

e-Seminar Title: Nepal PSD

Subject: Hydropower and Education – Summary of February 22, 2007 Deliberations

Contributors: Mallika Shakya, Sujeev Shakya, Meena Acharya, Bhuban Bajracharya, and Keshav Upadhyay (Editorial summary by Vijaya R. Sharma, Co-Moderator)

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Mallika Shakya:

(Comments on hydropower)

I have no disagreement on private profit-making as the key incentive for risk-taking. My concern is more about monopoly or cartel-based profit-making which may distort the market. I think the State has an important role in removing barriers to entry/operate through 'smarter' licensing and faster turnaround on decision-making. We all know the evils of monopoly/cartel economics. Yes, hydroelectricity can be as tangible as fish - it's a bigger fish but customers should still be able to bargain terms and conditions. Competition within the private sector should facilitate this, and not constrain.

I found the differentiation between the Indian State and Indian private-sector FDI very revealing indeed. Same differentiation can be made between the Nepali State and Nepali private investors/NRNs. I believe paying attention to such subtleties might open new doors in future.

I do not agree that donor aid and FDI are a trade-off. The European infrastructure model of the 1950s and the East Asian infrastructure model of the 1970s have one thing in common. They both mobilized donor credit (i) to set up market-efficient models which dissected public goods from private, and awarded commercially-managed contracts to competitive private bidders; (ii) to invest heavily on technology/knowledge-transfer as the projects proceeded; and (iii) to subsequently graduate from the donor credit by replicating the models internally for future ventures. Besides, more of Nepal's donor debt seems to come not from mega-infrastructure projects but from something less ambitious. And the rest comes from paying for IPP-power that was never consumed.

I also do not agree that academics are a waste of time. Negotiation in big projects will come from number-crunching, than from lobbying/linde-dhipi or abstract philosophizing. I am always impressed to see the academics in UK and US, for example, coming to aid of the governments in bargaining with the private sector. Nepal might be only beginning to wake up to it, but it is better late than never.

Meena Acharya:

(Comments on hydropower)

I am not very versatile in issues involved in technicalities of Hydro-power development in Nepal. As a political economist I see the need to develop Nepal's water resources speedily. There is no point sitting over it and let India develop all the water resources and

have the claim of the first use. But that should not mean pawning all our water resources for perpetuity. We will learn by doing. We had a very bad experience with Koshi, Gandak and now Mahakali. Why is Mahakali Nepali side of the bund so high that water flows to Nepal only during rainy season? Why did we renew the Sharada agreement without amendment when it expired? Why do we always get hoodwinked? Are we able now to negotiate with more technical knowledge?

Should not the political parties cease to make it an issue of party politics? What do we do with the demands like that India should pay for the Nepal's share of water it uses, until Nepal can use its entire share? The water is flowing any way. To me it seems Nepal needs to ensure only that it can use its share when it wants.

Will bringing in the Indian private sector make the Indian investment to Nepal's need more responsive? Our experience with the Indian State has not been happy. How far the Indian State is willing to change? Once these issues are sorted out, technical questions, environmental issue etc. can be solved easily. But given Nepal's terrain, investment capacity, and difficulty in network expansion due to terrain, perhaps smaller projects should be supported actively for rural consumption in the Hills, while a few larger projects taken up both for export and Nepal's industrialization and transport development.

Bhuban B Bajracharya:

(Comments on Alok Bohara's posting on education, made on February 21, 2007)

I agree with Prof Bohora on the need for Education Trust Fund. There are certain disciplines such as medicine which have become simply expensive beyond the reach of even middle income families. We need to introduce various funding mechanisms to facilitate access of students from disadvantaged and low income brackets to the education opportunities particularly higher education.

Private sector is coming up in many spheres of education including those in teachers' training and vocational and skill development. There again comes the role of government in PSD in education - that of ensuring standards and quality, once again a question of having well regulated system. With foreign employment expanding and its importance not waning in foreseeable future, vocational and technical education can be promoted for the skills required for such foreign employment.

With increasing number of educational institutions providing foreign degrees in the country (such as Cambridge A syllabus) and definitely they being in the private sector, there is a group strongly pledging to stop this practice to protect the national education system (SLC, national university degrees etc.). I think we can deliberate in some of these interesting issues.

Sujeev Shakya:

(Comments on Mallika Shakya's posting of February 21, 2007 on hydropower)

We have to perhaps agree to disagree. Markets and market economies have distortion, as there is 'profit' involved unlike 'tax payers subsidies' in case of state owned projects and enterprises. Definitely people working in Surya Nepal are better off than their compatriots in Janakpur Cigarette Factory, and pilots of private airlines are paid more than the state carrier. This is a reality that perhaps we have to live with.

If we have no problem in allowing fish which is a byproduct of water to be traded freely, why do we have problems in ensuring private trading of electricity which is a by-product of water?

Perhaps, Nepali hydropower have not been able to take off as the people who think they have solutions for this 'business of hydropower' are not investors, but people who continuously make it an issue to study and compile reports and do workshops. They can point out what is wrong but not come with a concrete solution. As I mentioned in my earlier deliberations also that such people for the past couple of decades belching different formulae have landed Nepal into darkness.

The issue is of action and taking risk! Perhaps apart from the private sector there are none to take this 'risk' as they look for the reward for the institutions unlike the 'rewards' that public sector projects bring to individuals who are bestowed strategic positions. If Nepali hydropower is to be harnessed, the options are either to take grants and deliver expensive projects to the economy and create more debt on the average Nepali, or to allow private entrepreneurs to take risk and get it going with at least one project. Else even in 2017 we will still be having the same deliberations now that are not different than what we were having in 1997!

Re: Chilime prices and newspaper reports, we can ask NEA a public utility to make the prices public. Of course if we go by the newspaper reports on various hydropower projects, one can end as confused as one started with.

Keshav Upadhyay:

(Comments on postings of Ambika Adhikari and Sujeev Shakya on hydropower on February 21, 2007)

I agree that we have to have some sort of understanding with Indians for the development of hydropower in a big scale. But are they interested? I am asking this question because despite Parliament's ratification of Mahakali treaty nothing has happened. There is a school of thought in Nepal which says that Indians are interested in river treaties, more for water than power. They can have power from other sources, but their problem in the foreseeable future is the availability of drinking water.

Sujeevji is right that there are not many possible investors and we should give every opportunity to those who really want to invest in hydro power in Nepal, but there are

about fifty applications pending in NEA for Power Purchase Agreement (PPA). Developers are running from pillar to post for PPA. Nothing happens. Recently I had an opportunity to go to NEA to discuss with NEA people about the energy rates for a hydropower project to be developed by one of my friends. It was a heated discussion that ensued. Ultimately managing director of NEA closed the discussion telling the developer that they should wait for about a month since NEA right then was engaged in an exercise of review of energy price. He hinted that the energy price they had offered for the plants of capacity of 5 MW or less could come down. Apparently there is a glut of investors. Could Merchant Power Stations without a legally binding power purchase agreement be built in Nepal? Would anybody invest in it? There was a small mention (in the meeting) about energy price of Chime. It is at par with Khimti and Bhotekoshi, even a little higher, though I am not quite sure about it. But Chilime people would hotly deny it. They would say that since NEA owns 51% of the equity in Chilime, NEA does get a very good dividend, and so if you take that into account the effective rate, it would be much lower than Khimti or Bhotekoshi's.