development of the 22.1 MW Chilime hydropower project. In 2010—seven years into the operations phase—the developer, a subsidiary of the Nepal Electricity Authority, agreed to local demands for equity shareholding. The timing is notable, since the project was already turning a profit when issuance of local shares was announced. So, local shareholders received a positive economic return on their investment.

Since then, other hydro developers have followed suit. As of September 2019, 32 hydropower projects in Nepal have issued local shares.



Nepali community members review IFC’s 2018 report on local shares. Credit: IFC

At its inception, the mechanism was seen as a win-win partnership, with share prices initially moving in a positive direction. Community members who contributed to projects through their lands, water, and human resources were able to share in the benefits to which they were entitled. Some even received bonus shares. And project developers could raise equity funds and increase local buy-in for the project, thereby reducing construction risks associated with community disputes and aligning the financial interests of the project and community members.

But the positive trajectory has not continued. Recently, shares prices have ticked downward, negatively affecting returns on the local shares.

Of course, such shifts happen. Markets can—and do—fluctuate. And because the use of local shares remains a relatively new approach, there is little research and a general lack of understanding about the longer term challenges, risks, and rewards associated with the approach.<sup>8</sup> Thus, the effectiveness of the mechanism over time remains to be seen.

### How it works

Companies can issue up to 10 percent of shares to local community members at par value—100 Nepalese rupees (about \$0.87)—which is usually below market value. Shares can be issued at a premium only if a due diligence audit justifies the premium value.<sup>9</sup> Shareholders earn capital gains and receive dividends based on the amount of stock held. They must retain the stock for at least three years before selling.<sup>10</sup>

Community members typically fund their local share purchases from personal savings, the sale of personal holdings such as land, farm animals or jewelry, or through loans from friends or middlemen. To date, two hydropower companies have arranged for bank financing to assist local share purchasers.<sup>11</sup> Microfinance institutions also offer loans, but at a significantly higher rate than banks.

The IFC study found that community members who own local shares tend to hold on to their stake for extended time periods—even beyond the minimum three-year requirement. They view their shares as an

asset similar to land ownership, providing financial security in difficult times or in old age. As with common stock owners around the world, community shareholders use the proceeds from a stock sale for a variety of personal uses—to cover income shortfalls, pay for their children's education or health care costs, purchase additional land, and the like.

### THE UPSIDE: FINANCIAL SECURITY, INDIVIDUAL EMPOWERMENT, FINANCIAL KNOWLEDGE

To date, project-affected community members have welcomed the use of the local shares mechanism, and for good reason: It gives them the ability to invest in a hydropower company. These investments have yielded positive returns, particularly in the early years of the local share offerings, when shareholders experienced exponential growth in earnings.

Beyond the financial rewards, there is another factor at play, according to the IFC study. Residents of villages in project-affected areas do not trust their local governments or the community entities set up to handle benefit-sharing funds. This distrust is rooted in a tradition of weak governance, along with concerns about elite capture and social discrimination. “As a result, individuals felt they were better off making their own investment decisions, by themselves,” the study said.

This independence has served to empower shareholders, stabilizing their economic status and building their financial knowledge base. It is an important benefit for all local shareholders, but of even more value for the female community members who have been able to purchase stock.

### THE DOWNSIDE: FINANCIAL RISK, LACK OF INCLUSIVITY, LIMITED COMMUNITY DEVELOPMENT

The local shares approach also comes with major financial risks: the potential for negative market returns and investment losses. According to the IFC study, most share purchasers did not have a thorough understanding of how markets function or of the associated volatilities. Nor did they know enough about the processes specific





Community members share their views of local shares as part of a 2018 IFC assessment of Nepal's local shares mechanism. Credit: IFC

to the local shares, including buying and selling. In particular, investors from marginalized groups—the socially, economically, and culturally disadvantaged—faced problems because they may have sold precious assets or gone into debt to purchase local shares without realizing the stakes involved. Also at issue: To date there is no legal clarity on what happens to share value at the end of the government-awarded concession.

“Much of the rhetoric around this [local shares] phenomenon has been dominated by its optimistic potential to deliver almost guaranteed profits at the individual level with little appreciation of the potential risks and challenges associated with such a market instrument,” the IFC report noted. This is an important consideration in assessing the degree to which local shares can be an effective benefit-sharing instrument in Nepal.

Another downside is that the nature of the benefit itself sets up an inequitable dynamic. While many community members might want to purchase shares, some may lack the resources to do so—particularly disadvantaged, vulnerable, and marginalized members of the affected communities. This puts them at risk of falling into a debt trap, since they might have to take out high-interest loans that they may struggle to repay.

## CHANGING MARKET CONDITIONS ARE REDUCING THE APPETITE FOR LOCAL SHARES

In the past, the financial risks inherent to investing in stocks have been offset by the healthy capital gains and dividend streams in Nepal's hydropower projects, particularly projects backed by the government.

Recently, however, conditions have changed. Community interest in local and general public offerings for independent power producer (IPP) projects has waned. “Market prices for many hydropower stocks have now plummeted to below par value,” a spokesperson for the Independent Power Producers Association of Nepal (IPPAN) said. Among the reasons for the decline: new government regulations resulting in additional local benefit-sharing expenditures, coupled with rising construction costs and fixed power-purchase agreement prices that restrict companies from raising prices to offset rising costs.

These changing dynamics have dampened the initial enthusiasm for local shares. “Local share purchasers who put 50 percent down on their shares before are now reluctant to put down the remaining 50 percent,”

“Except for three projects with direct foreign investment, Nepal’s hydro IPP projects now have a higher cost structure due to continually escalating construction costs, a new national directive requiring community development contributions, and power-purchase agreement prices that have been fixed for 6 or 7 years. This has impacted market value.”

—Spokesperson, Independent Power Producers Association of Nepal



Meeting between company and community groups. Credit: IFC

the IPPAN spokesman said. “In the past, people were very interested in buying local shares at par value—100 rupees—and then benefitting when the market value increased later to 200 or even 1,000 rupees, now there is little interest in buying shares.”

## THE TAKEAWAY

Given that the local shares approach is still quite new, there is not yet enough knowledge to identify concrete lessons, beyond recommendations based on observed trends thus far. The IFC study highlighted the importance of transforming communities into informed shareholders, enabling inclusive participation, and reducing community risks. Among the suggested actions to achieve these goals:

1. **Provide more community education.** The IFC study found that many poor rural households borrowed at high interest rates or sold primary assets to invest in local shares. They had unrealistic expectations of returns and were unclear on the risk of loss. Education can help address this issue, with programs such as financial literacy, the hydropower sector, and the process of hydropower project development. Target audiences can include male and female community members, local media, elected officials and subnational government staff, as well as other traditional community-based networks—local clubs, women’s cooperatives, schools, and the like. These groups can serve as trusted intermediaries to educate others in the target groups.
2. **Strengthen disclosure of project information.** Companies should ensure that all relevant information related to their share offerings—such as prospectuses—is made available to and can be accessed by their potential shareholders. Given Nepal’s high rates of internet penetration, electronic communication represents an effective and cost-efficient way to reach local communities, according to the IFC study. Requiring companies to maintain an up-to-date project website can improve the flow of information.



3. **Supplement the disclosure of information with user-friendly content.** Prospectuses and other project documents typically contain highly technical language that is difficult to understand. Providing user-friendly content that interprets the relevant details in simple language can help demystify the material and enhance transparency. Such access to accurate information is particularly important when communicating about what happens to share value at the end of the licensing period. It also can correct misperceptions created through word-of-mouth rumor mills or false reporting on social media or other outlets.
4. **Create low-risk mechanisms for vulnerable households to finance their share purchases.** Such mechanisms will reduce the risk that people will fall into heavy debt to pay for their shares.
5. **Strengthen outreach, communication, and public consultation.** It can take a long time for hydro projects to come to fruition. This heightens the importance of sustained and consistent communication. Formalize and codify the proposed activities in a communications plan as early as is feasible in the project lifecycle and continue the outreach efforts throughout the life of the project.



Local women in Dolakha participate in IFC's 2018 local shares study. Credit: IFC





Community participants design their own bamboo crafts during a workshop for women's groups sponsored by SN Aboitiz Power. Credit: SN Aboitiz Power



# PHILIPPINES

## SN Aboitiz Power

### Focus on Community Development

SN Aboitiz Power (SNAP) is a joint venture partnership between Norway-based SN Power, a hydropower development company that operates exclusively in emerging markets, and Aboitiz Power Corporation, a subsidiary of Philippines conglomerate Aboitiz Group. The company operates four hydropower plants, which supply renewable energy throughout the country: the 360–388 MW Magat plant on the border of Isabela and Ifugao, the 8.5 MW Maris Main Canal plant, and the 105 MW Ambuklao and the 140 MW Binga plants—both located in Benguet province.

Under the country's legal framework, SNAP and other renewables developers are required to provide financial benefits to local communities in two ways:

- **Taxes:** Formerly known as the National Wealth Tax and now called “Government Share,” these are mandatory levies paid by all renewable energy developers to the national government. The monies are then distributed to provinces, municipalities, and *barangays*—hyperlocal government entities—in the vicinity of hydro plants.
- **Power generation revenue transfers:** Government rules require that host communities receive a share of hydro revenues, calculated as one centavo for every kilowatt hour sold by power plants in the area. Recently updated regulations have streamlined processes associated with this law. The changes allow for direct transfer of such funds to communities, enabling their use for community electrification, environmental and watershed projects, and community development and livelihood programs. Following the update, SNAP representatives said in a press release that the company planned to release funds totalling 10.5 million Philippine pesos (about \$207,300) to local villages for these uses, based on the total attributable sales of its four facilities.

### ABOUT SNAP'S CORPORATE SOCIAL RESPONSIBILITY PROGRAM

Beyond mitigation and compensation, and in addition to the revenues flowing to communities as required by national law, the company has undertaken significant local benefit sharing for the host communities surrounding its projects.

SNAP's voluntary corporate social responsibility program is funded as a percentage of the company's net income after taxes, with payments allocated directly to support local community projects, subject to evidence of progress on the individual projects. In the eleven-year period 2007–2018, this financial commitment yielded \$7.6 million, which funded more than 770 local projects.

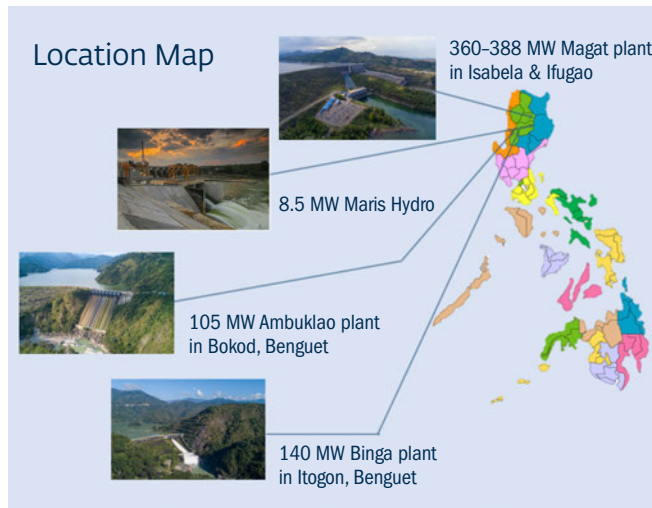
The program has evolved through the years as government regulations shifted, local needs changed, and as the company learned from its prior experiences. Initially established with a set annual budget to fund community-initiated development projects in certain key results areas, the program also provided donations, sponsorships, and urgent or post-disaster emergency assistance.

In 2014, the company undertook an extensive program review, involving consultations with local community members and an assessment of outcomes.

### Gaps revealed

The review uncovered some significant gaps. Among them: lack of focus on environmental enhancement and protection and an absence of scholarship funds for continuing education, an issue heavily emphasized by communities during the consultations. In addition, while the program funded construction of community office facilities and office equipment purchases, it was not contributing to building community governance or human resources capacity—both of which are necessary to ensure long-term sustainability. Changes in the national tax regime meant a reduction in tax-related revenues that local communities had come





to expect from renewables projects, putting previously planned community development projects at risk. SNAP provided supplemental funding to enable completion.

The review also uncovered gaps in the development management capabilities of local government and community organizations partners. Projects proposed under the corporate social responsibility (CSR) program often lacked cohesion and alignment with local development goals and priorities. This made it difficult to optimize the development potential derived from the significant local tax revenues or the mandatory and voluntary benefits provided by the company.

### Revised program addresses issues uncovered

The result of this review was a revamped program, known as CSR 2.0, which includes both community-driven and company-driven elements. It also provides a special pool of funds to support unique situations. This includes previously planned community projects that could not be implemented due to the loss of tax revenues resulting from the shift away from the National Wealth Tax to Government Share.

In addition, the company initiated a continuing development management training program for local government officials and community organizations. It launched in 2016, timed with the adoption of the CSR 2.0 principles. The program serves as part of a change management strategy, refocusing local governments on their development mandates.

To date, participants from nearly all of the company's 44 host communities have completed the training. Focus is on strategic planning, identifying and prioritizing development gaps, translating these gaps into strategic development objectives, and measuring and monitoring the progress. Participants also learn how to identify resources and budgets for their development goals. This approach enables the company to align its CSR program to the strategic development objectives and programs of partner local governments and community organizations. It ensures that company-supported programs are sustainable, development-oriented, and come with measurable outcomes.

### THE TAKEAWAY

SNAP's experiences with local benefit sharing in projects throughout the Philippines have yielded several lessons.

1. **Programs must evolve to remain relevant in the face of changing national and local contexts.** Since the company first became involved in the Philippines, government regulations shifted and local needs changed, requiring a significant adjustment in the benefit-sharing approach.
2. **Embedding review processes to assess effectiveness will enable course corrections as needed.** For SNAP, an extensive review of activities and outcomes uncovered specific gaps to be addressed in the revamped program.
3. **Open lines of communication and frequent dialogue with community stakeholders can ensure that programs are meeting needs.** Community consultations proved key as SNAP looked to adjust its benefit-sharing programs as government regulations changed.
4. **While community input and feedback are critical to designing and implementing benefit sharing, the developer must provide guidance and leadership to ensure long-term sustainability of outcomes.** Based on the results of the program review, SNAP decided to add company-driven elements for stronger emphasis on longer-term capacity building, specifically in areas such as development management, strategic planning and management, community governance and human resources.



## Community Engagement Central to SNAP's Benefit-Sharing Program

SNAP's revamped CSR 2.0 program enables both community- and company-driven development projects. In all projects, including those initiated by SNAP, the company prioritizes community engagement.

### *Regular program*

This program is funded as a fixed annual amount and supports projects identified by the communities themselves. If the funding pool is not used up in a given year, the remainder does not carry over into the following year. The program supports projects in several key areas:

- Education: teacher training, classrooms, equipment, and instructional materials
- Environment: solid waste management, watershed management, and disaster risk reduction programs
- Governance: development management training, offices, ambulances, and major equipment
- Health: potable water supply, new clinics and birthing centers
- Indigenous People: ecotourism, livelihood, ancestral domain development, and preservation of traditional culture
- Livelihoods: support to women's livelihood programs, development of local tourism, food processing, agroforestry development



SNAP's revamped CSR program includes the BRIGHTS scholarship program—Bridging Gaps in Higher Education through Tertiary Scholarships—which provides stipends for college students with limited means from the company's immediate host communities to defray tuition and fees, along with living expenses. BRIGHTS also seeks to develop well-rounded leaders by encouraging scholars to participate in outreach programs for the communities and the environment. Credit: SNAP Group

While communities generate the proposals, SNAP representatives are involved in the evaluation process. Decision criteria include degree of contribution to community development, ability of the community to manage the project, fit with the regional development plans, and whether the community will contribute a portion of the costs in a counterpart fund. Groups of individuals—such as farmers, fishers, and women—can make project proposals as long as these proposals are endorsed by the respective host barangay, municipality or province. Approved proposals form the basis of an agreement between the company and the community. Agreed-on funding amounts are provided directly to the community. In addition to funding, the company provides technical support and convenes quarterly workshops to monitor project progress.

### *Company-initiated program*

Before implementing this program, SNAP representatives researched the local context and talked with community members about their needs. They also identified other funding sources available for community development projects in addition to company resources.

This outreach has yielded general areas on which the company wants to focus. Emphasis here is on strategic efforts that yield value for both the community and the company, such as capacity building to enhance strategic planning and project management capacity of host communities and watershed management programs that have business value—for example, improved hydrology through reduced soil erosion and sedimentation.

Additional areas of support include projects that yield socioeconomic value for the communities, such as agroforestry and livelihood programs, or indigenous cultural value. Communities can propose specific projects aligned with these strategic goals, which must be endorsed by the community first and later approved by SNAP's board of directors. Funds for approved projects are in addition to the company's annual regular CSR program allotment, which maintains a more philanthropic focus.

According to company representatives, this approach has enabled a more equitable distribution of benefits among communities.





Tina River. Credit: Tina River Hydropower Development Project



# SOLOMON ISLANDS

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## Tina River Hydropower

### Overcoming Negative Perception; Designing Impactful Benefit Sharing

In the Solomon Islands, a new, 15 MW hydropower plant on the Tina River—20 kilometers southeast of the capital, Honiara—offers enormous potential to improve the quality of life for the nation's people. Once operational, the \$240 million Tina River Hydropower Development Project is expected to curb the country's near-total reliance on expensive, imported diesel by almost 70 percent, significantly lowering power costs for homes and businesses while also vastly reducing greenhouse gas emissions. Financed through loans and grants from seven institutions, including the World Bank, it is the nation's first large-scale infrastructure project to be developed as a public-private partnership. It is also the country's first large-scale renewable energy project.

Tina Hydropower Limited, the company formed by Korea Water Resources Corporation and Hyundai Engineering Company Ltd, will build and operate the facility.

#### Legacy of past posed challenges in gaining social license

As planning got underway in 2008, the project faced some obstacles, despite its great promise for positive development impact. Among the challenges: Solomon Islanders had a negative perception of hydro development. This was a legacy of two failed hydropower projects undertaken in the 1990s and early 2000s and other development activities that did not provide expected benefits to landowner groups and cultural communities, some of which led to civil conflict and destabilization. This history made it more difficult for hydro developers to gain social license to pursue projects. As a result, while the government prioritized such development, attracting new investment was not easy.<sup>12</sup>

In 2016, the government set out to address the situation by crafting a new national development strategy that highlighted the importance of benefit sharing—and of projects that ensure positive outcomes for local communities. The strategy identified several goals, including poverty alleviation across the entire island chain and a more equitable distribution of development benefits.<sup>13</sup>

Meanwhile, planning for the Tina River project continued. With expectations high that the new project would yield strong development results, the Tina River developers embedded internationally accepted best practice environmental and social safeguards into the project. An extensive benefit-sharing program will reach more than 4,000 people from the 27 indigenous tribes from around Tina River, including members of the five tribes whose land was acquired for the project.<sup>14</sup>

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“The government definitely understands the link between social license and risk management and this is why they pushed to advance the benefit-sharing approach... And the developer/project company was aware of the land risks: for instance, will they have reliable access to the site when they are ready to start construction?”

—Excerpt from interview with World Bank project manager for Tina River Hydro



## ABOUT THE TINA RIVER BENEFIT SHARING PROGRAM

At its core, Tina River Hydro's benefit-sharing program has two overarching objectives:

- Create immediate, highly tangible community benefits
- Create long-term, sustainable quality-of-life improvements for the affected communities

A dual-phased program design aims to meet these objectives. The first phase is timed to coincide with the pre-construction and construction stages. The second phase will roll out once the plant is operational.

## Pre-construction and construction phases

The Community Benefit-Sharing Pilot is a stand-alone program to provide early benefits to community members and to prepare for the main project benefit sharing components. Funded through a World Bank-administered grant from the government of Japan, the pilot was initiated prior to the start of construction and will carry on into the construction phase.

The pilot is designed as a mechanism that will support the operations-phase benefit-sharing community development fund. It also will build the skills and capabilities of local communities so they are better prepared to implement the fund and the various community development initiatives supported by the fund.

Addressing high-priority local needs and providing up-front benefits to project-affected communities are the pilot's primary focus. Among the needs identified during consultations with local stakeholders: expanded access to electricity and improved water supply. As part of the pilot, project-sponsored construction of distribution lines and home service connections will extend the power grid to local communities, filling a gap in a country where only 16 percent of the population is connected to the grid. Modernizing the water infrastructure in affected communities, including for education and health service providers operating in the area, will ensure access to a clean, reliable, and sustainable water supply.

Local job creation is another priority need addressed by the pilot program. Plans include developing a database of individuals interested in employment and obtaining from the developer a list of technical skills and services that will be required. The pilot is teaming with the developer to support pre-construction workforce training, with both general vocational and targeted training to build the technical skills needed for specific job functions. These early initiatives will prepare potential workers for construction employment. As infrastructure improvement projects get underway and hiring begins, preference will be given to community members seeking employment. In turn, the local hires will be better positioned to take on jobs associated with the construction and operation of the hydro project itself. Preferential local hiring and



contracting for local people and companies on the project itself will be required as a separate element of the overall benefit-sharing program.

### Operations phase: Community Benefit-Sharing Fund

Once the hydro project moves into the operations phase, the Tina River project's benefit-sharing program goals will shift as well, to focus more broadly on long-term community development. However, during consultations with stakeholders, it became clear that a dedicated fund would be needed to achieve this objective. This would ensure the sustainability of the efforts and alignment of interests between the developer, power purchaser, and community members.

Structured in the form of a charitable trust, the Community Benefit-Sharing Fund will be funded as two separate flows:

- Minimum annual guaranteed amount: for projects that address immediate priorities and improve basic services, such as education, health care, resources for women, and ongoing skills training
- Incremental amount linked to the hydro plant's performance: to support an annual development investment program to meet other community needs

As part of its implementation agreement with the Solomon Islands government, Tina Hydro Limited committed to providing dedicated resources for fund management oversight, including creating a framework for monitoring, evaluation, and grievance redress and serving as the central communications hub to engage with stakeholders. Training for administrative staff and fund board members will help ensure smooth implementation.

Other key details, such as fund management specifics and guidelines for supporting community development projects, will be worked out as part of the pilot program. It is anticipated that the communities themselves will prepare five-year community benefit-sharing plans that will identify the initiatives they want to implement.

“Infrastructure development is the ‘easy’ part of the pilot. Creating a manual with procedures and guidelines on use of funds, getting governance arrangements started, determining how to work with the project company—this will be the hard part. That’s why an important component of the pilot is funding to develop the capacity of the trustees, along with the criteria and governance for fund administration...”

—Excerpt from interview with World Bank project manager for Tina River Hydro



Tina River Hydro Project Map



Local community engagement. Credit: Tina River Hydropower Development Project

### Royalty-based payments to impacted, landowner tribal groups

A separate benefit-sharing arrangement provides a royalty-based payment to the five tribal groups that were deemed owners of the land acquired by the government for the project.

These five landowner tribes have already received compensation for the land. This separate arrangement gives them a 50 percent ownership share in a land company that receives lease payments from the project (the government is the other partner in the company). They also will receive an ongoing royalty equal to 1.5 percent of the amount paid by the power purchaser under the power purchase agreement.

In addition, the landowner tribal groups are entitled to benefits as part of the broader Community Benefit-Sharing Fund.

### THE TAKEAWAY

Although construction is only now getting underway, the project has been in the planning stages for over a decade. As a result, some clear lessons on community engagement and designing benefit-sharing programs have already emerged.<sup>15</sup>

1. **A pilot program can add value.** A pilot program can assist in providing early benefits to communities and in testing and enhancing the program design.
2. **Early engagement makes a difference.** Early engagement on local benefit sharing and the pilot program, including several pre-construction measures, has contributed significantly to gaining social license and building local support for the project.
3. **Extending benefits beyond landowners to include the broader community helps to boost local support.** In the Tina River project, benefits for landowners are a central component of the benefit-sharing program. But another significant focus is on creating benefits for the much broader segment of the population with cultural connections to the project area—and creating a separate program aimed at this far larger group. This has allowed for more extensive project support and alignment of interests.
4. **Benefit sharing throughout the project lifecycle is important.** Similarly, initiatives to build local community capacity should continue through the various project stages.



School children benefit from reliable electricity. Credit: Tina River Hydropower Development Project



# ENDNOTES

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- <sup>1</sup> NCN's full name—Nisichawayasi Nehethowuk—translates as: The people from where the three rivers meet and who speak the language of the four winds.
- <sup>2</sup> The World Bank and the International Hydropower Association highlighted the Miel project as an example of benefit-sharing best practice in their publication "Better Hydro."
- <sup>3</sup> This case study draws on information provided by the Nile Basin Initiative/Regional Rusumo Falls Hydroelectric Project ([www.rusumoproject.org](http://www.rusumoproject.org)); and on author interviews with project stakeholders.
- <sup>4</sup> The 10 nations include Burundi, Democratic Republic of Congo, Egypt, Ethiopia, Kenya, Rwanda, South Sudan, Sudan, Tanzania, and Uganda.
- <sup>5</sup> This case study draws on interviews conducted by the author with a representative of the Independent Power Producers Association of Nepal and on: IFC. 2018. "Local Shares: An In-Depth Examination of the Opportunities and Risks for Local Communities Seeking to Invest in Nepal's Hydropower Projects." Washington, D.C.: IFC; and on IFC. 2018. "Local Shares Summary Report." Washington, D.C.: IFC.
- <sup>6</sup> International Hydropower Association. Country Profile: Nepal. 2019. Web page. <https://www.hydropower.org/country-profiles/nepal>
- <sup>7</sup> The Constitution of Nepal, 2015: Article 59(5) provides that while using the natural resources by the federal, provincial or local government, the local community shall be given priority to make investment in such percentage as specified by the law on the basis of nature and size of investment.
- <sup>8</sup> In fact, the IFC report represents the first comprehensive study of local shares.
- <sup>9</sup> The calculation of the premium price of a company needs to be an average of the three prescribed valuation methods (capitalized earnings of the last three years, discounted cash flow method, and any internationally accepted method) or four times the net worth per share, whichever is lower. See: Clause 25 of Nepal's Securities Registration and Issue Regulation, 2016.
- <sup>10</sup> This requirement is likely to change in the future. Recently, local communities have expressed interest in reducing in the time frame so they are not locked into their investment for such a long period.
- <sup>11</sup> Chilime in 2010 and Upper Tamakoshi in 2019.
- <sup>12</sup> Caldwell Johnson, Erik and Frederica Cimato. 2018. "Community Benefit Sharing in the Tina River Hydropower Project." Washington, D.C.: World Bank. <http://pubdocs.worldbank.org/en/178141523120729839/Tina-River-Hydropower-Community-Benefit-Sharing-Paper-Hydropower-Asia-2018>
- <sup>13</sup> Ministry of Development Planning and Aid Coordination. 2016. "National Development Strategy, 2016-2035." Honiara: Solomon Islands Government. <https://www.adb.org/sites/default/files/linked-documents/cobp-sol-2017-2019-ld-01.pdf>
- <sup>14</sup> IFC. "Bringing Renewable Power to Solomon Islands with a financing package worth over US\$200 million." Press release. December 16, 2019.
- <sup>15</sup> This section draws on: Caldwell Johnson and Cimato. "Community Benefit Sharing in the Tina River Hydropower Project;" and interviews with project staff.



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FEB 2021