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For sustainable development



Benefit sharing in hydropower development

Initiative on Sustainable Hydropower





Benefit sharing

Hydropower projects can tap into the Mekong River's natural source of energy and contribute to economic growth and energy security in the region. Conversely, they can also affect the environment and residents of the river basin who may lose access to water and other related resources.



To make up for the losses and spread the benefits expected from hydropower development, benefit sharing mechanisms (BSM) are an important element of these projects' planning.

Although most hydropower projects include some measures of compensation for the people resettled from the project sites, these constitute the bare minimum and are usually a one-off package covered under the costs of the project financed by the developer.

In contrast, benefit sharing consists of a range of long-term mechanisms that governments apply based on an agreed regulatory framework. ■





Spreading the benefits

The river basins are home to thousands of people who depend on the water for navigation, fishing, and other sources of food and income. Benefit sharing is especially important in basins with large rural populations where hydropower will affect their resources.

For hydropower development, local benefit sharing should apply to communities living in the project impact zone, as identified in, for example, project environmental and social impact assessments. This would typically include individuals, households, entrepreneurs and local businesses based in the project area. The intention is to go beyond the resettlement community to recognise others in the reservoir area, upstream and downstream who may also be affected by the project.

Monetary and non-monetary benefit sharing mechanisms may span the economic life of hydropower projects, from planning to operations. Unlike compensation, which is usually covered under the projects' costs, benefit sharing typically takes a small percentage from the revenues generated by the project.

Monetary benefit sharing may include revenue and equity sharing, taxes and royalties, and preferential electricity tariffs to local communities. These benefits are typically shared when the project starts generating revenue.

Non-monetary forms range from facilitating access to natural resources and project-related development opportunities for riverine communities, to providing electricity connection and reliable electricity supply to communities in the project areas. Additional indirect benefits include investments on public infrastructures, human capacities and jobs. ■

The cost of benefit sharing

Governments are normally responsible for managing the economic and financial gains from hydropower to spread the benefits and costs equitably. They do this by following their national policies and legal frameworks. Tapping into the revenue stream of hydropower projects is perhaps the most common, practical and straightforward way of sharing monetary benefits.

Countries such as Nepal and China have laws that allocate an annual equivalent of one to three per cent of gross revenue from hydropower to revenue sharing. In other countries such as India, the percentage allocation ranges from 10 to 14 per cent.

Based on the user-pay principle, revenue sharing can be reflected in electricity tariffs. Experiences so far have shown that the effect on electricity charges is typically modest.

The general public, as the users, will support a reasonable increase in electricity tariffs if the money is used to fairly distribute the benefits within society, especially to poor rural areas where projects are built. In some cases, affected communities are not the first beneficiaries of the electricity generated by the projects, which can fuel resentment and social instability if there are no clear mechanisms to share the benefits.

Without benefit sharing, hydropower projects may become more difficult to justify to society because of their cumulative environmental and social impacts. The positive benefits of hydropower development can be underlined by the creation of new and improved social and economic opportunities. The fair sharing of benefits would ensure that the rights and interests of the affected populations are recognised and respected. ■



Sharing the benefits in the Mekong region

Mekong countries have experience with one or more forms of national-to-local and project-level benefit sharing in the hydropower sector. In 2007, Thailand introduced the local Community Development Funds (CDFs) that were intended to improve the economic conditions and quality of life of people living in the vicinity of power projects. The challenge now for Thailand is to also implement the CDFs for hydropower projects.

Since 2007, the Electricity Regulatory Authority of Viet Nam (ERAV) has been developing provisions of a draft Decree Law for BSM (Benefit Sharing Mechanisms) on hydropower with a multi-Ministry Steering Group. In 2010, provisions of the law were pilot tested on a 210 MW project in Quang Nam Province in cooperation with the provincial authorities. The challenge for Viet Nam is now to finalise and implement the law on all hydropower projects.

Lao PDR has experience with innovative approaches that target hydropower revenue to tackle poverty and raise the incomes of

people affected by the projects. The country also has revenue-management provisions for projects supported by donors that contribute to programmes at the sub-national and national levels aimed at alleviating poverty. The challenge for Lao PDR, as well as Cambodia, is to implement benefit sharing mechanisms in all hydropower projects through the development of enabling legislation.

China has laws that allocate a portion of revenue from hydropower projects to permanent local development and reconstruction funds in reservoir areas. The government also has measures for longer-term (20-year) compensation including hydropower projects in the Lancang-Mekong River cascade.

Clear legislation ensures a consistent approach, especially when countries have several existing hydropower projects, plan to develop more, or have a mix of public and private investment. In this manner all stakeholders know the rules of the game, including existing hydropower operators, potential investors, local communities and authorities, and river basin organisations with a mandate to support the equitable sharing of benefits. ■



Supporting benefit sharing

The Mekong River Commission's Initiative on Sustainable Hydropower (ISH) explores benefit sharing options and fosters dialogue on ways to introduce mechanisms in the region's hydropower sector. The ISH has helped to increase the level of awareness and understanding of the concepts and internationally accepted best practices among the staff at the National Mekong Committee Secretariats (NMCS) and multiple stakeholders in the four Member Countries. It has also presented effective mechanisms used in other parts of the world that may be adapted to the Mekong region. ■



Mekong River Commission

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