Local Shares

AN IN-DEPTH EXAMINATION OF THE OPPORTUNITIES AND RISKS FOR LOCAL COMMUNITIES SEEKING TO INVEST IN NEPAL'S HYDROPOWER PROJECTS

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ACKNOWLEDGEMENTS

This study was carried out by a consortium of Policy Entrepreneurs Inc., Pioneer Law Group and Kriti Capital Investments Ltd, with the International Centre for Integrated Mountain Development as a knowledge partner. The primary authors were Nirjan Rai and Padmendra Shrestha. The contributing authors were Anup Raj Upreti, Deepesh Vaidya, Narayan Chaulagain, Sandeep Karki, Bhawana Baniya, Srijana Bhattarai, Shreeya Rana, Suman Basnet, Jyotsna Tamang, Ankita Shrestha, Binod Bhattarai, Shristi Sijapati, and Pratikshya Dahal.

The IFC team that commissioned and led the study was Kate Lazarus (Team Lead), Sophia Tamot (Technical Coordinator) and Upasana Pradhan Shrestha, who provided constant encouragement, guidance, and feedback throughout the study. They were also instrumental in setting up the independent consultative panel of national and international experts who provided strategic guidance and key input at various phases of the study.

We are immensely thankful to our panel members: Sambriddhi Kharel (Gender Specialist), Kulman Ghising (Nepal Electricity Authority), Niraj Giri (Securities Board of Nepal), Maha Prasad Adhikari (Investment Board of Nepal), Sagar Gautam (Ministry of Energy, Water Resources and Irrigation), Pravin Raman Parajuli (Nepal Merchant Bankers' Association), Bir Bahadur Ghale (Hydro Developer), Deepak Gyawali (Water Expert & Civil Society), Khadga Bisht (Independent Power Producers Association of Nepal), Dal Bahadur Adhikari (Ministry of Law, Justice & Parliamentary Affairs), Mahesh Aryal (Ministry of Finance), Joon Hyung (Nepal Water & Energy Development Co.), Arbind Kumar Mishra (National Planning Commission), Abhishek Singh (Asian Development Bank), and Marcelo Andrade (Pronatura International).

Tremendous support and guidance was provided by Justin Pooley, Pablo Cardinale, Debra Sequeira, Lopa Shah, Kamal Dorabawila, Sunrita Sarkar, Jamie Fergusson, Elizabeth White, Edmond Mjekiqi, Wendy Jo Werner, Mohammad Rehan Rashid, Lakhdeep Babra, Hyun-Chan Cho, and Morgan Landy. We recognize the ongoing support of IFC's Environmental and Social Governance Department and Infrastructure Department, as well as the feedback and collaboration of colleagues at The World Bank Group.

We are thankful for the generous support from the Australian and Japanese Governments and The Rockefeller Foundation.

We are grateful to all the key informants and participants at the stakeholder meetings representing various sectors including, but not limited to, the government, public utility, power producers, banks, merchant banks, and regulators. Their participation helped the team capture diverse perspectives on the issue of local shares.

During the field visits, local communities in Rasuwa, Solukhumbu, Dolakha, Lamjung, and Ilam enthusiastically participated in focus group discussions and individual interviews. We thank all participants from the local communities for sharing their insight and experiences. The hydropower projects visited were highly supportive towards the study. We are especially thankful to Sanima Mai, Chilime, and Solu hydropower companies for allowing the team to visit the project generation sites, and Sanima Mai for helping to coordinate with the local communities.

TABLE OF CONTENTS

ACKNOWLEDGEMENTS I
ACRONYMS VI
GLOSSARY VIII

1 INTRODUCTION 1
1.1 Hydropower, benefit sharing, and local shares in Nepal 1
1.2 Objective of the study 2
1.3 Framing of local shares for the study 3
1.4 Structure of the Report 4

2 METHODOLOGY 5
2.1 Data collection 5
2.2 Accounts from the field 7
2.3 Expert consultation 7
2.4 Consultative panel 7

3 THE CONTEXT OF LOCAL SHARES 8
3.1 Nepal's Share Market 8
3.2 Nepal's Hydropower Share Market 11
3.3 The Evolution of Local Shares 12

4 DOCUMENTATION AND ANALYSIS OF LOCAL SHARES 16
4.1 Amount of Allocation 16
4.1.1 Policy and legislation 16
4.1.2 National practices 17
4.1.3 Perceptions 18
4.1.4 Key Issues 19
4.2 Process of Allocation 20
4.2.1 Policy and legislation 20
4.2.2 National practices 21
4.2.3 Perceptions 23
4.2.4 Key Issues 23
4.3 Timing 25
4.3.1 Policy and legislation 25
4.3.2 National practices 25
4.3.3 Perceptions 26
4.3.4 Key Issues 26
4.4 Price 26
4.4.1 Policy and legislation 26
4.4.2 National practices 27
4.4.3 Perceptions 27
4.4.4 Key Issues 28

4.5 Eligibility 28
4.5.1 Policy and legislation 28
4.5.2 National practices 29
4.5.3 Perceptions 30
4.5.4 Key Issues 31
4.6 Delivery Model 31
4.6.1 Policy and legislation 31
4.6.2 National practices 32
4.6.3 Perceptions 32
4.6.4 Key Issues 32
4.7 Financing 33
4.7.1 Policy and legislation 33
4.7.2 National practices 33
4.7.3 Perceptions 34
4.7.4 Key Issues 35
4.8 Holding and Divestment 36
4.8.1 Policy and legislation 36
4.8.2 National practices 36
4.8.3 Perceptions 38
4.8.4 Key issues 39

5 LOCAL SHARES: ACCOUNTS FROM THE FIELD 40
5.1 Limitations 40
5.2 Observed Economic Changes 41
5.3 Empowerment of Local Communities 43
5.4 Noteworthy Observations 45

6 FRAMING OF LOCAL SHARES AS A BENEFIT SHARING INSTRUMENT 46
6.1 Defining benefit sharing 46
6.2 The changing paradigm of benefit sharing in Nepal 47
6.3 Existing practices in equity investment in hydropower development 48
6.4 Local shares versus other practices in equity investment in hpp 50

7 FINDING AN ALTERNATIVE DELIVERY MODEL FOR LOCAL SHARES 51
7.1 Possible delivery models for the SPV 51
7.2 Evaluation of models against key parameters 52
7.2.1 Ability to incorporate SPV and hold shares 52
7.2.2 Ability of SPV to issue local shares 54
7.2.3 SPV's ability to hold investment and allow communities to participate in decision-making 55
7.2.4 Ability of SPV to distribute earned income 57
7.2.5 Ability of local investors to divest from SPV 58
7.3 Other key issues 59

8 OPTIONS AND RECOMMENDATIONS 61
8.1 Amount of Allocation 61
8.2 Process of Allocation (relevant to both private and public companies) 62
8.3 Timing 62
8.4 Price 64
8.5 Eligibility 64
8.6 Alternate Delivery Model for private companies 65
8.7 Financing 66
8.8 Holding and Divestment 68

9 TRANSFORMING LOCAL COMMUNITIES INTO INFORMED SHAREHOLDERS 69
9.1 The current environment for communication 69
9.2 Assessing the local landscape of stakeholders 70
9.3 Current initiatives of communicating with communities 72
9.4 Pathways to more effective communication 74

10 KEY OBSERVATIONS AND CONCLUSION 78

REFERENCES 81

APPENDICES 82

LIST OF APPENDICES

Appendix 1: Rationale for Selection of Hydropower Projects for Study 82
Appendix 2: Focus Group Discussions 83
Appendix 3: Questionnaire for Focus Group Discussions (FGD) 85
Appendix 4: Semi-Structured Interviews 88
Appendix 5: Questionnaire for Semi-Structured Interviews 92
Appendix 6: Key Informant Interviewees 94
Appendix 7: Questionnaire for Key Informant Interviews 96
Appendix 8: Selection of Study Sites for the Rapid Socio-Economic Assessment 99
Appendix 9: Survey Questionnaire 101
Appendix 10: Profile of People Interviewed for the Rapid Socio-Economic Assessment 105
Appendix 11: Analysis of Current Worth of Shares for Chilime and Sanima mai 107
Appendix 12: Expert Consultations and Key Stakeholders Meeting 109
Appendix 13: Hydropower Companies that have issued Local Shares as of July 15, 2017 115
Appendix 14: Hydropower Companies Operating before 2010 that have not issued Local Shares 117
Appendix 15: Hydropower Companies Operating after 2010 that have not issued Local Shares 118
Appendix 16: Hydropower Companies and the Allotment Guidelines used for Local Shares 119
Appendix 17: Hydropower Companies and Local Shares Allotment Timing 120
Appendix 18: Hydropower Companies and their IPO price for Local Shares and General Shares 122
Appendix 19: Hydropower Companies and the Share Allocation Criteria for the Project Affected Areas 123

LIST OF TABLES

Table 2.1: List of HPPs covered in four districts 5
Table 2.2: Number of FGDs and SSI interviews 6
Table 3.1: Chronology of events relevant to local shares 15
Table 4.1: Key parameters for the evaluation of local shares 16
Table 4.2: Cash and bonus dividend plus rights shares issued by hydropower companies 39
Table 6.1: Differences in equity investment practices 50
Table 7.1: Number of participants required to incorporate SPV and its implications for local shares 52
Table 7.2: Initial capital required to incorporate SPV and its implications for local shares 53
Table 7.3: Associated cost of incorporating SPV and its implications for local shares 54
Table 7.4: Ability of SPV to issue shares and its implications for local shares 54
Table 7.5: Cost of collecting funds from SPV and its implications for local shares 55
Table 7.6: Governance structure of SPV and its implications for local shares 55
Table 7.7: Operational requirements of SPV and their implications for local shares 56
Table 7.8: Governance structure of SPV and its implications for local shares 57
Table 7.9: Tax at distribution of earned income of SPV and its implications for local shares 57
Table 7.10: Ability of communities to sell shares of SPV and its implications for local shares 58
Table 7.11: Price formation and its implications for local shares 59
Table 7.12: Cost efficient exit and its implications for local shares 59
Table 9.1: Sample communication activities for hydropower companies 76

LIST OF FIGURES

Figure 3.1: Market capitalization to GDP ratio by year 9
Figure 3.2: Capital raised by listed companies in primary market 9
Figure 3.3: Trend of NEPSE Index 10
Figure 3.4: Trend of Hydropower Index 11
Figure 4.1: Graphical representation of degree of affectedness used for offering local shares 30
Figure 6.1: Evolution of the practice of benefit sharing in Nepal 48

LIST OF BOXES

Box 1: Known Risks in Hydropower Projects 4
Box 2: The Rise of Promoter Local Shares 20
Box 3: Shares, Hydropower Companies, and the end of an HPP's concession period 37
Box 4: Issue of Corporate Governance: A case study 74
Box 5: Nepal's Electricity Sector Regulator 79

ACRONYMS

AD	Anno Domini
ADB	Asian Development Bank
AGM	Annual General Meeting
ASBA	Applications Supported by Blocked Amount
ATS	Automated Trading System
BFI	Banks and Financial Institution
BOOT	Build Own Operate Transfer
BPC	Butwal Power Company
BS	Bikram Sambat
BSM	Business Service Management
C-ASBA	Centralized-Applications Supported by Blocked Amount
C$	Canadian Dollars
CBT	Columbia Basin Trust
CDS	Central Depository Service
CHCL	Chilime Hydropower Company Limited
CIT	Citizen Investment Trust
CIS	Collective Investment Scheme
COD	Commercial Operation Date
CPN-UML	Communist Party of Nepal-Unified Marxist Leninist
CSR	Corporate Social Responsibility
DDC	District Development Committee
Demat	Dematerialized Account
DoED	Department of Electricity Development
EIA	Environmental Impact Assessment
FAQ	Frequently Asked Question
FDI	Foreign Direct Investment
FGD	Focused Group Discussion
GDP	Gross Domestic Product
GoN	Government of Nepal
HIDCL	Hydropower Investment and Development Company
HPP	Hydropower Projects
IBN	Investment Board Nepal
ICIMOD	International Centre for Integrated Mountain Development
ICT	Information and Communication Technology
IEE	Initial Environmental Examination
INGO	International Non-Governmental Organization
IPO	Initial Public Offering
IPP	Independent Power Producers
KBC	Khumbu Bijuli Company
KII	Key Informant Interview
KYC	Know-your-customer
MFI	Micro Finance Institution

MoEWRI	Ministry of Energy, Water Resources and Irrigation
MW	Mega Watt
NC	Nepali Congress
NCN	Nisichawayasihk Cree Nation
NEA	Nepal Electricity Authority
NEPSE	Nepal Stock Exchange
NGO	Non-Governmental Organization
NHCL	National Hydropower Company limited
NIDC	Nepal Industrial Development Corporation
NRB	Nepal Rastra Bank
NRs.	Nepali Rupees
OTC	Over-the-counter
P/E	Price to Earnings Ratio
PAP	Project Affected Population
PDA	Power Development Agreement
PPA	Power Purchase Agreement
RTS	Registrar to Shares
ROW	Right of Way
RFP	Request For Proposal
SAARC	South Asian Association for Regional Corporation
SCECO	Salleri Chialsa Electric Company
SDC	Swiss Agency for Development and Cooperation
SEBON	Securities Board of Nepal
SEC	Securities Exchange Centre
SJVN	Sutlej Jal Vidyut Nigam
SPV	Special Purpose Vehicle
SSI	Semi Structured Interview
SWECO	Swedish Consultants
UNEP	United Nations Environment Programme
VDC	Village Development Committee
WPLP	Wuskwatim Power Limited Partnership

GLOSSARY

Annual general meeting (AGM)	A yearly meeting of the members or shareholders of a company, or other organization, especially for holding elections and reporting on the year's events
Bearish	Characterized by or associated with falling share prices
Beneficiary	A person or group that derives benefits, profits or advantages from a trust
Board of directors	A recognized group of people who jointly oversee the activities of an organization, which can be either a for-profit business, nonprofit organization, or a government agency
Bonus shares	Additional shares given to the current shareholders without any additional cost, based upon the number of shares that a shareholder owns
Book building	A systematic process of generating, capturing, and recording investor demand for shares during an initial public offering (IPO), or other securities during their issuance process, in order to support efficient price discovery
Bullish	Characterized by or associated with rising share prices
Capital market	A part of financial system concerned with raising capital by dealing in shares, bonds, and other long-term investments.
Centralized depository	A centralized place where financial securities such as “shares” are held in dematerialized form. It is responsible for the maintenance of ownership records and facilitation of trading in dematerialized securities. In Nepal, CDS and Clearing Limited is the central depository.
Dematerialization	Converting physical certificate to electronic bookkeeping.
Depository participants	A securities businessperson or the body corporate having membership of the Central Depository Company mainly authorized to open a demat account and initiate the process of dematerialization.
Deprived sector lending	The provision of microcredit to low-income people in an effort to uplift their socioeconomic status
Divestiture	Partial or full disposal of a business unit through sale, exchange, closure or bankruptcy. A divestiture most commonly results from a management decision to cease operating a business unit because it is not part of a core competency.
Divestment	An action or process of selling off business interests or investments
Dividends	A sum of money paid regularly (typically annually) by a company to its shareholders out of its profits (or reserves)
Dutch auction	A price discovery process in which the auctioneer starts with the highest asking price and lowers it until it reaches a price level where the bids received will cover the entire offer quantity.

Equity (of shareholders)	The amount of capital contributed by the owners or the difference between a company's total assets and its total liabilities.
Fiscal year	The period used by governments for accounting and budget purposes, which vary between countries. In Nepal a fiscal year is the 12-month period that begins on the first day of the Nepali month Shrawan (mid-July) and ends on the last day of Ashad (mid-July) in the following calendar year.
Fixed price method	A price discovery method where a price is fixed for offering shares to investors by a company going public.
Fund manager	A person or team of persons responsible for implementing a fund's investing strategy and managing its portfolio trading activities
Gross Domestic Product	A monetary measure of the market value of all final goods and services produced in a period (quarterly or yearly) of time.
Initial public offering	A type of public offering in which shares of a company are sold to the public investors, either institutional or retail/individual.
Joint venture company	A commercial enterprise undertaken jointly by two or more parties which otherwise retain their distinct identities
Liquidity	The degree to which an asset or security can be quickly bought or sold in the market without affecting the asset's price
Memorandum of Association	A legal document prepared in the formation and registration process of a company to define its relationship with shareholders
Microfinance	Financial services such as savings accounts, insurance funds and credit provided to poor and low-income clients to help them increase their income, thereby improving their standard of living
Monetary policy	The process by which the monetary authority of a country, typically the central bank or currency board, controls either the cost of very short-term borrowing or the monetary base, often targeting an inflation rate or interest rate to ensure price stability and general trust in the currency.
Non-listed public company	A non-listed public company is a public company that is not listed in the secondary market.
Offer price	The price at which a market maker or institution is prepared to sell securities or other assets
Over-the-counter trading	Trading of stocks via a dealer network as opposed to a centralized exchange
Oversubscription	A situation where a new stock (share) issue has more buyers than there are shares to satisfy their orders
Par value *(also called face value or nominal value)*	The amount at which a security is issued or can be redeemed
Portfolio management	Portfolio management is the task of portfolio manager whose duty is to make decisions about investment mix and policy, match investments to objectives, allocate assets for individuals and institutions, and balance risk against performance.

Premium value	An addition to the par value of any securities based on various valuations
Private company	A company whose shares may not be offered to the public for sale and which operates under legal requirements less strict than those for a public company
Promoter	A firm or person who does the preliminary work incidental to the formation of a company, including its promotion, incorporation, and floatation, and solicits people to invest money in the company, usually when it is being formed
Public company	A company whose shares are traded freely on a stock exchange and are subject to the condition of limited liability
Royalty	A payment made by one party to another that owns a particular asset for the right to ongoing use of that asset. In the context of the report, it is the payment made by a hydropower company to a government agency for the use of water resources to generate electricity.
Securities	Tradable financial asset of any kind
Shareholder	The owner of shares of a company
Special Purpose Vehicle	A legal entity created to fulfill a narrow, specific or temporary objective
Sponsor	A sponsor can be a range of entities supporting the goals and objectives of a trust. Sponsors invest in private companies, create demand for publicly traded securities, underwrite mutual fund shares for public offerings, issue exchange-traded funds, offer platforms for benefits and more
Market capitalization	Market value of company's outstanding shares
Subsidiary company	A company that is owned or controlled by another company, which is called the parent company
Under-subscription	A situation when the demand for the public offering of securities is less than the shares issued
Underwriter	Bank or other financial institution that pledges to buy all the unsold shares in an issue of new shares
Unit holder	A person with an investment in a collective investment scheme

$1 = about NRs. 100

1. INTRODUCTION

1.1 Hydropower, Benefit Sharing, and Local Shares in Nepal

Nepal built its first hydropower project (HPP) in 1911. During the first eight decades, Nepal's hydropower development[1] was primarily a government-led enterprise,[2] implemented with international bilateral and multilateral assistance. As these projects preceded the environmental assessment requirements[3] introduced in 1997, their impacts on the environment and on the society at large were neither systematically documented nor adequately considered in project development. With the advent of democracy in the early 1990s, however, the country's hydropower sector underwent two noteworthy paradigm shifts: i) the global and regional push for liberalization opened up a more prominent space for private investment, and ii) in the new political atmosphere, communities were able to openly voice their discontentment against the state. Consequently, hydropower companies, especially the independent power producers (IPP), began engaging directly with the communities affected by their project to negotiate and obtain acceptance from local communities for the project to proceed.[4] Thus, the concept that developers have to directly share the benefits of a HPP with the local community was introduced.[5]

Apart from addressing issues of social equity, benefit sharing also became a way for hydropower companies to obtain, beyond the legal permits from the government, a "social license to operate." This soon became a strategy to mitigate risks[6] that could arise from a failure to address community demands and expectations, which can result in damage to physical infrastructure, project delays and security problems. The practice of benefit sharing in Nepal can be divided into the following categories: royalties, rural electrification, industrial and employment benefits, and community development. Another benefit sharing mechanism has emerged over the past few years. Popularly known as local shares, this mechanism entails the practice of offering local communities an opportunity to invest in the equity of the company developing a HPP within their locality.

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1 For a detailed view on Nepal's hydropower development, see Bisht, Khadga Bahadur. 2010. Hydropower Nepal. Kathmandu: Independent Power Producers' Association Nepal.

2 There was a smaller but equally important effort driven by a mission to build the technical capacity of local individuals and institutions to achieve economic development. By the nineties, the beneficiaries of this initiative had played major roles in the completion of the 6.5 MW Andhikhola and the 12.5 MW Jhimruk projects. For more on this see, Svalheim, P. 2015. *Power for Nepal: Odd Hoftun and the Development of Hydropower Development,* Kathmandu: Martin Chautari.

3 Projects up to 50 megawatts are required to submit an initial environment examination (IEE); projects over 50 megawatts are required to submit an environmental impact assessment (EIA). For simplicity, these are both represented by the term environmental assessment.

4 Whereas the earlier Butwal Power Company (BPC)-developed projects had local development as its key agenda, the privately-owned 60 MW Khimti and 45 MW Bhotekoshi were two projects that began in the early 1990s, both of which had notable benefit sharing mechanisms in place.

5 For a more in-depth analysis of the rise of benefit sharing mechanism, see:
Lillehammer, Leif, Orlando San Martin, and Shivcharn Dhillion. 2011. "Benefit Sharing and Hydropower: Enhancing the development benefits of hydropower investments through an operational framework;" and Skinner, J., Niasse, M. and Haas, L., 2009. *Sharing the benefits of large dams in West Africa.* London: International Institute for Environment and Development.

6 Lillehammer, Leif, Orlando San Martin, and Shivcharn Dhillion. 2011. "Benefit Sharing and Hydropower: Enhancing the development benefits of hydropower investments through an operational framework." Final Synthesis Report submitted by SWECO to the World Bank.

1.2 Objective of the Study

Local shares are essentially a subset of the public shares[7] of the company developing a HPP that have been set aside for the local communities[8] of that particular project area. In recent years, there has been an explosion of interest among communities across Nepal in investing in local shares, as evidenced by the oversubscription of shares during the initial public offering (IPO) of almost every hydropower company. Furthermore, this demand has been receiving significant support from politicians, government[9] and policy makers, especially because the concept of local shares fits into the broader national narrative that the nation – and now also the people – can achieve prosperity by exploiting its hydropower potential. Those who believe that Nepal's hydropower should be developed through indigenous resources have also taken up this unique financing mechanism. Many developers, especially those seeking to raise equity from the public, now see the offering of local ownership as a way to manage local expectations and mitigate any potential conflict with the communities.

The concept of local shares is now deeply embedded in the politics of the country, and is even enshrined in the Constitution of Nepal.[10] Yet there is a general lack of understanding of how local shares actually work. The optimistic rhetoric around this phenomenon lays overriding emphasis on its potential to deliver almost guaranteed profits to individuals, with little appreciation of the potential risks and challenges associated with such market instruments. First and foremost, very few projects have issued local shares and passed the lock-in period that would allow the trading of local shares to ensue. Second, there have been limited efforts to systematically document and understand the lived experiences of local communities that have purchased and/or sold hydropower local shares. Third, there is a lack of clarity about the challenges associated with the life cycle of local shares (e.g., what happens to the share value at the end of the concession period- see Box 3 for information on shares, hydropower companies and the end of an HPP's concession period) and the differing nature of project companies (e.g., what happens to companies that do not want to be listed on the stock exchange and want to remain private). However, popular support for the institutionalization of local shares continues to grow. Finally, as local shares have become a requirement to develop HPPs in Nepal, it is important to try and understand how this practice may impact the overall development of the hydro sector including potential impacts on individual investments and the economy.

The objective of this study is to come up with a knowledge product that documents the practices of local shares in Nepal. This includes the evaluation of local shares in relation to international benefit sharing practices in infrastructure development. The aim is to improve the overall approach to local shares through the assessment of risks, challenges and opportunities including measures to mitigate risks, improve participation of socially and economically vulnerable groups, and overcome the challenges in policy formulation and implementation. In the process, the study provides a detailed analysis of the political and legal context within which local shares have evolved in Nepal. It analyzes the positions of relevant constituencies on various issues such as amount of allocation, eligibility, timing, and pricing of local shares. The study also looks at some of the project-specific practices that are currently establishing policy precedence.

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7 See 4.1.1. Policy and legislation in the "Amount of allocation" section below for details.

8 "Locals" or "local people" refer to persons permanently residing in the project-affected area. However, "affectedness" will be discussed in more detail later in the report.

9 For example, Vidhyut Utpadan Company, established under the Company Act, with joint ownership of the MoEWRI (20 percent), NEA (10 percent), Ministry of Finance (5 percent), Ministry of Law and Justice (5 percent), Employees Provident Fund (10 percent), Nepal Telecom (10 percent), Citizen Investment Trust (5 percent), HIDCL (4 percent) and Rastriya Beema Sansthan (2 percent) is expected to issue 17 percent of its shares to the general public, 10 percent to locals affected by its hydropower projects and 2 percent to the extremely poor.

10 See section on "Institutionalizing local shares" under 3.3 The Evolution of Local Shares.

Further, the study examines perceptions around the risks and benefits of local shares and how these are understood and internalized, especially by the local communities and policymakers. It assesses the current level of public awareness and identifies ways to educate and inform potential shareholders. Additionally, the study examines the lived experiences of the communities to find out if and how local shares can help improve their lives.

The study team is aware that hydropower companies are seeking alternative delivery mechanisms to move away from direct delivery of shares to individuals. To respond to this need, the study analyzes various models based on international practices in equity investment in infrastructure development against some key parameters. To this end, the study considers risks, opportunities for each of the constituencies interested in local shares with a view to recognizing and balancing their differing, at times even contradictory, interests. Finally, a number of options for addressing key challenges, including guidance on the amount of allocation, the timing and pricing, eligibility criteria, and the different delivery mechanisms for local shares, are recommended.

1.3 Framing of Local Shares for the Study

In order to critically examine local shares, it is important to first establish a framework for analysis. This framing is intended to provide a common understanding of all the references to local shares in the report.

The current provisioning of local shares can be viewed from four distinct perspectives:

Entitlement: This perspective relates directly to the rights of communities over natural resources located within their traditional land. Over the years, the framing of this issue has significantly evolved with the changing state-society relations in Nepal. The constitution upholds the spirit of this discourse by granting communities a preferential treatment on the use of natural resources, including water.

Opportunity to invest: In this perspective, local shares is a mechanism for offering local communities an opportunity to invest in a project being developed in their area. The intention is to offer local communities steady returns on their investments, with the assumption that hydropower is a guaranteed profitable venture. Furthermore, local shares, if listed in the capital market, is tradable and offers shareholders an opportunity to make capital gains, albeit with associated risks. The stipulation in the constitution that local communities be given priority for investment in the utilization of natural resources also indicates that local shares are an investment. Through an extensive consultation with local communities, we found that this to be the predominant perspective on local shares.

Source of capital: In this view local shares is a means of tapping into available capital in the communities in order to finance a project within their locality. Although public shares (which include both local shares and general shares) have been an important source of capital for HPP developers, developers appear to be indifferent about the geographical location of their source of capital. Given the current trend of oversubscription of shares during the IPOs of all HPPs, developers have not had to make huge effort to reach out to communities associated with the project for the sole or supplementary purpose of sourcing capital for that specific project.

Management of risk: This perspective is in line with the globally accepted idea of benefit sharing mechanisms as a strategy to obtain a "social license to operate" and mitigate potential risks (see Box 1). Such risks arise from a failure to address community demands and expectations, and can result in damage of physical infrastructure, project delays and other security problems. Almost all developers interviewed for this study described local shares

Box 1: Known risks in hydropower projects

Following are some of the risks associated with hydropower development:

- **Policy/legal risks:** Changes in laws and policies can lead to policy risks resulting in increased taxes or other expenses and liabilities, reduced project revenues, reduced value of the assets, and adverse impact on project viability.
- **Construction risks:** Risks here include those associated with geology and topography (remoteness), quality of weather, project and contract management including thoroughness of planning and design, which can result in significant construction delays.
- **Hydrological risks:** This includes damage of infrastructure by flood and deficit in energy production due to climate change, incorrect assessment of or sudden changes in hydrology.
- **Environmental risks:** This is related to the need to comply with national and/or international environmental standards and may result in expensive and time-consuming mitigation measures.
- **Financial risks:** This includes high and unpredictable local cost escalation and uncertain tariff regime, which can result in problems of high capital charges and also problems in debt servicing. Timely connectivity to the grid is also an important financial issue.
- **Operational risks:** A poor business environment and labor issues can cause operational risks, hampering private investments. These also include risks arising from managing cascade projects, including flushing of sediments that require high-quality equipment and high maintenance.
- **Social risks:** Protests and demands for exorbitant amounts from local communities may result in construction delays and cost overruns.

Adapted from:
Asian Development Bank. 2013. Risk Assessment and Risk Management Plan: Energy Sector Nepal, Country Partnership Strategy Nepal 2013–2017
Head, Chris. 2000. "Financing of Private Hydropower Projects." World Bank Discussion Paper No. 420.

as a means to allow locals to gain ownership of projects as equity shareholders, in order to minimize the possibility of project disruption.

Hence, for the purpose of the study, local shares are defined as equity shares of a hydropower company provided as a preferential investment opportunity to the local residents of the project area. Hydropower companies have offered local shares not only when required, but also as a means to increase local ownership of the project and provide project developers a social license to operate.

1.4 Structure of the Report

This report is divided into nine sections. This first section provides the objective and the framing of local shares. Section two explains the study methodology. Section three provides the context within which local shares have emerged and evolved in Nepal. Section four analyses and documents the practices of local shares. Section five contains some of the illustrative cases from the field. Section six provides an evaluation of local shares in light of international discourse on benefit sharing. Section seven looks at the possibility of alternative delivery models to direct shareholding. Section eight provides options and recommendations to make local shares more effective and equitable. Section nine recommends ways to help local communities become better-informed shareholders. The final concluding section reiterates the key findings and messages of this study.

2. METHODOLOGY

2.1 Data Collection

Primary sources: As an exploratory research on the practices of local shares in Nepal, this study relies extensively on primary sources.

Review of legal documents and available market data: The analysis in this report is based on a comprehensive study of relevant policies and legislation, including the Constitution of Nepal, Electricity Act and Regulations, Securities Act and Regulations, Companies Act and Regulations, among others. Other key documents examined were project specific, including project development agreement (PDA), environmental impact assessment (EIA), and company prospectus. To examine the market performance of hydropower companies, data was obtained from relevant government sources and from the financial statements of the listed companies.

Field visits: The study team visited 14 HPP sites and associated communities in four districts – Rasuwa, Solukhumbu, Dolakha, and Lamjung (see Table 2.1) to understand the views of the local people. These districts were purposefully sampled given their significance in the overall story of local shares and/or the current pace of development of hydropower projects in these areas. See rationale for selection of hydropower projects in Appendix 1. Three specific criteria were used to select the HPPs in each district to ensure the widest possible sampling: i) characteristics of the offering of local shares, ii) the range of their installed capacity, and iii) the type of investment in the project, ranging from foreign direct investment (FDI), projects belonging to the Nepal Electricity Authority (NEA) and its subsidiary companies, and IPPs.

Table 2.1: List of HPPs covered in four districts

District	Projects	Company	Installed Capacity	Type of investment	Status of Local Shares
Rasuwa	Chilime	Chilime Hydropower Company limited	22 MW	NEA subsidiary	Local Shares given in 2010
	Rasuwagadi	Rasuagadhi Hydropower Company Limited	111 MW	NEA subsidiary	Expected to give local shares in future
	Trishuli 3A	Trishuli Jalvidyut Company Limited	60MW	NEA	Not providing local shares
	Trishuli 3B	Trishuli Jalvidyut Company Limited	37 MW	NEA subsidiary	Expected to give local shares in future including to affected people of Trishuli 3A
Solukhumbhu	Junebesi	Dovan Hydropower Company Private Limited	5.2 MW	Nepali public	Expected to give local shares in future
	Solu	Upper Solu Hydroelectric Company	23.5 MW	Nepali public	Expected to give local shares in 2018
	Lower Solu	Essel Clean Solu Hydropower Company Pvt. Ltd	82 MW	FDI	Expected to give local shares in future
	Solu Khola (Dudhkoshi)	Sahaj Urja Limited	86 MW	Nepali public	Expected to give local shares in future

Dolakha	Upper Tamakoshi	Upper Tamakoshi Hydropower Limited	456 MW	NEA subsidiary	Expected to give local shares in July 2018
	Sipring khola	Synergy Power Development Limited	10 MW	Nepali public	Local shares given in July 2016
	Charnawati Khola	Nepal Hydro Development Limited	3.52 MW	Nepali public	Local Shares given in December 2016
Lamjung	Nyadi	Nyadi Hydropower Limited	30MW	Nepali public	Expected to give local shares in future
	Suiri Khola	Ngadi Group Power Limited	5 MW	Nepali public	Local shares given in September 2015
	Super Dordi Kha	People's Hydropower Company Pvt. Ltd	49.5 MW	Nepali public	Expected to give local shares in future
	Dordi Khola	Himalayan Power Partner Limited	27 MW	Nepali public	Local shares given in 2016

Focus group discussions and semi-structured interviews: The study team carried out a total of 22 focus group discussions (FGDs) and 110 semi-structured interviews (SSIs) with community members within the immediate project vicinity and at the district level (see Table 2.2). See Appendix 2 for details on FGDs and Appendix 3 for FGD questionnaire. The FGDs were designed to bring out the narrative at the community level, to identify the source of local expectations, and to explore their level of awareness of local shares. Best efforts were made to ensure maximum inclusivity in the FGDs, in terms of both gender and ethnicity. Four separate women-only FGDs were conducted by a female member of the study team. The study team also conducted a number of discussions with influential actors at the district headquarters to explore how they shape the understanding of local shares at the district level. SSIs, on the other hand, were designed to document community members' personal experiences with local shares. See Appendix 4 for details on SSIs and Appendix 5 for SSI questionnaire. For respondents who did not own shares, an attempt was made to identify the underlying reasons, if any. SSIs also allowed for more targeted interviews with community members who may not have been able to participate in public discussions, especially those from traditionally marginalized groups.

Table 2.2: Number of FGDs and SSI interviews

Districts	Focus group discussions	Semi-structured interviews
Rasuwa	4	37
Solukhumbu	6	34
Dolakha	6	18
Lamjung	6	21

Key informant interviews: The study team conducted 50 key informant interviews (KIIs) to understand the emergence, adoption and transformation of local shares in Nepal. Respondents were professionals who have played key roles in the implementation of local shares. See Appendix 6 for details on key informant interviews and Appendix 7 for KII interview questionnaire. They included government officials from relevant agencies, officials and developers of NEA and IPP, and experts on project financing and capital markets. The team also interviewed representatives from various political parties and members of the parliament who have influenced their respective party's position on hydropower development. The respondents were chosen based on the study team's prior experience in Nepal's hydropower sector and capital market. Additional contacts were identified through this initial set of KIIs.

Secondary sources: A key document used to frame benefit sharing practices in Nepal was the ICIMOD report "Benefit Sharing and Sustainable Hydropower in Nepal: Lessons from Nepal."[11] The study team also reviewed other secondary sources that shed light on the theoretical underpinnings of various benefit sharing mechanisms and international practices in equity investment in infrastructure development. Other sources included relevant newspaper articles about specific projects and shares-related issues as well as web portals with information on the Nepali capital market. Additionally, the study team reviewed relevant company documents, including their websites, brochures and annual reports to develop a profile of each of the HPPs as part of this research.

2.2 Accounts from the Field

The study team conducted rapid assessments of local communities in two districts, namely Rasuwa and Ilam, with a special focus on marginalized people who have invested in the local shares of Chilime Hydropower Company (Rasuwa) and Sanima Mai Hydropower Company (Ilam). See Appendix 8 for details on selection sites for the rapid socio-economic assessment. The assessment aimed to capture any economic changes and social empowerment that have occurred as a result of owning local shares. See Appendix 9 for the detailed survey questionnaire. The responses of community members – a total of 97 respondents – offer a glimpse into their lived experiences. See Appendix 10 for detailed profile of people interviewed for the rapid socio-economic assessment.

2.3 Expert Consultation

The study team organized four consultative workshops with sector experts to deliberate on the policy implications of its preliminary findings. The first workshop focused on possible alternatives to the practice of direct delivery of local shares. The second workshop discussed the definitions of eligibility and the mechanisms to address local grievances. The third workshop deliberated on the practices and challenges in the delivery of local shares. The fourth workshop focused on the status of the shares of hydropower companies at the end of the projects' concession period. See Appendix 12 for details on expert consultations and key stakeholder meeting.

2.4 Consultative Panel

IFC formed a consultative panel comprising national and international experts to provide feedback and suggestions on the study. The study team presented the report to the consultative panel at different phases of the study. The panel offered feedback on i) the design of the study after the inception phase; ii) the findings of the field visits, and iii) a near-final draft of the report with recommendations. The study team incorporated the panel's comments and suggestions in the final report.

[11] Shrestha, P., Lord, A., Mukherji, A., Shrestha, R.K., Yadav, L. and Rai, N. 2016. Benefit sharing and sustainable hydropower: Lessons from Nepal. ICIMOD.

3. THE CONTEXT OF LOCAL SHARES

This section provides a brief background about Nepal's share market, its significance to the overall economy, and the increasing contribution of hydropower companies in the overall value of the country's equity market. Most importantly, this section describes the events that led to the emergence of local shares.

3.1 Nepal's Share Market

A brief history and key stakeholders: Nepal saw its first securities float in 1937 and its first government bond issued in 1961. The Securities Exchange Center (SEC) was set up almost two decades later to primarily facilitate the trading of government securities. However, in the 1990s, following Nepal's economic liberalization, the government amended the Securities Exchange Act to delineate two distinct roles for the SEC: a market regulator and an operator. Accordingly, in 1993 the SEC was split into two entities: the Securities Board of Nepal (SEBON) and the Nepal Stock Exchange (NEPSE).

Since then, SEBON has been the apex regulator of Nepal's securities market. It is responsible for framing relevant sector policies to protect and promote the interests of investors; providing licenses to corporate bodies to operate the stock exchange; registering the securities issued by the corporate bodies; and supervising and monitoring the capital market operations. SEBON falls under the jurisdiction of the Ministry of Finance, the premier executive agency responsible for all economic and financial affairs of the country, but is fairly independent in terms of its day-to-day decision making.

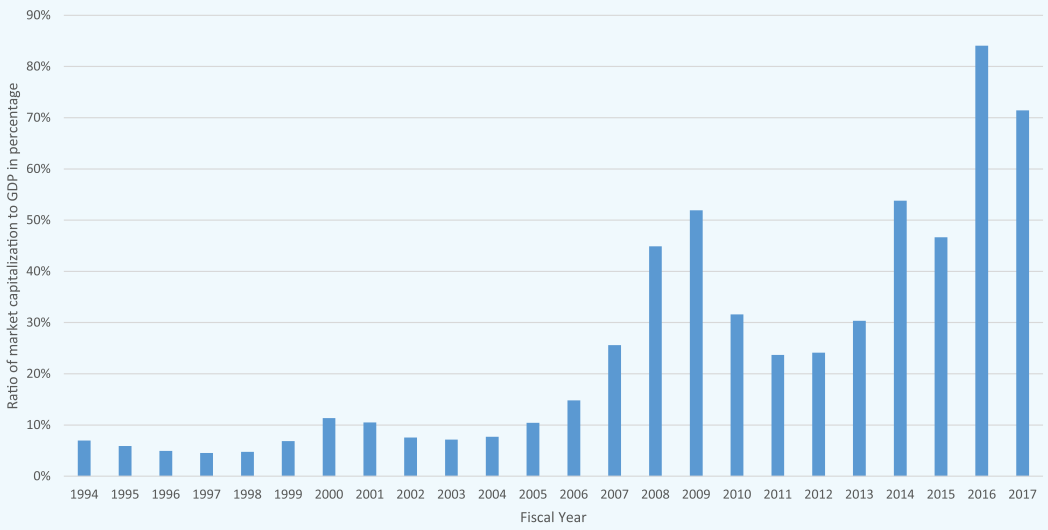
NEPSE, on the other hand, is a government-owned company that facilitates the transactions of securities through registered stock brokers. It also provides a platform for disclosure of relevant information of listed companies. Other relevant government agencies in the sector include the Office of the Company Registrar, responsible for managing the public and private limited companies as per the Companies Act, and the Central Depository Service (CDS) and Clearing Limited, a subsidiary company of NEPSE, responsible for providing a centralized depository, clearing and settlement services.

Non-government institutions relevant to the offering of shares to the general public include merchant bankers, who manage the process of issuing and underwriting of shares,[12] offer portfolio management services, and serve as depository participants under CDS, among other things. Currently, there are 23 merchant bankers that are licensed by SEBON. Stock brokers are another important entity that provide brokerage services that involve purchasing and selling of securities of listed companies in the share market. There are currently 50 stock brokers in the Nepali capital market. Finally there are depository participants, i.e., entities licensed by CDS and SEBON to facilitate the dematerialization (demat) of physical certificates into electronic form, keep an online record of securities and transfer securities from one beneficial owner to another on receipt of written instructions. There are currently 65 licensed depository participants, including 14 merchant bankers, 15 commercial banks, 34 licensed stock brokers and 2 finance companies.

Size and performance of Nepal's share market: A good way to measure the size of a share market is the stock market capitalization to Gross Domestic Product (GDP) ratio, which is the total market value of all publicly listed shares divided by that economy's GDP. This ratio conveys the significance of the stock market in relation to the total economic activity of the country. In 1993, the first operating year of NEPSE, this ratio stood at less than 7 percent; by 2015 it had

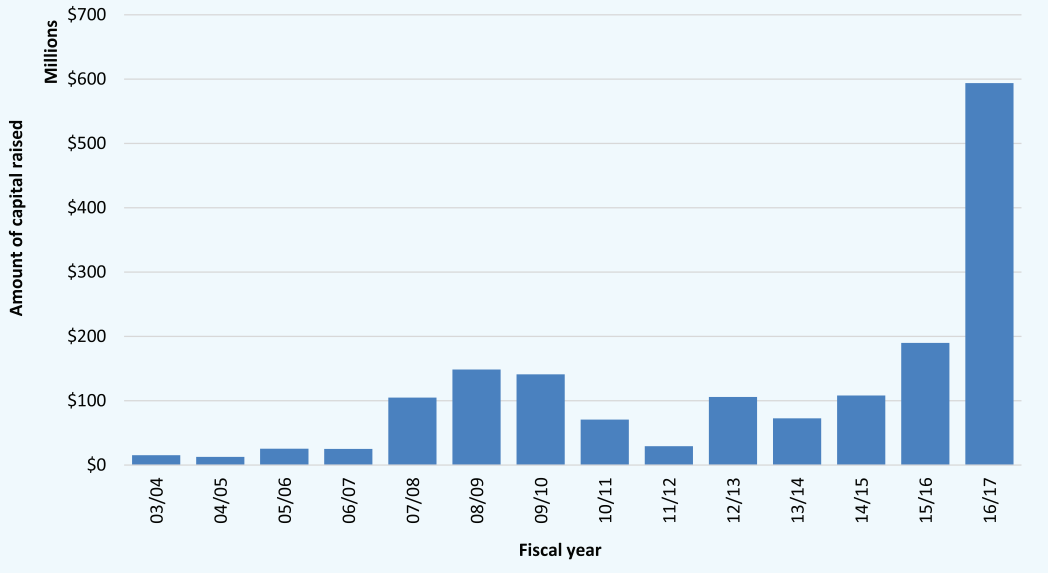
increased to around 50 percent, and in 2017 it had crossed 70 percent (see Figure 3.1). This rise has been fueled by the increase in the number of listed companies, the volume of shares traded, and the price of available shares.

Figure 3.1: Market capitalization to GDP ratio by year



In recent years, Nepal's primary share market, i.e., the offering of shares at the IPO, has experienced significant growth. Since 1993, companies have raised equity worth NRs. 171 billion (about $1.71 billion), of which NRs. 156.5 billion (about $1.57 billion) was raised within the last 10 years alone (see Figure 3.2). A vast majority of this was fueled by the banking industry: in the last two years, of the total NRs. 78.39 billion (about $783.8 million) raised through IPOs, NRs. 61.11 billion (about $611.1 million) was raised by banks alone.[13]

Figure 3.2: Capital raised by listed companies in primary market



The secondary share market, i.e., the trading of shares in NEPSE, has been fairly volatile (see Figure 3.3). In the first decade, the NEPSE index[14] jumped from its base value of 100 ($1) to 386 ($3). By September 2008, the index reached 1175.3 ($11) thanks to several factors such as the enactment of new sector legislation, the adoption of an automated trading system by NEPSE, and the successful election of the Constituent Assembly. Then came the prolonged decline of the share market as political instability in the country, the global financial crisis, and the high and risky exposure of banks and financial institutions (BFI) to real estate lending resulted in the spiraling down of NEPSE to 292 (about $3) by June 15, 2011.

Figure 3.3: Trend of NEPSE Index

Note: Monthly index value taken at the end of each Nepali month

Finally, beginning in 2012, the share market was able to turn the corner and gradually climb back to 938 by April 23, 2015. Then came the major earthquake of April 25, 2015, the aftershock of which was also felt slightly in the share market. When NEPSE reopened in May 24, 2015, the index had dropped to 841 ($8). However, the market recovered quickly in 2015, boosted by a new monetary policy requiring banks to quadruple their minimum paid-up capital as well as the promulgation of the new constitution, which signaled the end of a decade-long post-conflict transition. By July 27, 2017, NEPSE reached a new high of 1881.45 ($18). Following November 2016, the banking industry was once again gripped by a liquidity crisis, with a subsequent decline in NEPSE to 1252.5 ($12) by February 12, 2017, which slowly climbed to 1709.82 ($17) within the next several months. As of November 2017, NEPSE is hovering around the 1500 ($15) mark.

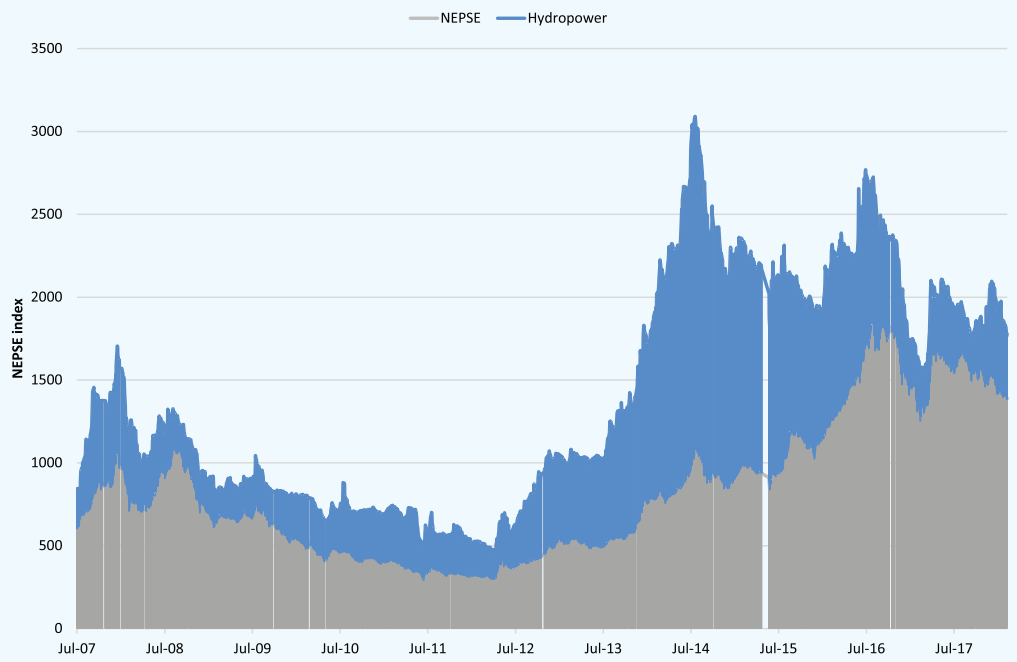
14 Indicator of price movements of companies listed in Nepal's share market.

3.2 Nepal's Hydropower Share Market

History of hydropower share offering: The first hydropower company to offer shares to the general public, in 2003, was the National Hydropower Company Limited (NHCL), a joint venture company of Nepali and Norwegian investors that had then just completed the 7.5 MW Indrawati III HPP. This was followed by Butwal Power Company Limited, the first private hydropower company incorporated in 1966 under the joint ownership of the United Mission to Nepal[15] and the Government of Nepal (GoN)[16] Local shares, as a new category of public shares set aside for local communities, were first offered in 2010 by Chilime Hydropower Company Limited (CHCL), a subsidiary company of NEA, Nepal's sole public utility, after the completion of its 22 MW Chilime HPP.[17] This offering, and the bullish performance of CHCL shares, raised the general public's aspirations surrounding hydropower shares and set a precedent that all listed HPPs have followed since. The increasing number of publicly listed hydropower companies, with several more in the pipeline, indicates this sector is slowly emerging as an important segment of the country's capital market, which is currently dominated by BFIs.

Size and performance of the hydropower shares: The ratio of market capitalization of hydropower sector to the total market capitalization is around 4.4 percent.[18] In other words, of the approximate NRs. 1.8 trillion (about $18 billion) valuation of the Nepali share market, hydropower companies account for about NRs. 0.8 trillion (about $8 billion). As

Figure 3.4: Trend of Hydropower Index



15 The United Mission to Nepal was established in 1954 as a "cooperative effort between the people of Nepal and a large number of Christian organizations."

16 Whereas, as stated at the very outset, the development of hydropower was state dominated, this initiative was to develop smaller hydropower companies with the goal of developing the technical capacity of Nepali technicians.

17 Prior to the development of Chilime HPP, NEA used to develop hydropower plants on a project basis and would be under the direct ownership of NEA. The history of Chilime is provided later in the report.

18 Nepal Stock Exchange Ltd. website, 2017 (www.nepalstock.com)

of July 15, 2017, the end date of the study period, 17 of the 209 companies listed in NEPSE are hydropower companies. See Appendix 13 for list of hydropower companies that have offered local shares as of July 15, 2017. In the last three years, 13 hydropower companies have gone public and raised around NRs. 1.9 billion ($19 million) through their IPO from the general public and another NRs. 1 billion ($10 million) from the local communities. On July 8, 2018, 456MW Upper Tamakoshi hydropower company announced a local share offering for NRs. 1 billion ($10 million). With an increasing number of hydropower companies seeking SEBON's approval for IPOs, all of these indicators are likely to considerably increase in the coming years.

The current demand for hydropower shares in the primary share market is extremely high. In recent times IPOs of almost all hydropower companies have been oversubscribed by around 30 percent on average. In the secondary market, the hydropower sub-index mirrors the volatility of the NEPSE index discussed earlier (see Figure 3.4). The sub-index surged from around 850 in July 2007 to 1600 by December 2007, owing to a favorable political environment that boosted investor confidence. During this period, there were only three listed hydropower companies, all of which saw a significant rise in their share value: CHCL from NRs. 900 ($9) to 2,175 ($21), Butwal Power Company (BPC) from NRs. 1,000 ($10) to 1,700 ($17), and NHCL from NRs. 220 ($2) to 586 (about $6). For the next five years, however, the hydropower sub-index gradually declined, reaching as low as 450 ($4.5) by March 2012.

Then came the bullish run for the entire share market for two years; by July 2014, the hydropower sub-index increased quite sharply, reaching a historical high of 3,000. This movement was driven by the soaring price of CHCL, which reached a record high of NRs. 2,794 ($28) on July 2014. Slowly, it declined to the 1,900 level by December 2015. Against the backdrop of this bullish market trend, the index again reached the 2,700 level by July 2016. The banking industry was gripped by liquidity shortfall starting November 2016, and as a result the hydropower sub-index gradually declined to the 1,500 level by February 2017. At the time of writing, the sub-index is trading at around the NRs. 1,900 ($19) level.

3.3 The Evolution of Local Shares

The origin of local shares: The story of local shares begins with the development of Chilime HPP, initiated by a team of NEA staff who were keen to design and develop a project indigenously. To achieve this, they had to overcome challenges on two fronts: i) technical—the NEA until then had relied on international consultants for developing large projects; and ii) financial—Nepali financial institutions had not yet invested in hydropower. The team was confident about their technical capacity and was able to convince senior officials in NEA to take on "a small but sizable project" in Chilime HPP. Eventually, they were also able to garner financial resources for the project with investments from the Employee Provident Fund and a consortium of Nepali commercial banks. NEA was to hold 51 percent of the shares in CHCL's total equity. For the remaining 49 percent the team decided to reach out to the public; it was decided to raise 25 percent from NEA staff and the remaining 24 percent from the general public.

Chilime HPP came into operation on August 24, 2003, two years behind its targeted commercial operation date (COD). On July 14, 2005, CHCL offered 25 percent of its shares set aside for its staff at a par value of NRs. 100 ($1). This was, back then, not a likely prospect given the skepticism of many, including NEA staff, about the feasibility of the project. According to Dr. Damber Nepali, then Managing Director of CHCL, it took significant effort to convince the staff; only about half of the NEA staff bought Chilime shares. Although the remaining shares were yet to be offered to the general public, CHCL was listed in NEPSE in 2006. By the end of year one of trading, its value had increased from about NRs. 400 ($4) per share in July to around NRs. 800 ($8) per share in December. The huge profits that the NEA staff were

obtaining from their CHCL shares did not escape the notice of some of the more astute members of the communities in the district. Members of political parties also quickly capitalized on this: they formed a concern committee, obstructed project operation, and demanded, as people affected by the Chilime HPP, access to the CHCL shares. To CHCL, which was already raising equity from the public, albeit not limited to local communities, this was not an issue. Following negotiations between CHCL and local political actors, an agreement was signed on January 14, 2007, which included the allocation of 8 percent of the shares for the public to local communities.

Another major development was concurrently taking place in Nepal's electricity sector. The 456 MW Upper Tamakoshi project in Dolakha district was being hailed as a low investment and high return venture. The project drew the interest of numerous parties, including foreign-based, who wanted to obtain its development license. Realizing the value of the project, NEA too was keen to develop the project and sought the political backing of several key leaders of Dolakha. Accordingly, senior politicians from the Communist Party of Nepal-Unified Marxist-Leninist (CPN-UML) and the Nepali Congress (NC) played an instrumental in convincing key members of their parties that Upper Tamakoshi HPP, like Chilime HPP, should be "indigenously-designed, locally built, and Nepali-financed."[19] This required some political maneuvering, given claims that a project of such magnitude could only be built with foreign investments and technology. But once it was decided that a Nepali company would develop the project, NEA had to quickly come up with the necessary financing. In the end, the project decided that it would set aside 10 percent of the equity for the local residents of Dolakha. According to company officials, this was done i) to raise equity for the project, which was going to be significant given that it was a 456 MW project, and ii) to give ownership of the project to the local communities, because getting the local politics right would be crucial for a project of this size.

Establishing a precedent: Two years after the signing of the agreement between CHCL and the communities, SEBON approved the issuance of only 5 percent of CHCL shares to local communities. The legal basis for this was established through the Securities Registration and Issuance Regulation 2008, the first legislation in Nepal that provided an option for public companies engaged in hydropower to set aside local shares. Rule 7(5) of this regulation reads: "The body corporate, while making public issue of securities pursuant to these regulations, may reserve … up to five percent for the local residents depending on the nature of business like hydropower … out of the shares set aside for public issue." Additionally, SEBON added that the shares reserved as such could not be sold or transferred for at least three years from the date of allotment.

On June 8, 2009, Chilime made public its call for local shares. Soon after, the locals filed a case at the Supreme Court claiming that since SEBON's provisions were drafted after the negotiations between CHCL and the local communities, its decision was non-binding to them. In SEBON's official response to the court, it noted that i) its decision was based on the principle that all Nepalis should get the opportunity to invest, and not just communities who live in areas with significant hydropower potential ii) SEBON was neither a part of nor obligated to be a part of an agreement between CHCL and the communities; therefore its decision, which was based on its mandate, should be deemed legitimate, and iii) SEBON should be removed from the case because the issue of local shares revolved around the use of natural resources, compensation, and benefit sharing, none of which are under SEBON's jurisdiction. But the local communities continued to disturb the project even when the case was being adjudicated at the court. In 2010, under significant political pressure, SEBON amended its regulation allowing up to 10 percent of shares for local communities. With this change, the case was officially withdrawn from the court on June 28, 2010.

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[19] Dahal, Rajendra. 2003. "Yes, the Nepali Can: Interview with Damber Nepali" Nepali Times, Oct 17-23, 2003. http://archive.nepalitimes.com/news.php?id=4900#.Wup4mIiFO00

The next set of issues concerned the quantity and value of shares to be offered to each community member. There were two key concerns: the locals of the Village Development Committees (VDC)[20] that were directly affected by the development work at project sites demanded preferential treatment in the allocation of shares, and given that CHCL had been trading bullishly in the market for several years already, the company had to come up with the fair price of a share. Following negotiations, it was decided that the amount allocated would be further divided by the level of affectedness. The company would offer a certain number of shares to the severely affected community members at a par value of NRs. 100 ($1) and the rest would be offered to residents of Rasuwa district at a premium value of NRs 323.7 ($3). Several months later, in July 2011, the IPO for the general public was carried out at a premium value of NRs. 408.36 ($4).

Institutionalizing local shares: Whereas the demand for local shares may have started as a small political demand in some distant corner of Rasuwa, the aspiration to cash in on the trend spread rapidly throughout the country. Very soon project-affected communities throughout the country began listing local shares as a top (if not their only) priority in their negotiations with HPPs. Given the increasing demand, the government also started seeing local shares as a means to get local buy-in for projects from communities. As a result, the government pushed for the inclusion of local shares at every opportunity, including new legislations, contracts and other project development documents. In November 2009, the Committee on Natural Resources, Economic Rights and Revenue Collection, one of the nine committees of the Constituent Assembly responsible for deliberating on delegated subject matters and making final recommendations for the constitution, submitted its report. In it, the committee made recommendations based on globally accepted principles of and experiences in natural resources management. One of the recommendations was that while planning a development project that uses natural resources, local community members who want to invest in the project should be given a degree of priority, considering the nature and size of their investment. The committee's rationale was that getting local communities to invest in using or developing natural resources can give them a sense of ownership towards the project, allowing the project to contribute to sustainable development and increase benefits. This recommendation eventually made its way into the Constitution of Nepal 2015 under the following provision: *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*. See Table 3.1 for chronology of events relevant to local shares.

[20] Until 2017 Nepal had three tiers of government; the lowest level units were the village development committees (VDC) and municipalities (consisting mostly of urban areas). After state restructuring, VDCs and municipalities have been merged into larger local units called rural and urban municipalities.

Table 3.1: Chronology of events relevant to local shares

Companies Act Promulgated	1936	
	1937	First securities floated in Nepal
Government bonds first issued	1961	
	1976	Securities Marketing Centre established
Securities Exchange Act, 2040 promulgated	1983	
	1984	Securities Marketing centre established was Converted into Securities Exchange Centre
Hydropower policy,Electricity Act and Regulation	1992	
		Securities Exchange Act (2040) First Amendment; SEC split into SEBON and NEPSE
Chilime came into operation	2003	
	2004	First hydro power shares floated (National hydro Power company limited)
Chilime distributed 35% of shares to staff at par value	2005	
	2006	Company Act amended; Chilime listed in NEPSE
Securities Act promulgated; Agreement between chilime and locals to allocate 8% shares to locals	2007	
		UTK decides to allocate 10% local shares on Memorandum of Association of the company
NEPSE adopts automatic trading system, stock Exchange operation Regulation.(2064)	2008	
		Draft Electricity Bill with provision of up to 10% shares for local communities
SEBON issues Securities Registration and Issuance Regulation		
Securities Issue Guidelines, 2065	2009	International bid for Upper Karnali and Arun III
		Chilime calls to issue 5% local shares as per Securities Regulation
Government calls for proposals from Nepali IPPs to develop of eight HPPs under a BOOT arrangement.		
		Local file case against SEBON's 5% limit on local shares
CDS established. Central Depository Service Regulation, 2067 (2010)	2010	
		SEBON amends Securities Registration and Issuance Regulation to allow up to 10% local shares.
Locals withdraw case on Chilime Local Shares.		
Securities Allotment guidelines (2068) promulgated	2011	Chilime makes IPO to public at premium value
	2014	Locals demanded for shares in Bhotekoshi HPP
PDA of Upper Karnali and Arun -3 signed		
	2015	Constitution provides for locals to invest in local natural resources-based projects
Paperless shares (electronic form) comes into full operatin	2016	
		SEBON defines local communities as residents of "project-affectes areas" defined in the EIA
Withrawal of UTK case by local petitioners related to definition of "affected area"		
	2017	Securities Issue and Allotment Guidelines amended
SEBON issues circular for companies, especially HPPs, to meet additional disclosure requirements.		

4. DOCUMENTATION AND ANALYSIS OF LOCAL SHARES

The study analyzed eight primary attributes of local shares that have significant implications for shareholders: amount of allocation, process of allocation, timing, price, eligibility, delivery model, financing, and holding and divestment. These are listed and briefly described in Table 4.1.

Table 4.1: Key parameters for the evaluation of local shares

Themes	Description	Major Policy Question
Amount of allocation	Total shares set aside for local communities	What is the appropriate amount of shares that should be allocated to communities?
Process of allocation	Process of distributing shares to individuals	Does the distribution process consider the special aspects of issuing in rural locations and ensure fair access?
Timing	Time of issuance of local shares	Should shares be issued before or after commercial operation?
Price	Price at which shares are made available to local people	Should local shares be offered at par value or at a premium?
Eligibility	People eligible for local shares, including categorization of eligibility	Should the degree of affectedness be a criterion for share issuance?
Delivery model	Institutional mechanism for offering shares to local people	Apart from the direct shareholding model for public listed companies, what are alternative options for private companies?
Financing	Financing the purchase of local shares	What instruments and options can be made available for financing local share purchases?
Holding and divestment	Retention and liquidation of local shares	How do people retain or divest their local shares?

The documentation and analysis is divided into four sections: the first section documents existing policies and the legal framework that guide the practices of local shares; the second section discusses the practices of local shares; the third section identifies the perceptions of various political constituencies; and the fourth draws out key issues. Based on insights gathered from these four sections, as well as on the analysis of potential socioeconomic impact and past practices in equity investment, the study team offers policy options and recommendations towards the end of the report.

4.1 Amount of Allocation

4.1.1 Policy and legislation

The Securities Registration and Issuance Regulation, last updated in 2016, states that hydropower companies "while making public issue of securities… may reserve… up to 10 percent for the local residents… out of the shares set aside for [the] public." However, as this regulation was issued by SEBON, the regulator for Nepal's securities market, it is applicable only to companies that are making public issuance of securities and not to other types of companies that may also be building HPP projects, including non-listed public and private companies. The Ministry of Energy, Water

Resources and Irrigation (MoEWRI)[21] is yet to enact an overarching law requiring the issuance of local shares in the hydropower sector.

The draft legislation to amend the Electricity Act (1992) was submitted for parliamentary approval in 2008. It contained a provision whereby hydropower companies would have to offer, prior to construction, up to 10 percent of shares to people requiring resettlement and rehabilitation or to permanent residents of the VDC or municipality where the project is located. While the proposed bill was never promulgated, the provision does provide an insight into the mindset of policymakers who will be drafting future laws. This is also corroborated by the fact that all project-related agreements that the government has entered into in recent years, including PDAs with private companies, require local shares. Most importantly, Article 59(5) of the Constitution of Nepal 2015 specifies that "while using 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 based on nature and size of investment."

4.1.2 National practices

To date, 17 publicly listed hydropower companies[22] have issued local shares equivalent to 10 percent of its equity. Some hydropower companies have not yet issued local shares, but have applied or are applying to SEBON for permits to issue local shares.

In 2008, the government awarded two export-oriented HPPs, Upper Karnali and Arun-3, through a competitive global bidding.[23] The PDAs for both these projects have provisions for local shares. In the case of Upper Karnali, the IBN has submitted to the Office of the Prime Minister and Council of Mininisters a proposal to sell 10 percent of the 27 percent free equity of the project company as local shares.24 In the case of Arun-3, the PDA specifies that NRs. 160 crore ($16 million) will be sold by the sponsor of the company to the project-affected communities. Similarly, in 2009, the government made public a Request for Proposals to Nepali IPPs to develop eight HPPs under a build-own-operate-transfer (BOOT) arrangement. The bid conditions require companies to "allot equity share of the Project as per the prevailing laws to the resettled and rehabilitated people or people residing permanently in the VDC or municipality of the project site during initiation of construction activities…, if these peoples so desire."[25] The licensing agreement with successful bidders has a mandatory provision to set aside 10 percent equity for local shares.

In 2014, almost 14 years after its commercial operation, the Bhotekoshi Power Company yielded to community demands to allocate 6 percent equity to the local communties. The company signed the agreement after the local people protested and disrupted its efforts to rebuild the six transmission towers damaged by a landslide on August 2, 2014. The protests ended only after the company agreed to offer local shares. The local community's initial demand, which was as high as 35 percent,[26] eventually came down to 6 percent after negotiations. However, the project suffered more damages in subsequent disasters—the 2015 earthquake and floods in 2016. The project has not resumed operation since and the issue of local shares was dormant at the time of the study.

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21 This Ministry was formed after the formation of the new government in 2018 by combining the former Ministry of Energy and Ministry of Irrigation.

22 The number is based on the publicly listed hydropower companies by the end of Fiscal Year 2016/17.

23 The Upper Karnali HPP was awarded to GMR, an Indian company, whose bid had committed to provide 12 percent free energy and 27 percent equity of project company at no cost to the GoN. The Arun-3 HPP was awarded to Sutlej Jal Vidyut Nigam, a joint venture company of the Government of India and the Government of Himachal Pradesh. Its bid included a committment to provide 21.9 percent free energy to the GoN.

24 Based on an interview with an IBN representative.

25 Source: Request for Proposal (RFP) document of hydropower projects awarded by the GoN through competitive bidding.

26 Rastriya Samachar Samiti. 2014. "Locals Demands 35 Per Cent Share in Bhotekoshi Hydro Projects". myRepublica, November 1, 2014.

There are over 20 hydropower companies that have not issued shares to either the general public or local communities. Many of these projects are directly owned by NEA and not its subsidiary companies. NEA is currently a government-owned public utility[27] and has not issued shares to the general public in internal projects. Starting with Chilime Hydropower Company, NEA established separate subsidiaries for building different hydropower projects. However, even after this development NEA constructed a number of projects on its own, such as the 70 MW Middle Marshyangdi, 30 MW Chameliya, and 14 MW Kulekhani III. Now, all new hydropower projects of NEA are implemented through subsidiary companies.

Other privately owned hydropower companies have not issued shares because many of these HPPs were negotiated at a time when the government did not require the issuance of local shares. These go as far back as one of the earliest IPPs, the Himal Power Limited's Khimti HPP, and more recent ones such as Sinohydro-Sagarmatha Power Company's Upper Marshyandi 'A'. See Appendix 14 for list of hydropower companies operating before 2010 that have not issued local shares and Appendix 15 for list of hydropower conpanies operating after 2010 that have not issued local shares.

BPC has a similar model to Chilime Hydropower Company: it owns two HPPs, namely, the 9.4 MW Andhikhola HPP and 12 MW Jhimruk HPPs, and holds shares in associate and subsidiary companies, including in the areas of hydro-electricity generation, operation and maintenance of power plants, consulting, manufacturing and repair of hydro-mechanical and electro-mechanical equipment for power plants. BPC did not issue local shares in the two projects that were built in the early 1990s. But it had plans to issue 10 percent local shares from Nyadi Hydropower Company, its subsidiary that is building the 30 MW Nyadi HPP in Lamjung district. In 2003, the government sold its majority ownership in BPC[28] to the private sector and the company was subsequently listed in NEPSE.

4.1.3 Perceptions

Local communities: The community has low awareness about the total percentage of shares allocated to local people. For many, the immediate concern is whether or not they will receive shares and the number of shares each individual will receive. This included women-only groups as well as women participants interviewed for the study. In places where the local shares have already been offered and people have received very few units of shares each, they said that the 10 percent allocation is insufficient. Local residents with more financial wherewithal or political influence have more information and tend to question the rationale behind the 10 percent ceiling for local shares as they think it limits their opportunity to invest.

Developers: For developers building projects in areas with a high population density, and intending to go public, the cap of 10 percent limits their ability to fulfill the demands of locals wanting to invest more. Such developers also stated that they faced increasing pressure to offer more shares, mainly as a tool to secure local support for their projects. This explains why some developers also offered promoter shares (see Box 2) to local people. On the other hand, some developers do not want to offer local shares or even go public for that matter, mainly to avoid the perceived hassle of having to deal with a large number of shareholders and the onerous reporting and taxation requirements of being public. The primary concern of such developers is how to comply with the government and constitutional requirements while remaining privately owned.

Regulator: SEBON had two reasons for setting the 10 percent limit on local shares. Firstly, since investments in both hydropower and the capital market carry inherent risks, the limit is aimed at reducing the local communities' exposure to risk. Secondly, the opportunity to invest in hydropower should be available to all Nepalis, not just to communities near the project sites.

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[27] Whereas the NEA Act does have a provision to offer NEA shares to the general public, in reality all NEA shares have remained with the government.

[28] Which it had acquired through agreements with its previous majority shareholder, the United Mission to Nepal.

Government officials: A popular perception within the bureaucracy is that equity investments by the public, including local communities, are a means to raise the necessary finances for building HPPs. This view is prevalent among those who believe that HPPs should be developed through indigenous resources. These officials believe that this investment opportunity, considered to be a secure profitable venture, should not be limited to the affluent urban population, but also become available to those living in rural areas. In fact the MoEWRI in early 2017 launched an official campaign with the slogan "Nepal ko pani, janatako lagani" ("Let the people invest in Nepal's waters"), spearheaded by the former minister of energy Janardhan Sharma. In 2018 the Energy Minister Barsha Man Pun has revived the campaign with the revamped slogan "Nepal ko pani, janatako lagani, harek nepali bidhyut ko sharedhani" ("Let the people invest in Nepal's waters, let every Nepali be an electricity shareholder).

Politicians: Politicians have been quick to take up the issue of local shares, starting with the Chilime HPP where both local and national level politicians supported the communities' demand for local shares. Not only do local shares create opportunities for local politicians to invest in projects within their areas, but advocating for shares also allows them to articulate a popular demand of their constituents. Additionally, for some politicians, the concept of local shares as a means to finance projects indigenously fits into the nationalist narrative of not requiring FDI in hydropower investments.

4.1.4 Key Issues

No law requiring all types of hydropower companies to issue local shares: Whereas the Constitution of Nepal provides communities a preferential opportunity to invest in HPPs located in their home areas, the current provision for allocating up to 10 percent is applicable only to hydropower companies that want to raise equity from the public. For other types of investments, especially mega projects with or without FDI that choose to remain private, the government is relying on project-specific PDAs and other contractual documents to make this provision mandatory. It should be noted that jurisdiction over projects 500 MW and above rests with the Investment Board of Nepal, which has treated the local shares issuance as a PDA negotiation issue to be decided on a case by case basis.

The issue of oversubscription: The long bullish trend of the hydropower sub-index of NEPSE, which spanned the period from early 2012 (at a low of 450) to mid-2014 (reaching a historical high of 3,000), helped drive the demand for local shares. Expectations of quick capital gains from shares of hydropower companies have resulted in massive oversubscription of almost every recent public offering of hydropower companies, whether for local or general shares. While this ensures significant capital, it also means that the aspirations of applicants are not being met, as they either receive only a few units of shares each or do not receive shares at all. This breeds dissatisfaction among local communities, which has, as in the case of Mailung Khola Jal Vidhyut Company, resulted in the disruption of projects immediately after the allocation of shares. Furthermore, given the huge demand for local shares, some companies were including these aspirants in the promoter shares category.

The issue of under-subscription: The sequence of events in case of under-subscription are as follows: after the local offering, any unsold shares are offered first to the general public during the IPO, then to the institutional buyers,[29] then auctioned off to an interested promoter and other shareholders of the company, and finally taken up by the institutional underwriter. This issue hasn't arisen in the current scenario as even in the case of under-subscription at the community level (e.g., Radhi Bidyut Company), the subsequent IPO listings have all been oversubscribed.[30] However, given the increasing size of hydropower companies, low population density in some project areas, and a maturity in the shares market that may change people's perceptions about returns from investments in hydropower, there are chances that shares will be undersubscribed, limiting the companies' capacity to raise adequate funds from the market. Under-subscription, however, is irrelevant to

[29] This last provision was added through a recent amendment to the Issuance Guideline, which bars such institutional buyers from the IPO.
[30] The recent Further Public Offering of Butwal Power Company was undersubscribed, which was further offered to the institutional buyers.

Box 2: The Rise of Promoter Local Shares

The Securities Regulation 2016 defines promoter shares as shares that are issued other than by way of IPO. The Regulation requires at least 51 percent of the shareholders to be in this category. As promoters, SEBON has certain restrictions in place to ensure the success of the company, including early buy-in into the investment.

Given the lack of a screening process, there is a growing trend of communities investing in promoter shares of hydropower companies, and this has become a mechanism for some companies to meet the local aspiration to invest. While this in itself is not a major problem, what makes this problematic is that many locals who invest are not aware of the difference between promoter and local shares, the latter being issued as part of public issuance with SEBON's approval and subject to additional disclosure requirements intended to protect investors.

This is problematic in places where companies have issued promoter shares. Such shares will bear more risks compared to general shares because it takes longer to get profits from investment and there are more restrictions in the form of lock-in period for selling.

At the time of writing, the Office of Company Registrar has asked the companies issuing such shares to stop the practice until further notice in order to carry out further investigations.

larger FDI projects that are not required to go beyond the offering of local shares. For example, in the Upper Karnali, Arun-3, and Upper Trishuli-1 HPPs, issuance of local shares is not aimed at raising capital.

Ambiguity regarding the allocated amount: The current law, with the wording "may reserve… up to 10 percent," allows hydropower companies to decide how much to allocate for local communities at public issuance. Most companies that have issued or are planning to issue shares have set aside 10 percent equity for local people. This indicates that 10 percent is becoming the politically accepted benchmark for local shares. However, when it comes to large projects, especially those built as private special purpose vehicles (SPV) involving FDI, this 10 percent can translate to a very large number of shares that may not be taken up locally. These projects have agreed to provide local shares based on negotiations with the government.

Local shares and local conflict: All stakeholders say that offering local shares increases local ownership and helps minimize disputes between the communities and the project. The reality is a bit more complex. In some instances, as in the case of Mailung Hydropower Company, people are unhappy with the amount allotted to them. In others, as in the case of Upper Solu Hydroelectric Company, they demand additional preference in the allotment of shares. Many projects thus continue to face some form of dispute between the communities and the HPP. However, several hydropower companies that have completed their offering did acknowledge that once communities own local shares, there is a decrease in what the companies see as imprudent demands. Increased project ownership among local communities was more evident among project-affected populations of Chilime and Sanima Mai HPPs, where 46 male and 51 female respondents were interviewed.

4.2 Process of Allocation

4.2.1 Policy and legislation

The process of allocation of all shares by companies going public, whether in hydropower or any other sector, is guided by the Securities Issuance and Allotment Guideline 2017. SEBON first brought this Guideline into effect in 1994, soon after its establishment, to introduce a systemized process of issuing shares to the public. As per the Guideline, the company going public initiates the process of share allocation by recruiting an issue manager, who is then responsible for putting together all the necessary documents to get regulatory approval from SEBON for public issuance. These

documents include, among other things, a prospectus with SEBON-specified information on the company fundamentals and credit rating of the company from a SEBON-approved agency.[31] Once approved, the company publicly announces its issuance date, the notice for which must be published in a major national daily. The public is then given a set number of days to apply for shares.

After the closure of the issuance period, the issue manager has to get SEBON's approval for its allotment model before proceeding with actual allotment. In the case of oversubscription, any amount that has not been allotted has to be refunded to the individual applicant within five days. If the refund is delayed, the company is obliged to add the applicable amount of interest. Following this the issue manager transfers the raised capital to the issuing company. The applies to NEPSE for the approval of listing, which is required for the trading of company shares. The issue manager then transfers the shares into shareholders' demat account and hands over all of the issuance documents to the issuing company. The entire process takes about a hundred days in total. It is important to note that i) the 2011 Guideline contained a provision for a waiver of SEBON rules which is not included in the 2017 amendment, and ii) SEBON does not have a separate provision for the process of allocating local shares other than requiring issue managers to have at least four collection centers in the communities.[32] Also SEBON restricts persons that have acquired local shares of a company from buying shares of the same company during an IPO.

In addition to placing a public notice, SEBON has several other requirements on how companies should, through their issue manager, communicate with the public about their share offerings. For example, issue managers have to make available the prospectus and other issuance-related documents to potential applicants should the latter wish to inspect them. Additionally, while there are no specific required forms nor formats, SEBON requires the issue manager to publicize company related information through the public media.[33] On December 31, 2017, SEBON issued a circular to all companies (though it was mainly targeted at hydropower companies) with negative net worth, minimum ICRA rating, and poor financials to follow additional disclosure requirements. As per the directive, these companies are now required to disclose their net worth per share as well as earning per share for the period of operation. In the case of hydropower companies, they are further required to divulge other information including their cost per MW, the remaining term of the electricity generation license, the payback period, and the ICRA credit rating. They are also required to get their projected financial statements certified by the auditor of the company. SEBON's circular further requires issue managers to include a signed statement by the applicant declaring that the application was made with full knowledge of the disclosures made by the company.

4.2.2 National practices

All hydropower companies that have offered local shares to date have been following the requirements established by SEBON while allocating shares. However, their experiences vary slightly depending on the context of the HPP; the characteristic of the community where the HPP is located; and the relationship between these two entities. While allocation of local shares began in the Chilime HPP with events ranging from political protest to a judicial appeal, communities in most project areas (except for a few, as mentioned in the earlier section) no longer have to struggle against the project to demand shares. Now the communities and the companies carry out negotiations for local shares and other benefit sharing primarily through sarokar samitis (concern committees), which are informal local groups entrusted with voicing the concerns of affected communities.[34]

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31 ICRA-Nepal is currently the only credit rating agency approved by SEBON. However, plans to bring another credit rating agency are under discussion.

32 Section (18) (8) of Securities Issuance and Allotment Directive, Revised 2017.

33 Section 23 of Securities Issuance and Allotment Directive, Revised 2017.

34 In some cases, where communities have felt the need to protest against the project, they have also done so through another informal arrangement called sangharsha samitis (struggle committees). Depending on the political nature of local communities, there may be more than one sarokar samiti or sangharsha samiti in one HPP.

Shares have been allotted under three different versions of the Securities Issuance and Allotment Guideline. See Appendix 16 for details on the allotment guidelines used by various hydropower companies. The guideline seeks to ensure a fair process of allotment for all applicants in the event of oversubscription, though it does not concern cases of under-subscription. The initial allotment process was based on a system of weightage, wherein smaller investors received a higher weightage and thus a larger number of shares in proportion to their investment. However, as larger investors were investing relatively larger amounts, by volume they seemed to be overwhelming the smaller investors. After facing criticism for such inequitable distribution of shares, SEBON amended its guideline in 2008. The companies were then required to set aside 40 percent of their total of public shares for small investors, i.e., those who were investing less than NRs. 50,000 ($500). But this still did not appease the proponents of smaller investors, and so in 2017 SEBON amended the guideline one more time, now requiring that shares be allotted in multiples of 10. Under the current law, the allotment at the IPO is done in the following manner:[35] the process begins with all eligible applicants apportioned 10 units of shares each, thus ensuring a guaranteed minimum number of shares for everyone, guided by the principle of equitable distribution. Moving on to the second round, where only those who applied for more than 10 units of shares remain, each applicant, once again, is apportioned another 10 units of shares. This process of allotment continues until the applications outnumber the number of shares and allocation cannot be made in blocks of 10. Thereafter, recipients for allotment are selected through a lottery, and the allotment process described above is followed until all shares are fully alloted. It should be noted that to date none of the hydropower companies have issued local shares through the first model; most have done so through the second; only three companies, namely Radhi, Mailung, and Rairang, have done so under the third.

How the allotment will be done for private companies, such as those developing Upper Trishuli-1, Upper Karnali, or Arun-3, remains to be seen. However, it should be noted that while it is the company's responsbility to distribute local shares in the case of UT1 and Arun-3, it is the government's responsbility in the case of Upper Karnali, as the portion for local shares distribution in this project will come out of NEA's 27 percent equity. It should be further noted that only the PDA of Arun-3 clearly reflects the company's commitment in terms of dividend payments; the company has committed that at least two-thirds of the total profits shall be paid as dividends to all shareholders each year, unless restricted by the company's financial documents and the laws of Nepal.

There is an increasing push to introduce technology for issuing shares. The first effort involved the dematerialization of shares, a process of transitioning from a paper-based printed share certificate to a "dematerialized" electronic form. The second effort was the introduction of the Application Support by Blocked Account (ASBA), a system that blocks an authorized amount from an applicant's bank account when applying for shares at public offerings, which can only be debited once the applicant has been selected for the allotment of shares. This automation has obviated the need for people to make long and expensive journeys and wait in lines for days to apply for shares. It has also eased the process of refunding the applicant's un-allotted amount. In addition, it has made some of SEBON's procedures redundant, such as the printing and distribution of share certificates. While some companies such as the Upper Tamakoshi HPP have received waivers from SEBON to bypass the requirement to use demat and ASBA in their offering of local shares, it is only a matter of time before these become mandatory. On January 23, 2018, CDS announced the introduction of a centralized-ASBA (C-ASBA) system to facilitate centralized applications and purchase of shares. Furthermore, NEPSE is said to be working towards operationalizing online trading. All of these ICT-driven developments will influence how shares will be traded in the coming days. Therefore, people who seek to benefit from shares should also be familiar with both ICT and emerging buying and trading arrangements.

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35 Section 30 of Securities Issuance and Allotment Guideline, Revised 2017.

Hydropower companies rely on their issue managers to disseminate project-related information to the general public. However, the issue managers are only guided by regulatory requirements and lack adequate incentive to ensure effective communication. They have hence been criticized for not being proactive enough in fulfilling this duty. However, several companies have used alternative ways, though not standardized, to disseminate additional information to local communities. For example, in the Chilime HPP, the company mobilized teachers to inform local residents about the benefits and risks of investing in shares; in the Mai HPP, public meetings were conducted throughout the nine affected VDCs; in the Upper Solu HPP, company staff informed eligible residents about the upcoming issuance of local shares.

4.2.3 Perceptions

Local Communities: The communities had minimal awareness about the process of allocation of local shares; their level of awareness depended on how far they resided from urban centers. Many of the community members relied entirely on their social network and word-of-mouth (and not on project disseminated documents) for information on allocation. Since they lacked full information, the application process could become tedious for them, especially when they would show up without the necessary documents and had to make multiple trips just to complete the application. Also, they had limited knowledge about the dematerialization process, with people still holding on to their share certificates. Those who knew about demat and ASBA had learned about the process while applying for shares during the IPOs of new hydropower companies. There were also concerns about the time it took to apply and the transactional cost involved in the process of purchasing shares, especially those who had to travel long distances to apply. This has significantly affected women who cannot leave the house unattended for days, those who are physically weak or challenged, and daily wage laborers, among others. These communities said they would benefit from adequate collection centers closer to them.

Developers and issue managers: For developers, having more collection centers meant added costs. For issue managers, who collect the money on behalf of the developers, the key issue in this regard is the difficulty of arranging the logistics of cash collection. Since many of the HPPs are located in areas that are not readily accessible, issue managers expressed their concern about the security risks to their staff and the funds collected from local communities. Issue managers were also in favor of a technology-based approach. They think that despite a steep learning curve, technology can ultimately revolutionize the entire process of allocation of local shares.

Government officials: While there was initial resistance to making demat and ASBA a requirement, with some stating that local communities will be disadvantaged due to their inability to grasp the new technology, officials concerned the process of allocation at SEBON and CDS have both been in favor of this transition. They say that as technology has penetrated even the far-flung rural areas, especially in the form of social media, the fear that the communities will be left out is not grounded. They say it is important to inform, recruit and train people on the new interface. Officials at SEBON also seem to understand the risks associated with investment in hydropower shares and the need to make potential shareholders more informed, as can be seen from their recent decision to require more disclosure from hydropower companies.

4.2.4 Key Issues

Difficult terrain: The mountainous topography that has enriched the hydropower potential of Nepal's rivers also poses a major constraint to the government and the market in providing basic services such as health, education, transportation, banking and other financial services to people. The further people are from the urban centers, the less access they have to these essential services. As a result, people living in the remote areas are often deprived of opportunities that are taken for granted by their urban counterparts. This is also reflected in the process of allocating local shares. Whereas most people from urban centers could take part in the share offering with relative ease, others had to traverse great distances and spend money on transportation and accommodation in order to partake in the activity. On the other hand, requiring

issue managers to set up additional collection centers at these inconvenient locations would not only add costs but might be logistically impossible given the state's inability to guarantee security to safeguard the collected money.

Limited capacity of local communities: As the local communities have low level of education, their ability to engage in and exploit their investments in local shares are limited by the following factors: i) Limited understanding of hydropower development: Many communities have a limited understanding of the development process of hydropower projects. As they lack adequate information about the costs and benefits, they become vulnerable to exploitation. ii) Limited ability to maximize benefits from the share market: Although Nepal's share market is not as complex as the share markets in more developed economies, it is still a complex system for most local investors who rely on subsistence farming and basic enterprises for a livelihood and are thus unable to hedge and maximize potential benefits. iii) Limited technological literacy: While the push for integration of technology in Nepal's share market will increase people's access and ability to trade, local communities in remote areas are likely face substantial difficulties during the transition even if they might be familiar with mobile phones and social media.

New allotment model now ensures minimum shares to all applicants: In earlier allotment models with the weightage system, the public's perception was that the number of shares that they would receive was directly proportional to how much they had applied for. As a result, people would apply for as many shares as they could, even taking loans to increase their investment size. This meant that the burden of interest on loan would be very high on these investors, exacerbated by the fact that they would receive only a fraction, if at all, of the shares they had applied for. The current bottom-up allotment model now ensures an equitable distribution, by guaranteeing at least 10 shares to all aspiring retail investors. Also since there is no proportionality in the allotment process, applicants no longer need to apply for more shares than they want to. This is an important issue in allotment that needs to be communicated to the general public.

A failure to communicate: SEBON requires companies and their issue managers to make relevant information available to the public. However, the information dissemination process has a number of shortcomings i) there is an assumption that the local communities, who are mostly non-literate, have the capacity to grasp the information and make informed decisions; ii) the medium used for disseminating the information on local shares has not adequately factored in media consumption habits of locals, especially the use of social media; and iii) company prospectus provides information in a technical language that the general public cannot understand, and it is unclear whether such information reaches local communities. Local communities mostly receive information by word of mouth and women are usually at the bottom of the communication chain.

Establishing representation: In addition to the formal process of allocation of shares, the projects and the communities also carry out informal negotiations over local shares and other benefit sharing schemes undertaken by the projects. For example, Khani Khola Company relied extensively on the sarokar samiti for the community-based decisions related to the allocation of local shares. However, these groups of self-proclaimed representatives generally comprise influential political actors within the community who can seize the agenda, and there is a likelihood of multiple concern committees being formed to raise non-community related agenda in each project. The Upper Tamakoshi Company also dealt with sarokar samitis from the early stage of project development. But as the recent elections have reestablished local bodies, the company is starting to hold more discussions with elected officials and less with these informal mechanisms. This helps overcome one of the major difficulties for projects where the presence of multiple concern committees meant that they had to engage in multiple ad-hoc negotiations without really knowing what would help solve their immediate challenge.

4.3 Timing

4.3.1 Policy and legislation

The 2016 Regulation requires a company to meet the following conditions before it can issue shares to the public:

- Completed one year of operation and held an annual general meeting (AGM);[36]
- Obtained the required licenses and permits to develop the HPP;
- Obtained land, and other infrastructure is ready for construction;
- Promoters have fully paid up their share of equity;
- Completed financial closure;
- Signed the power purchase agreement (PPA) with NEA.

With this, SEBON has directed all companies wanting to issue shares to the public to mitigate their commercial risks. Although prevailing laws do not specifically say when local shares can be issued, the 2017 Directives requires companies to issue all undersubscribed local shares during the offering to the general public. This implies that local shares must be issued before the general shares.

4.3.2 National practices

The law gives hydropower companies the discretion to decide the optimum time to issue local shares, after having met the specific conditions set by SEBON. For this reason many companies have been offering local shares at various stages of project development. Of 17 listed hydropower companies that have offered local shares, six have done so prior to COD. For example, representatives of Sanima Mai Company stated that they had offered local shares after completing about 70 percent of their construction work. A number of other developers also stated that this 70 percent mark was now becoming the industry benchmark. Companies seeking to raise funds from the public can have significant cash requirements as they enter the final stages of construction, which are then met by the funds raised from the public. In addition to raising capital for project completion, companies cited increased local cooperation and reduced possibilities of conflict as the main reasons for issuing shares during construction.

There were 11 projects that had offered local shares after the completion of construction. Some including Barun, United Modi, and Ridi companies had done so as late as five years after COD. Companies issuing after COD were offering to raise capital in order to reduce the debt portion in their capital structure or presumably to inject equity into subsequent projects. Developers who have done so say that such reinvestments help increase the value of the project company's shares in the capital market. This view is also echoed by financial experts, who say that as an investment platform, companies have the ability to maximize the use of available funds and to diversify a company's portfolio. See Appendix 17 for details on hydropower companies and their local shares allotment timing.

For the recent PDA-based projects with local shares requirements, agreement on timing for issuing local shares is reached during project negotiations. The PDA of Upper Trishuli-1 has a provision requiring that local shares be issued within three years of financial closure. The PDA of the Upper Karnali HPP requires local shares to be issued anytime after COD. The PDA of the Arun-3 HPP has more specific provisions: that 50 percent of the local shares be issued within one year of COD and the remaining between year two and year three after COD.

[36] The requirement is for the hydropower company and should not be confused with the HPP's COD.

4.3.3 Perceptions

Local communities: There are differing views within communities regarding the timing of issuance. A segment of the local population prefers that companies offer local shares before construction starts. This group mainly comprises people with limited knowledge about the process of developing HPPs. They tend not to trust the companies to issue shares once projects begin to operate. Others stated that they would like to get shares at a much later date, but only after receiving written commitments from the developer. Those with a bit more understanding of the HPP development process (mainly locals with prior experience of local shares such as the Chilime HPP) said they preferred local shares issued during construction, after the completion between 50 and 75 percent, or after COD. Interestingly, this view was also shared by all women interviewed at the Chilime site. They were aware that this would minimize their exposure to some of the risks and that their investment would not be frozen for a long time before it started earning a return.

Developers: Developers looking to raise equity from the public prefer offering local shares during construction, when the equity raised from the communities can be used to finance the project. Some said that earlier buy-in of communities reduces demands on the project. Developers, however, agreed that issuing local shares after a significant portion of the construction work has been completed can reduce the risks for the affected communities. Offering local shares after COD, as quite a few hydropower companies have done, further minimizes risks for local communities; companies have used the raised fund to pay off loans or invest in other projects.

Banks and financial institutions: BFIs expressed their preference for local shares to be issued earlier in the project cycle, given that increased equity during the construction phase would lower their risk exposure in the company and protect them to some extent against construction risks. This indicates that Nepali BFIs consider hydropower sector a high-risk investment.

Government officials: The clauses that the bureaucrats have included in the recent PDAs of the Arun-3 and Upper Trishuli-1 HPPs indicate that the government is interested in protecting the vulnerable population by offering them local shares on or after COD.

4.3.4 Key Issues

The intent of local shares has a direct bearing on the timing of its offering: Under the current legal framework, companies are given some leeway as to when to issue local shares. Where local shares are treated as a preferential opportunity for local communities to invest, it is acceptable for companies to decide the timing of offering to match their financial requirements, including during construction when local communities will share some of the development risks. This is the current practice. But if the intent of local shares is to maximize the benefits with the possibility of minimizing the risks for local communities, the ideal timing for issuance of local shares would be closer to or immediately after COD.

4.4 Price

4.4.1 Policy and legislation

All companies seeking to raise capital from the public should do the initial offering of shares at par value. While the Companies Act sets the par value of a share of a public company at NRs. 50 ($0.5) or higher (but multiples of 10), the 2016 Regulation sets it at NRs. 100 ($1).[37] However, companies can issue shares at a premium under specific conditions outlined in several legislations: first, the latest amendment (2017) of the Companies Act states that publically listed companies can issue premium shares based on the provisions of the applicable securities law; second, this applicable

[37] Clause 42 (1) of Securities Registration and Issue Regulation, 2016.

securities law is the 2016 Regulation, which allows listed companies to issue shares at a premium provided a due diligence audit has been carried out to justify why shares are to be issued at a premium;[38] and third, the premium price of a company needs to be calculated according to the 2017 Directive, which states that 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, will be the premium price for the shares. For private limited companies and unlisted companies, the Companies Act states that premium shares can be issued provided the company does not have negative net worth and the issuance has been authorized by the AGM.

4.4.2 National practices

All 17 of the listed hydropower companies have issued local shares at a par value of NRs. 100 ($1). In the case of Chilime, the company issued local shares in 2011 at a par value of NRs. 100 ($1) to the population defined as "severely affected" by the project, and at a premium of NRs. 323.7 ($3) to the rest of the district. But it also allowed the severely affected population to purchase additional units of shares at this price. Chilime Company was unique in that it had already issued part of its public share—preferentially set aside for staff of NEA in 2005—which had been listed in NEPSE and was trading at a price established by the market. When Chilime finally carried out its IPO to the general public after the issuance of local shares in 2011, its shares were offered at a premium value of NRs. 408.36 ($4). See Appendix 18 for details on hydropower companies and their IPO price for local and general shares.

For private PDA-based projects that are required to offer local shares, the pricing has been defined in their PDAs. For example, the PDA of the Upper Trishuli-1 HPP states that the value of local shares shall be determined on the basis of the face value, without applying any premium. The PDA of the Arun-3 HPP provides that 50 percent of the local shares shall be issued at face value within one year of COD, and the remaining shares will be issued between year 2 and year 3 after COD at a market value, which will not exceed 2.5 times the initial face value. The PDAs for both the Upper Karnali HPP and Arun 3 HPP do not specify the price of fair value shares.

4.4.3 Perceptions

Local communities: Given that the past offerings of local shares, other than in Chilime, have been at NRs. 100 ($1), most local people had the impression that this pricing would always stay the same. When asked if they would accept an increase in the price of shares, they said that, given that hydropower companies are profiting from their resources, they should be offered a preferential rate, i.e., the current pricing of NRs. 100 ($1). Another important point is that local communities almost unanimously agreed that local shares are an investment opportunity for which they are willing to pay. Only on rare occasions did they ask for shares at a discounted rate or free of cost, and even then most people agreed that such cost-free options should only apply to the very severely affected, the economically vulnerable and the socially marginalized.

Developers: For developers, the pricing of shares should principally be based on the relationship between risks and return, which changes during the course of project development. As a result, many developers said that shares should be offered at a par value of NRs. 100 ($1) during the construction phase. However, given their own understanding of the need to minimize the risks to local communities, some expressed their willingness to issue even after COD, but within the initial phase of operation. But many felt that if shares are to be issued after a company has started to generate cash flows, they should have the legal option of issuing at premium.

Government officials: Up until now the bureaucracy has been of the opinion that shares should be offered at NRs. 100 ($1). However, with the gradual introduction of premium and other market-based pricing mechanisms, SEBON seems inclined to move away from the current fixed price regime in the capital market. Also, the fact that the government

[38] Clause 25 of Securities Registration and Issue Regulation, 2016.

allowed the Arun-3 HPP to offer its share at both par and at premium (but capped at 2.5 times the par value) shows that the bureaucrats want communities to maximize their benefits but also want the private sector to benefit from the market.

4.4.4 Key Issues

The intent of local shares has a direct bearing on its pricing: The current fixed price regime of the capital market is such that all investors can accrue benefit on the very first day of trading. All listed hydropower companies had traded their shares at an average of 2.5 times their initial par value on the first day of trading. Given the demand for shares of hydropower companies, the returns on investment have been fairly high. But for companies that have taken the risk and made their investment, it is only natural to want to earn whatever markup is available. In this context, whether local shares should be considered a benefit sharing tool or an investment opportunity for the local people has a direct bearing on how to price it. From the community's perspective, as stated earlier, they perceive shares as an entitlement and a benefit they should get in return for the water, land and human resources they have contributed to the project. Offering local shares at a discounted value thus ensures that communities derive immediate benefit. As for hydropower companies, they think that provided they meet the established requirements, they should have the option of offering at a price that reflects the performance of the company and the risks taken by the developers prior to issuing local shares.

Newer policies can have implications for the pricing of shares: SEBON has been discussing the possibility of introducing other methods of price discovery in the Nepali capital market. In the new pricing regime, the price of a share at IPO is no longer fixed by the regulator but discovered (e.g., the book building method) through a process of estimated orders from a select group of invited large institutional buyers. If this is to be implemented, then the current practice of offering shares at IPO at a par value of NRs. 100 ($1) will no longer be relevant.

4.5 Eligibility

4.5.1 Policy and legislation

The Constitution of Nepal prioritizes local communities for making investment in any commericial use of their natural resources, but it leaves room for debate as to what constitutes a local community.[39] With regard to local shares, determining who qualifies for this preferential treatment has largely been a political question; and hydropower companies, starting from the Chilime HPP, have been deciding this matter through negotiations with local communities. In 2016 SEBON made the first attempt to bring some policy clarity on this issue. It amended its Securities Registration and Issuance Regulation and defined eligibility based on the project-affected area as demarcated in the EIA report. However, the Environmental Protection Act (1997), which requires an evaluation of any significant adverse impact by a project, has not established a standardized set of criteria to define affectedness. For example, most EIAs use two different base units for defining project affectedness, i.e., the project-affected individual or household and the project-affected area, but all hydropower companies prefer to use the latter in the offering of local shares.

The Securities Issuance and Allotment Guideline specifies the kind of documentation that the community members need in order to prove their eligibility for local shares. The applicant has to submit a government-issued document that states that he or she is a resident of the project-affected area; an applicant who has migrated into the area requires a certificate of migration issued before the issuance of shares.[40] SEBON has made the issue manager responsible for resolving disputes related to residency and identification. The directives do not specify cut-off dates, particularly for migrants. The guideline also allows for minor children to apply for local shares.

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39 Article 59 (5) of The Constitution of Nepal, 2015.

40 Section 25 (2) of Securities Issuance and Allotment Guideline, Revised 2017.

4.5.2 National practices

Up until the amendment in 2016, SEBON had left open for interpretation the definition of local communities eligible for local shares. Hence there is a lack of consistency in how hydropower companies were defining it. Thirteen of the 17 hydropower companies that had issued local shares had set the eligibility criteria at the district level. This is because local shares, from the very outset, have been a product of local politics, which in Nepal is largely played out at the district level. It is in the companies' interest to gain acceptance at the district level in order to mitigate local disputes and prevent disruptions and delays. However, there were four cases where companies have not issued shares at the district level. The likely reason for these anomalies is that the local politics that the HPP had to engage in was confined to the vicinity of project site. For example, in the case of the Khani Khola HPP, located in Lalitpur district, the company issued local shares to four VDCs adjoining the project area and not to the district.

Nine of the 17 hydropower companies that have issued local shares have further broken down the eligibilty criteria by the level of project-affectedness, wherein communities that fall within the "severely affected area" were offered more shares than their counterparts in the "rest of the district" category. See Appendix 19 for details on the local shares allocation criteria used by hydropower companies. Communities in "severely affected areas" face direct impacts of the project on a daily basis, such as high levels of dust and noise and in-migration of project employees. As they are likely to feel angry at the project, hydropower companies feel the need to give them more ownership of the project and thus prevent potential disruption. Many community members also feel that shares should be allocated in proportion to the impact they have suffered. This practice began with the Chilime HPP, where the hydropower company offered 2.5 percent of the allocated local shares to the 3 most affected VDCs and the remaining 7.5 percent to the rest of Rasuwa. Likewise, the Mai HPP offered 6 percent of the local shares to the nine most affected VDCs and the remaining 4 percent to the rest of Ilam. The percentage set aside specifically for the project-affected people has ranged from 2 percent in the Api Hydropower Company to 8 percent in the Chhyangdi Hydropower Company. That said, not all projects have opted for this mechanism: there are four projects that have limited their offerings to the district level with no further breakdown according to the degree of affectedness.

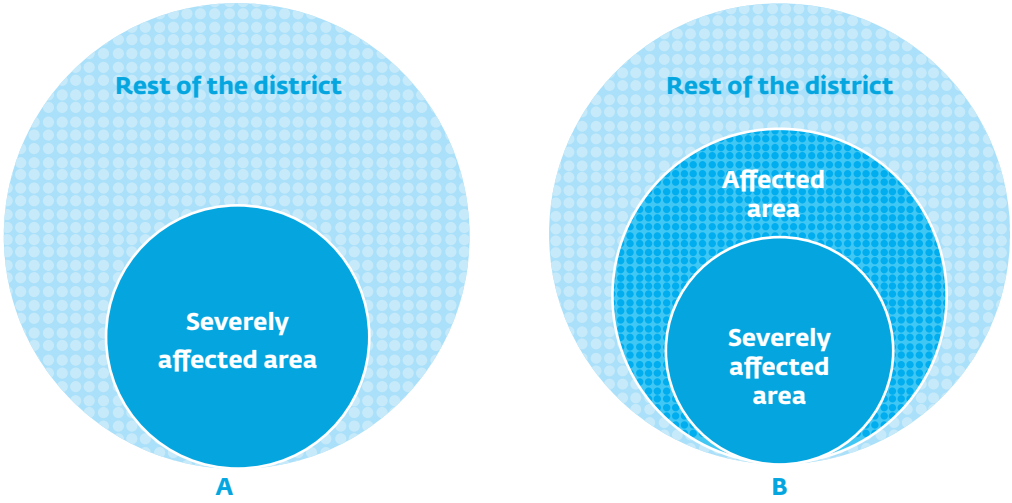
Up until 2017, project affectedness, within the discourse of eligibility for local shares, was defined in terms of the community's proximity to visible infrastructures of the project, mainly generation-related infrastructure such as the dam, tunnel and powerhouse. For example, in the Chilime HPP, the three VDCs defined as severely affected were i) Chilime, the site of the project headwork ii) Geljung, under which the tunnel runs, and iii) Syafrubesi, the location of the powerhouse. This is also the case in the Upper Tamakoshi HPP, where Lamabagar (location of the headwork and powerhouse) and Gaurishankhar (site of the intake for the Rolwaling diversion project[41]) VDCs are considered to be severely affected areas. Unlike other projects, the Upper Tamakoshi HPP has an added dimension, namely the "affected area" category, which includes communities affected by ancillary infrastructure such as the access road and transmission lines. It is important to note that the areas affected by ancillary infrastructure have been used not to define eligibility for local shares but to categorize those eligible within Dolakha district as project affected (see Figure 4.1). In 2016, SEBON amended its regulation to use the definition of project-affected area based on the project's official environmental assessment reports.[42]

There is a widespread perception that investing in hydropower shares generates guaranteed benefits. Communities that live in areas adjacent to the HPP but are not included in the EIA report as "project affected" have been demanding

41 The tailrace of the 22 MW Rolwaling HPP will be channeled into the intake of the Upper Tamakoshi HPP and is expected to be completed two years after the completion of the latter project. Rolwaling was initially not included as a severely affected area in the initial phase but was included after protests from the local community.

42 Clause 9 (4) of Securities Registration and Issue Regulation, 2016.

Figure 4.1: Graphical representation of degree of affectedness used for offering local shares



Note: 'A' represents the general practice among most hydropower projects and 'B' represents the criteria used by Upper Tamakoshi HPP

to be considered eligible for local shares. For example, in the case of the 10 MW Siprin Khola HPP in Dolakha, the company initially offered local shares only to residents of the six VDCs[43] defined as project-affected areas in the EIA report. However, four other adjoining VDCs[44] were also demanding to be included in the local share offering. When the company was unable to raise the required equity from the first six VDCs, it added the other four VDCs as well. Additionally, while SEBON has attempted to bring clarity in the definition of eligibility through the use of EIA, companies issuing local shares under the new policy regime have continued their practice of using a larger political unit in order to gain acceptance from the broader community. SEBON has said that as the local shares issuance evolves and Nepal gains more experience, it would be willing to further refine the eligibility criteria, if necessary.

People use their citizenship certificate as their main proof of eligibility. Other documents used include marriage certificate (for those married into the eligible area), birth certificates (for under-age children), and migration certificate. A few companies have also used land titles to verify eligibility, but this has promoted an alleged trend of people purchasing land only to be eligible for local shares. Also a cut-off date applies to any type of migration documents; while SEBON specified the cut-off date as the day prior to the issuance of shares,[45] in practice this varies from project to project: e.g., in Upper Trishuli-1, the cut-off date is the date on which the main construction activities have commenced, whereas in Upper Tamakoshi, it is the day of financial closure.

4.5.3 Perceptions

Local communities: Owing to the general perception that hydropower shares are highly profitable, local people want to be included in the affected area to be eligible for local shares. People living in directly affected areas or the severely affected families believe that they should be prioritized for local shares because i) the company is using natural resources in their area, ii) they have been impacted by various types of pollution, iii) their socioeconomic environment is affected by the temporary workers coming to reside in their locality, and iv) they have to adjust to hardship and inconveniences caused by loss of land, house, water supply, etc. They also believe that as severely affected people, they should be eligible

43 Gaurishankar, Khare, Lamabagar, Warang, Bulung and Laduk VDCs.
44 Chankhu, Margu, Lamidada and Suri VDCs.
45 Securities Issuance and Allotment Guideline, Revised 2017.

for more shares or shares at a cheaper price compared to others. People in other parts of the district, who are not directly impacted, still prefer to be classified as affected because they believe they will get good returns on shares. Local people do not approve of the practice of using land deeds for eligibility. They say that this affects their ability to obtain the desired number of shares and allows people with shares in one area to buy land in another to be eligible for shares of projects being built there.

Developers: In general, developers believe that the government should further clarify the definition of affected people. Although SEBON rules refer to individual project EIAs to identify affectedness and determine eligibility for local shares, a general lack of consistency across EIAs on what constitutes an affected person has made this challenging, as described below. While many said the practice of allowing the developer to define the affected area helped them expand the boundaries of the affected area for broader acceptance, some mentioned that developers should not have to bear the burden of dealing with local communities. The developers and their issue managers prefer citizenship or landownership certificates to verify eligibility for local shares rather than having to bear the cost of an additional survey to ascertain the degree of affectedness.

4.5.4 Key Issues

Eligibility is less technical and more political: An examination of the demands from communities that want to be eligible for local shares and the companies' responses based on different criteria for eligibility shows that this process is more about reaching a political settlement and less about finding a standardized technical solution. At present, the issue seems to have been settled largely at the district level, with the project-affected people distinguished from the rest of the district. By deciding that eligibility should be defined on the basis of the EIA report, SEBON has made a good attempt at bringing clarity and consistency in this regard; however, local politics surrounding eligibility for local shares might inevitably continue in some of the projects. Given that the elections are over and state restructuring is underway, it is unclear how local shares will be implemented in the new political context comprising new actors and institutions.

"Migrating" for local shares and placing cut-off dates: Local communities have a major complaint about the increased migration of non-locals from urban areas into their area districts, at least on paper, to become eligible for local shares. Another complaint, though made less unanimously, concerns the fact that local people with financial means are based in major urban areas, but maintain residence in the districts to take advantage of local benefits. On the other hand, there was significant support for the idea that locals who did not reside in the village because of labor migration should be given access to every opportunity possible as they are an integral part of the community and contribute directly to its development.

4.6 Delivery Model

4.6.1 Policy and legislation

Local shares are a subset of the public shareholding structure and are guided by the same laws that apply to the issuance of public shares. Nepal does not have a specific law that dictates which delivery model should be used for offering public shares. Given that an increasing number of HPPs are being considered for development under various models of ownership, and more and more Nepalis are aspiring to take part through investments in equity, there is a clear need for a policy to guide the delivery of local shares.

4.6.2 National practices

Hydropower companies in Nepal have used a direct delivery model to issue shares. Hydropower companies issue shares directly to individuals as opposed to indirect shareholding, where local people entrust an institutional entity to own shares allotted to individuals in the project company. The discourse on alternative delivery models has emerged mainly with regard to the Upper Karnali and Arun-3 HPPs, two projects that have very similar characteristics: i) both are 900 MW peaking run-of-river projects secured by the developers through global competitive bidding: ii) the companies building these HPPs have been registered in Nepal as private SPVs; iii) as projects over 500 MW, both have successfully negotiated their PDAs with IBN; and iv) both companies have agreed in their PDAs to provide shares to local communities. However, despite the commitment to provide local shares, the government (represented by IBN) and the company do not seem to be clear on how the local share offering should be structured. A 2015 IBN study titled "The Options and Mechanisms for Offering Project Shares to the Local Stakeholders" proposes a publicly held SPV model as the most suitable mechanism for the delivery of local shares, as it meets the expectations of both the local people and developers. The PDA for the 216 MW Upper Trishuli-1 states that local shares shall be given "in an efficient manner without affecting day-to-day operation of the company." In the case of the Bhotekoshi HPP, the company has left it to the local communities to propose a delivery structure for the offering.

4.6.3 Perceptions

Local communities:[46] Communities interviewed during this study almost unanimously expressed a preference for local shares issued directly to them, as this is the only model they are familiar with. When asked whether or not they would be willing to invest through a community-owned enterprise, their immediate concern was the possibility of elite capture in such communal models, a phenomenon they have experienced not only in public bodies but also in many local community-based organizations. Also, they are aware that it's a hassle to deal with many actors while making decisions, e.g., in communal trusts, and opined that they would prefer making their own investment decisions. Moreover, the perception is that with direct ownership they would have the flexibility to divest should the need arise. They also stated that individualized benefits from direct ownership can guarantee more ownership of the project than other delivery models.

Developers: There are differing perceptions among developers regarding delivery mechanisms. Some underscore the importance of meeting the expectations of local communities through direct ownership. Others believe that to maximize the benefits, the offering of local shares should done through a communal mechanism or local bodies that would then use the income from investment to carry out development projects that benefit the communities. Private investors, especially foreign based, are concerned about the difficulty of managing many shareholders and prefer to keep them to a minimum. One idea discussed is to have an SPV that represents the entire local community as one shareholder to the company providing the shares.

Government officials and politicians: As policy shapers and makers, politicians and government officials have been promoting local shares as it fits into the narrative that the nation can achieve prosperity through exploiting its hydropower potential. However, they lack clarity on how to operationalize the offerings of local shares, especially in cases where a company does not want to go public.

4.6.4 Key Issues

The issue of corporate governance: The issuance of local shares, whether through a direct delivery model or indirect delivery, can introduce various issues related to corporate governance. Local shareholders, being minority shareholders, will have very limited ability to influence company decisions as the majority shareholders generally have control over

[46] The perceptions are based on discussions about the direct and indirect models with local communities. However, the various delivery options for the indirect model were not assessed during the field visits.

corporate decisions. On certain occasions the interest of the majority shareholders may be in conflict with that of the minority shareholders, potentially leading to a compromise in the latter's interest.

Using local government bodies for the delivery of local shares:[47] There are instances from other countries, e.g. Norway, where local government bodies have invested equity in hydropower companies. Any returns on such investments are then used for the benefit of the communities that are represented by these bodies. Given that local shares in Nepal are characterized by individual investments and direct benefits with a sense of direct ownership, the idea of using local government bodies as a fund management entity that provides communities benefits and ownership in an indirect way is yet to be tried and tested. However, in line with international practices, local bodies in Nepal are being allowed to make institutional investment in hydropower companies. For example, Trishuli Jal Vidyut Company, the promoter for the Trishuli-3B HPP, has set aside 5 percent of equity for the affected municipalities of Rasuwa and Nuwakot districts.

Getting community buy-in: In the end, the acceptance of any alternative delivery model is going to be based on whether or not the local communities perceive it as beneficial for them. This implies the need for massive communication efforts to build public trust and gain acceptance. As is evident from this study, the local shares regime is a product of various political negotiations conducted over time and institutionalized subsequently by legal frameworks. The local people seem to prefer the concept of direct ownership of shares as they think the current model grants them individual control and direct ownership of project shares. The idea of relying on communal models to invest on their behalf was met with general skepticism, for they lack confidence in the institutional governance of indirect ownership and fear being deceived by people who manage them.

4.7 Financing

4.7.1 Policy and legislation

There is no specific law that provides a legal framework for the financing of local shares. However, there is one provision in Nepal Rastra Bank's (NRB) Unified Directive (17/074), under the deprived sector lending requirement,[48] that BFIs can provide collateral-free loans of up to NRs. 50,000 ($500) per household for the purchase of local shares.

4.7.2 National practices

Chilime is the only hydropower company to have provided institutional financing for local shares. The company entered into an arrangement with two "A" class commercial banks—Mega Bank Nepal Limited and Janata Bank Nepal Limited[49] —with the following provisions: the banks would provide loans of up to 80 percent of the total shares allocated to each individual;[50] the share certificate would serve as collateral; the repayment period would be three years, which coincided with the end of the lock-in period and during these three years the banks would retain the share certificate; and full repayment would be guaranteed through the channeling of dividends per share directly from the company to the individual bank account. All this was possible because Chilime Company had been offering dividends to its shareholders within a year of its IPO. Each individual loan was also relatively small; the maximum being around NRs. 12,000 ($120) per person.[51]

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47 Also see section 6, "Framing of Local Shares as a Benefit Sharing Instrument".

48 As per Nepal Rastra Bank's directive, authorized class 'A', 'B', and 'C' banks in Nepal have to lend 5 percent, 4.5 percent and 4 percent respectively of its total loan to the deprived sector. For example, a commercial bank is required to (i) provide at least 5 percent of its total lending as "deprived sector lending" and, (ii) out of the said percentage, at least lend 2 percent in the specified sector or activities as "direct lending". The specified activities include a loan of up to NRs. 50,000 ($500) per family for subscription of the local shares reserved by the hydropower projects.

49 This mechanism of "Debt Linked Product on Equity/Cash Flows" is mentioned as a financing mechanism in an unpublished study carried out by IBN in 2015.

50 It was impossible to determine the interest rate at which this loan was offered. The informal estimate is around 13–14 percent.

51 Calculation of maximum loan given by the banks for local shares (80 percent of maximum (NRs 100 X 34 + NRs 323.7 X 36) = 80 percent of NRs 15,053.2 = NRs. 12,042.56).

In general, people were investing "small amounts"[52] through personal means, including savings, loans from friends and relatives, and by selling off smaller tradeable assets. With most communities having received a limited number of shares, the need for institutional financing has thus far been minimal. However, a small but significant percent of community members have financed their local shares through loans from local institutional sources such as cooperatives and microfinance institutions. While these institutions are designed to better serve the rural areas than their BFI counterparts, the interest rates they offer, the lowest being around 14–18 percent, is much higher than the rates BFIs offer. Still, people seem to prefer the community-based savings and credit cooperatives model, mainly because they are familiar with such institutions, having relied on them for savings and occasional loans. Additionally, local cooperatives were found to be more proactive in arranging people's access to finance so that they do not miss the opportunity to invest in local shares.[53] A few people said they had taken loans from informal money-lenders. These lenders are infamous for charging high interest rates, some as high as 60 percent per annum.[54] However, given the procedural hassles involved in receiving loans from institutional sources, especially microfinance institutions, some people seem to feel more comfortable with their informal sources.

4.7.3 Perceptions

Local communities: The vast majority of local communities seem to perceive hydropower as a fairly secure investment. Thus, the communities do not hesitate to obtain loans to purchase local shares. The general sentiment that many echoed can be summed up as: if the urban educated class and their institutions are willing to invest such large sums of money in our water resources, it must definitely yield good returns; our investments and consequently the risks we face are relatively small. However, women who had a say in the decision-making process were found to be slightly more risk-averse than their spouses. Others appeared to merely follow their husband's lead and believed that this was perhaps too good an opportunity to miss. Generally, most of them seem confident that they will be able to pay back their loan plus interest through the dividends or through their capital gains.

Developers: For private developers, ensuring local people's access to finance for investing in local shares was not a high priority because even if the shares are undersubscribed due to lack of financing options, they have the option of making public offers during the general IPO. Generally, developers expect the locals to arrange their own finances. Also, they think it's not fair to expect them to carry the additional burden, financial or otherwise, of providing finances.

Banks and financial institutions: Banks seem to perceive hydropower as a high-risk sector. A number of respondents from the banking industry said that they prefer not to lend to the sector had it not been for the NRB directive[55] that requires them to do so. Lack of human resources in the banks (though the situation is improving) for properly assessing the risks in hydropower, and their lack of experience in the sector, increases their perception of hydropower as a high-risk sector. With regard to local shares, banks seem to be skeptical about lending money to the local communities for investing in local shares, despite the incentive outlined in the NRB provision: i) they must collect detailed know-your-customer information of each borrower and this would mean high transaction cost and time; and ii) the borrowers do not need collateral for the loans, which puts the bank's investment at high risk. Thus, banks are an unlikely source for affordable financing of local shares. Microfinance institutions, on the other hand, have a better presence than banks in rural areas, including in areas where HPPs are constructed, but seem to have very little interest in providing loans for local shares. This lack of enthusiasm is based on the following understanding: i) that investments in the hydropower sector is riskier than other sectors where

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52 People generally referred to investments of NRs. 10,000–20,000 (approximately $100–200) as "small amounts."

53 KC, Sagar. 2017. "Cooperatives to provide loan for Tamakoshi shares (in Nepali language)". Urjakhabar.

54 The way locals put it is NRs. 5 per NRs. 100, i.e., for a month.

55 According to NRB's directive, all commercial banks are required to invest at least 20 percent of their total loan portfolio in the productive sector, 12 percent of which should be in agriculture and energy sectors. In addition, the latest monetary policy makes it mandatory for all banks to invest at least 5 percent of its total loan in the hydropower sector by the end of fiscal year 2017/18.

they have traditionally been offering loans, ii) moreover, the volatility of the share market exacerbates the sectoral risks, and iii) their loan processing system (which is already quite cumbersome) is designed to serve smaller amounts and thus unable to service hundreds of thousands simultaneously. Even if they were to provide such loans, the interest rates would be significantly higher (as high as 18–20 percent) than that of commercial banks.

Politicians: Leaders from across the political spectrum claim that every Nepali, regardless of their financial capacity, should be provided financing options to invest in local shares. Many opined that it is the state's responsibility to ensure that the socially and financially underprivileged are able to participate in this form of benefit sharing, through various mechanisms such as sweat equity, offering from social security, or other special government funds. Some also stated that hydropower companies should guarantee returns so that vulnerable people are able to repay loans through dividends. However, when probed about implementation, their response lacked clarity on how to operationalize and sustain their proposed mechanism.

4.7.4 Key Issues

Sorting out financing is going be critical: The issue of financing local shares does not appear to be a major concern for the communities for now. As stated earlier, only a few HPPs have offered local shares thus far, all of which have been relatively small projects. As a result, the number of shares that each individual has been allotted has been minimal. An applicant has received shares of less than 200 units on average. This is all happening when Nepal's total installed capacity is less than a 1,000 MW. But if the country is to reach anywhere close to its intended target—the current government's public declaration of 10,000 MW in 10 years or its economically/technically feasible potential of 43,000 MW—this could significantly increase the possibility for local communities to invest in much larger quantities. At that moment local communities will not able to purchase local shares with their own means and may demand institutional financing.

The reluctance of BFIs to finance local shares: While there was an arrangement made to provide local communities with institutional financing in the very first offering of local shares at Chilime, BFIs, including first movers in Mega and Janata banks, have not been keen to pursue this in subsequent projects. This is despite the incentive established by NRB that allows BFIs to credit these loans towards their deprived sector lending portfolio. As profit-making commercial institutions, BFIs, including microfinance institutions that are designed to serve the rural areas, seem to have very little appetite for financing local shares due to the high cost of servicing the scattered rural populations and the perceived risks of providing loans for this specific purpose.

Taking lessons from past investments: In several cases, people had been reluctant to invest in local shares as a direct result of a poor performance of their past investments. For example, people specifically mentioned their previous exposure to pyramid schemes such as Unity Life International. They were thus suspicious about local shares; some decided not to invest or invested very small amounts. This does raise the question: in the event of a failure of major hydropower companies, will it make people rethink the Chilime narrative? Also, as people gain more experience in the capital market, and investments in the hydropower sector do not yield regular dividends or spectacular capital gains, people may begin to get tired of the sector. Anecdotal evidence suggests that people are beginning to weigh the pros and cons of investing in something tangible (e.g., a tractor that can be rented out for farming and transportation) versus something intangible as hydropower shares, which have yielded no returns even after years of investment.

4.8 Holding and Divestment

4.8.1 Policy and legislation

The Securities Registration and Issuance Regulation establishes the restriction of tradability of all preferentially distributed shares until the completion of a designated lock-in period. Preferentially distributed shares are any special category of shares that have been earmarked for a select group of applicants. For example, the law allows companies to set aside up to 4 percent of its IPO shares for its employees. In the hydropower sector, staff and local shares are two types of preferentially distributed shares. Under the current law, both these types of shares have a lock-in period of three years, the restriction for which applies from the date of allotment of shares. The intent here is to prevent early divestiture, so as to ensure stronger ownership of the project and better performance of the company. Under exceptional circumstances, however, the trading of shares is allowed even during this period, i.e., in the event of death of the shareholder or if the shareholder's property has to be divided among family members.

While holding shares, as specified in the Companies Act, shareholders can enjoy three categories of benefits: i) cash dividends: A company can offer shareholders cash dividends based on its performance, the amount of which is decided by the company's board of directors and given upon the decision of the shareholders through the AGM; ii) bonus shares: A company also has the option of offering bonus shares to its shareholders, primarily as a substitute for cash dividend, which is generally done to meet a capital requirement; and iii) rights shares: companies also have the option of raising required capital through the issuance of rights shares, which differ from bonus shares in that shareholders are required to pump in additional funds to collect the rights shares, albeit at a par value of NRs. 100 ($1).

If a shareholder is looking to divest shares of a listed public company, the sale has to take place in the country's only stock exchange platform, NEPSE.[56] This process is facilitated by SEBON-licensed brokers for both the buyer and seller and settled electronically through the central depository system within for days of the initiation of sale. Currently, SEBON has set a fixed brokerage fee at the rate of 0.4–0.6 percent. The shares of unlisted public companies[57] can be traded through the over-the-counter (OTC) market. The pricing in OTC market is determined through negotiation between the single buyer and seller and does not, as in the case of public companies in NEPSE, allow for a transparent market-driven price formation.

4.8.2 National practices

In general, people seemed to treat local shares as an asset that is meant to be held rather than traded. However, their ability to reap benefits from shares is limited as few companies have reached a stage where they are able to provide regular dividends to their shareholders. For example, two companies that have consistently been offering cash and bonus dividends started operations back in 2003. Even then, while Chilime Company has been consistently offering cash and bonus dividends, at an annual average of about 15 and 22 percent respectively, Arun Valley's offerings are significantly lower, with an annual average of about 8 and 4 percent respectively. The cash and bonus dividends offered by other companies are well under 10 percent, with cash dividends that are at times as low as 0.5 percent, sufficient only to cover the tax on the bonus shares offered. Three companies, namely Arun Valley, Ridi, and Sanima Mai, have offered rights shares to increase capital for further investments. The problem of limited offerings was exacerbated by the low level of awareness at the community level. Only a few respondents were familiar with cash and bonus dividends. Another key factor that hinders local communities from receiving their cash and bonus dividends is the centralized share market system, whereby shareholders who want to claim their dividends have to be physically present at a SEBON-licensed

[56] There is discussion about SEBON approving the request of another private stock exchange as well.
[57] This is an unlikely scenario at present, but can be applicable if such a delivery model is chosen.

Box 3: Shares, Hydropower Companies, and the end of an HPP's concession period

Other than HPPs directly owned by the NEA, all HPPs in Nepal are currently being built under the BOOT model. A key requirement in this model is that hydropower companies, at the end of the concession period of their HPP, have to transfer the HPP back to the government. The Electricity Act 1992 specifies this period as 25 years for export-oriented projects and 35 years for domestic consumption. What impact this transfer has on the hydropower company share is not well understood either by the locals or the policymakers. The uncertainty on this issue stems from the following:

i) What happens during project handover: The Electricity Act 1992 has two separate provisions that are applicable based on the type of ownership of the company. For those with a majority of foreign investment, the law explicitly requires that the HPP be transferred back to the government, but gives preference to that company to negotiate a new agreement with the government for the ownership and operation of the project, at a specified price set by a committee. However, for companies with a majority of Nepali investment, the law states that the company can renegotiate with the government and conduct business under a new agreement. This indicates that while the ownership of the HPPs do technically revert back to the government, the government can negotiate a new agreement, with the same company, for the purpose of operation and maintenance (O&M).

ii) What happens to the hydropower company after handover: The Electricity Act 1992 requires all hydropower companies to hand over the assets of a HPP whose licensing period has ended, which includes project-related assets such as land, building and equipment. However, despite this handover, legally the company will continue to exist and also maintain ownership of its other assets. Shareholders will also continue to own the shares of the company. However, what this means for the price of its company shares, depends on how the company is structured. For hydropower company with a single project, unless it includes other revenue streams, the company will no longer have an income source. This will directly impact the company's bottom-line, which is likely to result in a decrease in the price and tradability of its shares. Shareholders then have the option of amending the company objectives and pursuing other revenue streams, including (based on the earlier point) an O&M contract of its previous HPP, or, if they desire, to completely liquidate the company. For hydropower companies with ownership of multiple HPPs, e.g. Chilime Hydropower Company, which owns the 22.1 MW Chilime, 102 MW Middle Bhotekoshi, 42.5 MW Sanjen and 111 MW Rasuwagadhi HPPs, the impact will depend on how much the transferred project contributes to the company's bottom-line: the larger the contribution, the bigger the impact.

At the community level, people are somewhat aware that HPPs have a limited licensing period, after which they have to be handed over to the government. However, they did not have a clear response when asked how this impacts the ownership and the value of the shares they hold. Given the lack of understanding at the community level, it is important to strengthen the requirements on hydropower companies to disclose all relevant information to potential shareholders through their prospectus and other documents. See the section titled "Transforming Communities into Informed Shareholders."

At the policy level, the bureaucracy is aware that hydropower companies are required to transfer back the HPPs, but is largely uncertain about the aftermath. This is partly because they feel no urgency to act. It is critical that the MoEWRI bring further clarity to this issue by stipulating a timeframe for companies that hold the majority of Nepali investment to notify the government of their intent to hand over the project to government or negotiate a new O&M contract. Should the company state the former, the government can choose to call new O&M bids. Should it request for the latter, the government can negotiate a new contract with the same company. The government would need to decide the most appropriate time before the end of the concession period to do this; the earlier the resolution, the more clarity it would provide to shareholders.

Registrar to Shares (RTS) companies. These RTS companies, which maintain the database of all company shareholders, are mostly located in Kathmandu.[58] According to the law, unclaimed funds are transferred to a shareholder protection fund after five years. Such funds are expected to decrease with the introduction of the electronic trading system.

Four companies, namely Chilime, Sanima Mai, Ridi, and Api were past their lock-in period. While there were concerns of massive divestment of local shares immediately after the end of the lock-in period, this has not been the case so far. For example, in Chilime, it is estimated that over 80 percent of the local communities have retained their shares.[59] This retention could be attributed to several issues: i) the community members view shares as a valuable asset, similar to land, that is to be retained for the long term, and ii) they have a limited understanding of the share market and how price formation works, which limits their ability to take advantage of the natural price fluctuations. It should be noted that since the price of CHCL had fallen from its high of NRs. 2700 ($27) to NRs. 700 ($7), community members were interested to sell their shares if and when the price increased "significantly."[60] Furthermore, there are limited brokerage facilities beyond Kathmandu, e.g., local shareholders of Chilime had to travel to Kathmandu in order to divest their shares, which means additional time (a full day's journey by bus) and money (for food and accommodation). See Table 4.2 for inofrmation on cash and bouns dividend plus rights shares issued by hydropower companies.

People had tried to minimize costs in a few ways: i) they would carry out the transaction only when they were traveling to Kathmandu for other purposes, ii) they would make a collective arrangement wherein only a few members of the community would travel to Kathmandu to conduct the transaction, and iii) in the worst case scenario, community members would rely on dalals, i.e., agents who would purchase their shares at a price much lower than that offered by the market. The latter two methods have been discontinued given a change in the law that now requires the person to be physically present during the transaction. On the other hand, stockbroker agencies have made some effort to take their services to the districts and their urban centers. But given the low volume and frequency of transactions, they state that they do not have adequate incentives to maintain such operations.

The introduction of demat, ASBA, and C-ASBA, which altered the process of allocation, also changed the process of holding and divestment. For example, during the issuance of rights shares of Sanima Mai Company, the demat requirement compelled people to open a register for demat in order to buy the shares. Similarly, people will no longer have to travel to Kathmandu in order to get their dividend warrant printed by RTS, after which they would have to deposit the warrant in their bank. In the changed context, CDS has all the bank details and all dividends are transacted automatically.

4.8.3 Perceptions

Local communities: Local people are generally aware about the lock-in period, but it doesn't seem to bother them much, at least so far, as many see shares as a long-term investment. However, where local communities are eligible for cash and bonus dividends, communities have limited ability to appreciate what they have earned; they aspire more towards possible capital gains than towards income from dividends. Local people are also unaware about the transfer of unclaimed dividends to a shareholder protection fund after five years, which used to be the practice until the recent move to automation. Dividend payments will now be directly deposited into beneficiary accounts.

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58 The hydropower company can provide dividends itself or outsource them to another company.

59 This figure was derived from an anonymous source and could not be further verified due to technical reasons. The 2015 IBN report also quotes a similar figure.

60 The respondents did not have a clear figure that would capture this significant increase. However, there was a stated expectation that this would eventually increase to NRs. 5,000.

Table 4.2: Cash and bonus dividend plus rights shares issued by hydropower companies

				Cash and Bonus Dividend (percent)							Rights share	
	Hydropower Company	COD	Fiscal year	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17		Date
1	Chilime	23-Aug-2003	Cash	30.0	20.0	10.0	15.0	12.0	10.0	10.0	None	-
			Bonus	40.0	30.0	30.0	20.0	15.0	10.0	15.0		
2	Arun Valley	18-sep-2003	Cash	15.0	0.8	0.8	0.5	11.5	0.5	0.5	1:1	28-April-14
			Bonus	0.0	15.0	15.0	10.0	0.0	10.0	10.0		
3	Ridi	27-Oct-2009	Cash	-	-	-	10.5	10.5	6.3	6.3	10:3.5	19-Jul-16
			Bonus	-	-	-	10.0	0.0	6.0	6.0		
4	Barun	2-Aug-2011	Cash	-	-	-	-	-	-	0.3	None	-
			Bonus	-	-	-	-	-	-	5.0		
5	Ngadi	16-Oct-2012	Cash	-	-	-	-	-	5.0	0.5	None	-
			Bonus	-	-	-	-	-	0.0	10.0		
6	United Modi	24-Nov-2012	Cash	-	-	-	-	-	-	5.0	None	-
			Bonus	-	-	-	-	-	-	0.0		
7	Sanima Mai	26-Feb-2015	Cash	-	-	-	-	-	-	-	1:1	14-Sep-17
			Bonus	-	-	-	-	-	-	-		
8	Api	19-Aug-2015	Cash	-	-	-	-	-	0.0	0.0	None	-
			Bonus	-	-	-	-	-	5.0	8.0		

Developers: Because the projects believe that there is benefit when local communities retain the ownership of their shares, developers are of the opinion that there should be some form of lock-in period for local shares.

Regulator: SEBON in discussion with other agencies have also been mulling over the possibility of shortening the lock-in period through tranches, especially for companies that issue local shares post COD. But the regulator thinks that the current size of each individual holding, i.e., between 100 and 200 units, is too insignificant for the tranche system to be truly effective. However, as the size of people's investments increases and there is significant individual holding, SEBON is open to the possibility of shortening the lock-in period through tranches.

4.8.4 Key issues

High transaction cost: One key reason for local communities to retain their shares is the high transaction cost associated with divestment, which includes transport, accommodation and other incidental costs. Past arrangements required shareholders to travel to Kathmandu for all transactions, and because individual holdings are very limited in size, the cost of divesting would have negated any capital gains they may have made from selling their shares. This will now be moot, thanks to online trading. However, the lack of adequate brokerage facilities outside Kathmandu, even after the introduction of demat and ASBA, is still an issue for trading in shares in general.

5. LOCAL SHARES: ACCOUNTS FROM THE FIELD

This section documents the communities' lived experiences in relation to local shares. First, it looks at some of the key economic changes that shareholders have experienced in their lives as a result of owning shares. And second, it discusses how that experience has, if at all, contributed to their overall empowerment, particularly the vulnerable population, including women and marginalized groups.

5.1 Limitations

Initially it was proposed that this section would provide assessment of the socioeconomic impact of share ownership on local communities, with a special focus on the marginalized and vulnerable households. Additionally, the study intended to examine the responses of these target groups to the declining share prices and their coping mechanism to deal with any potential losses. However, upon close examination of the practices of local shares, the study team identified various constraints to the proposed assessment.

The first limitation of the study was regarding case selection. The study's objective was to look at the possible benefits of owning shares and the subsequent trading of shares. For this reason the study team could only select HPPs that had offered local shares and distributed financial benefits. Only two cases met this criteria: Chilime HPP, which had been offering cash and bonus dividends, and Sanima Mai HPP, which had only recently issued rights shares.[61] The second limitation was related to the scope of inquiry, the time available to conduct the research, and the proposed design of the overall study. There is no baseline to assess the observed economic changes in the lives of shareholders. Moreover, the assessment could only be done on random sampling, which could exclude people who live far away from the project area and major urban centers.

Keeping these limitations in mind and acknowledging that the findings cannot be extrapolated to all hydropower shareholders, this assessment tried to address two research questions:

- What economic changes have taken place as a result of their share ownership?
  - Changes in economic status have been defined as;
    - Changes in income sources related to shares
    - Accumulation of assets with income from shares

- Has ownership of shares contributed to the empowerment of marginalized groups?
  - Empowerment has been defined in this study as:
    - Ability to make intra-household decisions
    - Engagement in community participation
    - Mobility and
    - Perception of self.

[61] The lock-in period of a third project, the 5 MW Ridi HPP, had also ended. It has provided similar benefits as Chilime and Sanima Mai.

5.2 Observed Economic Changes

Additional income: Of the two companies researched, only Chilime had given additional income to its shareholders. The returns in the form of cash dividends from Chilime to date, for every 10 units of shares held, has been around NRs. 2,000 ($20). In other words, for a family of four, where each individual held the average of about 32 units of shares per person, the total additional income in the last seven years would amount to about NRs. 28,000 ($280). However, because of the high transaction cost, only a handful of people stated that they had actually collected their cash dividend. Those who did receive the cash viewed it as a marginal income that only covered basic needs such as groceries, clothes or festival expenses. Some respondents had also used it to cover medical expenses.

> *"The doctor at the district hospital told me to go to Kathmandu for the delivery of my daughter. When we were in Kathmandu, we were able to collect our cash dividend from our Chilime shares, which we used to pay some of my hospital bills."*
>
> **– a female resident of Rasuwa**

The other form of additional income for shareholders was linked to their ability to extract capital gains from shares. Here again, Chilime was the gold standard as it had traded, back in 2014, at rates as high as NRs. 2,794 ($28). Given that the company had issued bonus shares every year, an individual that received 10 units of shares at IPO would have, in 2014, more than doubled her holding to 24 units. A family of four that had bought a total of 160 units of shares would have increased them to 384 units. If they invested a total of NRs. 12,800 ($128) during the IPO at par value, then they would have earned NRs. 858,000 ($8580) by selling them at maximum value. At Sanima Mai, soon after its lock-in period ended, the public shares were traded at rates as high as NRs. 1,239 ($12). See Appendix 11 for an analysis of current worth of shares for Chilime and Sanima Mai.

Although such projections of potential capital gain drive the local shares narrative, most community members have not enjoyed such returns. As stated earlier, it is estimated that over 80 percent of local shareholders in Rasuwa still hold their shares. A few said they had sold their shares when the share value was over NRs. 2,000 ($20). They had reportedly obtained such high returns that they were able to buy land, build a house, finance a family member's labor migration, or invest in a child's further education.

> *"Investment in shares was very beneficial for me. I sold all my shares and bought three ropanis[62] of land. Now I am building a house as well. I believe that shares provide us great security as we can sell them when we want and use them to fulfill our needs."*
>
> **– a resident of Rasuwa**

> *"My husband had to sell his shares because his brother was going to Japan for employment. He did not have money, so my husband sold his shares and gave him the money."*
>
> **– a female resident of Ilam**

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62 In the Nepali customary unit of measurement, frequently used for land, 1 ropani equals about 508 square meters.

> *"My son sold his Chilime shares three years ago. At that time, the price of share was around NRs. 2,400 ($24) per unit. He used that money to finance his further studies in Australia."*
>
> **– a female resident of Rasuwa**

For others, the additional income was instrumental in difficult times; a few of them said they had to sell their shares to repay their loans.

> *"Initially I had a poultry business but that did not do very well. It got to a point where I was compelled to sell my shares to pay off the debt. With the remaining money, I bought a piece of land nearby, which was worth NRs. 4.5 lakhs ($4500). It has now almost quadrupled in value."*
>
> **– a resident of Ilam**

By the time the study team reached the local communities in Rasuwa and Ilam in late 2017, the share price of Chilime and Sanima Mai had dropped to around NRs. 700 ($7) and NRs. 600 ($6) respectively. When asked if this fall in price bothered them, respondents from Chilime stated that they had had a discussion with officials at the hydropower company, who told them that this was the case only because their company had been investing all of its profits in two other HPPs, namely Rasuwagadhi and Upper Sanjen. The officials had reassured them that the value of their shares would eventually reach NRs. 5,000 ($50). Such claims, however, suggest the need for better rules on representation and disclosure to ensure that the investors' interests are protected. The locals also said that they plan to sell their shares if and when the value goes up to NRs. 5,000 ($50).

Shares as an investment: Given the benefits of receiving dividends and capital gains, community members now see local shares as an opportunity to save and invest.

> *"This way my money is saved somewhere. If I had kept that with me, I would have spent it on something unproductive. And so even if I earned an additional NRs. 10 ($0.1), that is still some profit."*
>
> **– a resident of Rasuwa**

There are few opportunities to invest in Nepal's rural areas, and so for many this is their first experience making any sort of investment in shares. Since local shares are considered to be lucrative assets, there were occasions where local people had sold some of their smaller tradable assets, including jewelries and livestock, to finance their purchase. Interestingly, many respondents equated investing in local shares with investing in real estate, though they added that selling land to buy shares was a bad idea. Those who initially bought only a few shares or none at all regret their decision, having seen others profit from their investments. Thus they intend to buy shares in subsequent projects that they are eligible for. This was the case in Rasuwa, where many who had not bought any shares in Chilime had recently invested in Mailung, despite being aware of the problems in the HPP and knowing that it will not be as profitable.

> *"We know local shares is an investment. Its value can go down. But if you look at the share market, hydropower shares have mostly been profitable compared to other sectors."*
>
> **– a resident of Rasuwa**

Local communities acknowledge that investing in shares of HPPs have inherent risks. However, they also hold a contradictory view that HPPs are always profitable, especially because they see companies, banks, and urban investors investing billions of rupees. Also they seem to be confident that these large investors will take necessary action should there be any problems with the HPP.

"Companies and banks are investing millions of rupees in HPPs in our locality. They bear most of the risks. Our investments are small and so are our risks. Companies will try to minimize their risk and that will ultimately minimize ours."

– a resident of Ilam

But most people said that the amount they were investing in local shares was very small and that even if the company were to go bust they would see it as a bearable loss.[63] However, it should be noted that lower income people would have a different risk appetite than upper income people in the community.

"My husband worked abroad. He sent us NRs. 50,000 ($500) to invest in shares of Chilime. Because he worked abroad, it wasn't a big amount for us."

– a female resident of Rasuwa

Shares as a source of future financial security: A number of community members said that their investment in local shares provides them a sense of security for the future. Parents intend to spend the income from shares on their children's education or marriage. Elderly people claimed that they feel secure knowing that their investment in shares will help them in old age.

"I hope that shares will support me financially in my old age. If my children stop supporting me, I have something to fall back on."

– a resident of Rasuwa

5.3 Empowerment of Local Communities

Community members said they had benefitted from local shares in other ways besides direct financial returns.

Increasing financial awareness, familiarity with banking institutions, and its impact on self-esteem: As each applicant for local shares is required to have his or her own bank account, it gave many local people the impetus to open a bank account, including women, who otherwise would have little need to do so. For some, this was the first opportunity to visit a bank, let alone engage in any banking transaction. They were enthused by their familiarity with banking institutions; some even managed to build a degree of personal rapport with the bank officials. This is an important contribution of local shares given that the government has been trying to promote financial inclusion[64] by improving banking access in rural areas, and is in the process of disbursing all of its grants, including old age pension and other allowances, through the banking channel.

"I had never been to a bank. Because of local shares, I now have a bank account. I even know people there. I feel more confident talking to people and I feel good that I have more knowledge about shares than I did before."

– a female resident of Rasuwa

63 In Ilam the hydropower company had given the opportunity to invest as much as NRs. 100,000 ($1000) per person, but only a few local businessmen had the wherewithal to capitalize on the offer.

64 The Nepal Rastra Bank's Strategic Plan (2012–2016) and the Monetary Policy of 2016/17 both include enhancing financial inclusion and access to finance as a strategic priority.

Community members who own shares, especially first-time shareholders, said that share ownership has made a difference in their self-perception. It has also given them a sense of being a part of a broader community that is involved in hydropower development in and around their area.

> *"After owning shares, I feel that I have become more aware and confident about investments. I regularly check the share price and I will only sell it when its price reaches maximum."*
>
> **– a resident of Rasuwa**

> *"During discussions about hydropower companies I feel very proud to say that I own shares in my name."*
>
> **– a resident of Rasuwa**

Non-monetary benefits to women: The above observation that local shares were the first asset that local people ever owned was especially true for rural women.

> *"I was 16 years when I got married. Shares of Sanima Mai is the first asset I ever owned in my name. My husband and I have equal amount of shares. I feel proud of it."*
>
> **– a female resident of Ilam**

Several rural women said that their experience with local shares has familiarized them with the banking system as well as given them the opportunity to travel to nearby urban centers. Some voiced their excitement at being able to travel even further to Birtamod and Kathmandu for share related activities.

> *"I had to travel to Birtamod to buy shares for me and my family. I had to pay around NRs. 10,000 ($100) to complete the process and cover the transportation cost."*
>
> **– a resident of Ilam**

> *"I was happy to travel to Kathmandu to buy shares. It was my first visit there."*
>
> **– a woman from Sanima Mai**

There is no indication that ownership of shares increases the decision-making capacity of women. But for women who already had relative freedom to make household financial decisions, shares served as an additional income source, especially if they had sold their shares. But even those who had not sold their shares seem to have gained a sense of financial security from shares.

> *"I received NRs. 70,000 ($700) after selling my shares. I gave NRs. 30,000 ($300) to my daughter. I felt very proud and respected in the society when I owned the shares."*
>
> **– a resident of Ilam**

A large percent of the women that participated in this study were members of community-based groups, such as women's cooperatives and aama samuhas.[65] While these groups, especially the latter, are traditionally designed to allow their members to support each other for the general welfare of the community, they also actively shared information on banking and other financial matters, including local shares. In some cases, the members had been helping each other to take small loans to buy shares. The literate member of the group generally played an instrumental role in helping the rest of the group fill out the application. These networks had helped the rural women to become socially active and financially more aware.

5.4 Noteworthy Observations

Below are a few other observations that may provide a complete picture of the impact of local shares on communities.

Behind the increasing ownership of local shares by women: A significant number of women now own shares partly because the current share allotment is done on the basis of individual applicant, with a capped amount for each applicant. Thus, most of the households submit applications for eligible family members in order to maximize their chances of obtaining more shares. As a result, women are now getting an equal opportunity to take part in the process. However, this is not always the case, especially when the household decides to purchase only a few shares. Also, as vulnerable populations, especially women, have a limited understanding of local shares, they continue to depend on family members, mainly their sons or husband, to make financial decisions even after becoming shareholders.

The social pressure to buy shares and its impact on vulnerable population: Local communities buy shares as they expect a windfall gain from this investment. However, many also said there is strong social pressure to do so, in that people fear missing out on the gains that others in their community will make in the future. As all community members don't the same financial capacity or the same kinds of social safety nets, their ability to take risks varies within the community. The pressure to participate in local shares can put the vulnerable population at a much greater risk than others. They are further disadvantaged by their lack of access to adequate and timely information. It is hence disputable as to whether local shares can be expected to have uniform impact on the lives of the local people.

6. FRAMING OF LOCAL SHARES AS A BENEFIT SHARING INSTRUMENT

As stated earlier in this report, local shares are generally seen as an instrument for sharing benefits from project development. This was also how local shares was framed in the 2015 ICIMOD study—the only publicly available report to date to have documented the practices of local shares, albeit on a relatively limited scale.[66] The ICIMOD study defines local shares as one of the benefit sharing mechanisms in Nepal because: i) they "are coveted by local populations and so far, share prices have outperformed most other forms of investment opportunities available to local residents, like banks and cooperatives," and ii) local community themselves see this as a benefit "as they no longer constitute passive recipients of benefits derived from hydropower in their region, but are active co-investors with direct stakes in hydropower."[67] Having documented and analyzed the key drivers, the evolving practice and the socioeconomic impacts of local shares, this section will now revisit this key assumption. The intent of this exercise is to examine the unique characteristic of local shares, i.e., the sharing of risk by the affected communities, alongside the globally accepted principles of benefit sharing. It will also examine international practices in other equity investments and compare and contrast them with the practice in Nepal. The objective of this examination is to come up with a basis for making recommendations. Furthermore, it is also intended to contribute to the existing body of knowledge on benefit sharing mechanisms in infrastructure development.

6.1 Defining Benefit Sharing

To discuss whether or not local shares is an instrument of benefit sharing, it is important to begin with the definition of benefit sharing itself.[68] To date, leading global organizations have provided several definitions, most of which emphasize two elements: that benefit sharing is a means to ensure a fair and equitable distribution of the costs and benefits of the project with project-affected communities;[69] and that it goes beyond the measures of compensation and mitigation that a project is obligated to undertake.[70] The 2015 ICIMOD study also limited its definition of benefit sharing to "only those efforts that go beyond the obligatory requirements of compensation and mitigation measures adopted by the hydropower projects." Although global benefit sharing frameworks prioritize risk/cost mitigation with a view to maximizing the prospect for benefits, locals shares delivery in Nepal has yet to meet the global definitions of benefit sharing. Several reforms from multiple perspectives might be needed before Nepal's local shares mechanism can meet such definitions. It is important to note that none of these definitions consider the existence of individual risk as a characteristic of benefit sharing.

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66 Undertaken by some of the primary investigators of this study.

67 Shrestha, P., Lord, A., Mukherji, A., Shrestha, R.K., Yadav, L. and Rai, N. 2016. Benefit sharing and sustainable hydropower: Lessons from Nepal. ICIMOD.

68 For a detailed study of benefit sharing in hydropower, please see Lillehammer, Leif, Orlando San Martin, and Shivcharn Dhillion. 2011. "Benefit Sharing and Hydropower: Enhancing the development benefits of hydropower investments through an operational framework." Final Synthesis Report submitted by SWECO to the World Bank.

69 Asian Development Bank. 2010. Completion Report, Strengthening the Benefit Sharing Mechanism for People Adversely Affected by Hydropower Generation Projects in Viet Nam. Asian Development Bank.

70 Lillehammer, Leif, Orlando San Martin, and Shivcharn Dhillion. 2011. "Benefit Sharing and Hydropower: Enhancing the development benefits of hydropower investments through an operational framework." Final Synthesis Report submitted by SWECO to the World Bank.

However, the concept of benefit sharing is not a static one. With the changing global discourse on the nature of the state and its relationship with society, over the years there has been a huge adjustment in how HPPs have been required to engage with their project-affected communities:[71] whereas before the 1980s, it was sufficient for a project to simply notify and compensate for the losses incurred by the affected people, by the 1990s, projects were required to additionally undertake a host of livelihood restoration measures to ensure that the lives of the affected communities were at par or better off than before, following the development of the project. In more recent times, there is a further push to bring in communities as partners to ensure sustainable development of the entire ecosystem. This shift in paradigm means that benefit sharing no longer has a narrowly defined scope within which communities are supposed to benefit notionally; instead they are also to derive benefits from having a greater voice in the process and from the economic opportunities generated through the development of HPPs in their region.

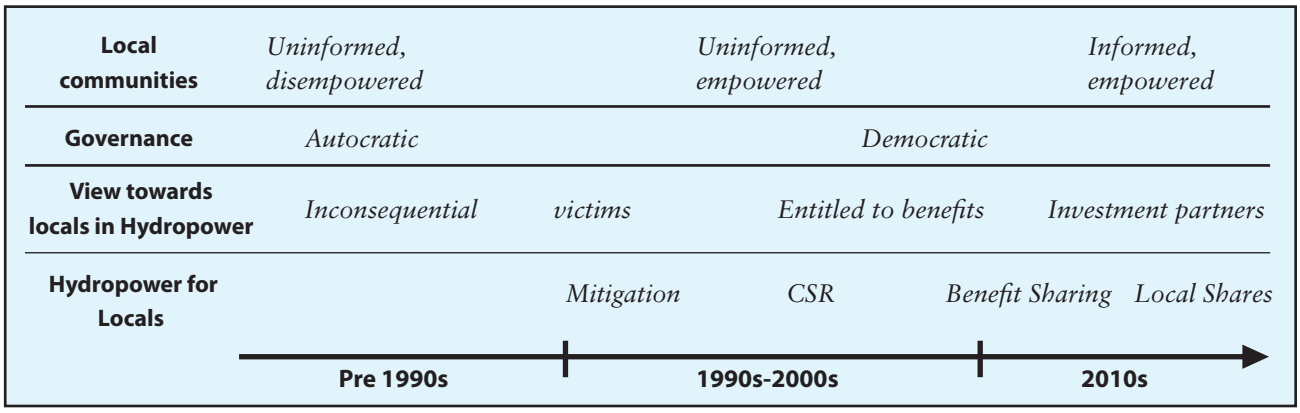
Some of the popular instruments of benefit sharing are as follows: royalty – projects pay this tax to the local, regional, and/or national government, which is usually determined as a fraction of the revenue generated from the sale of electricity; support to local livelihood–projects offer livelihood trainings as well as provide preferential employment opportunities to community members; community development and local infrastructure – projects undertake initiatives such as small infrastructure development or the sponsorship of community-based activities, with earmarked funds, usually at the request of community members. Similarly, equity investment is also categorized as an instrument of benefit sharing because communities, usually through a local authority or collective scheme, share partial equity of the company, and in return for participating in the investment associated risks, they are also able to reap available dividends.

6.2 The Changing Paradigm of Benefit Sharing in Nepal

From the nineties onwards, the state began requiring projects to carry out measures of benefit sharing, which included instruments such as royalty sharing, rural electrification, and payment for ecosystem services. IPPs, especially those with foreign investments, also began incorporating community development into their corporate social responsibility initiatives, which included preferential employment, livelihood training, and support to community development. For hydropower companies, this was their strategy to manage local expectations and get social acceptance from communities, for a failure to do so could result in local agitation and disruption of the project. As described in earlier sections, since 2010 local shares have captured the imagination of project-affected communities, as many think it is their right to enjoy the benefits of capital gains. In some ways, this could be seen as an additional evolution in the practice of benefit sharing as local communities can now be considered partners that share equal risks in hydropower development. But this could still be a premature claim, because the practices of local shares are still evolving and communities have a limited understanding of the associated risks and benefits. The overall evolution of benefit sharing in Nepal is summarized in Figure 6.1.

[71] Skinner, J., Niasse, M. and Haas, L., 2009. Sharing the benefits of large dams in West Africa. London: International Institute for Environment and Development

Figure 6.1: Evolution of the practice of benefit sharing in Nepal



6.3 Existing Practices in Equity Investment in Hydropower Development

The practice of offering equity to local communities in hydropower companies is not a recent phenomenon. Below are brief descriptions of three such practices in other countries.

- ***Manitoba, Canada:***[72] The Wuskwatim is a 200 MW, run-of-river hydropower station on the Burntwood River at the Taskinigup Falls in Manitoba, Canada. The development of the Wuskwatim was the first instance in Canada where one of its indigenous First Nation communities, the Nisichawayasihk Cree Nation (NCN), entered into an equity partnership with a major public utility, the Manitoba Hydro. The result was the Wuskwatim Power Limited Partnership (WPLP)—33 percent of which is owned by Taskinigahp Power Corporation – a subsidiary of NCN and 66.99 percent by Manitoba Hydro—that developed and owns the Wuskwatim Generation Station. The final 0.01 percent equity of WPLP belongs to the general partner, a wholly owned subsidiary of Manitoba Hydro that carries out WPLP's business affairs. Construction started in 2006 and was completed in late 2012. The project cost was around C$1.3 billion, with 25 percent of it structured as equity. Of the equity, NCN contributed C$21.18 million from various sources including government grant and borrowed the remaining C$95.13 million from Manitoba Hydro.

  To manage the revenues from Wuskwatim, NCN established the Taskinigahp Trust, which was also part of the agreement in the PDA signed in 2006. This trust includes a Community Involvement Process that decides on how the available funds are to be spent for the maximum benefit of the community. The trust allocates funds every year to support a variety of community-based projects and programs, the applications for which are reviewed and discussed at one or more public information meetings to determine their consistency with the established criteria of the Trust and long-term NCN priorities. The Trust, in addition to the income from WPLP, holds various other moneys derived from the project such as the Adverse Effects Proceeds and the Transmission Development Fund payments.

- ***Glomma and Lagen Basin, Norway:***[73] The Glomma and Lagen (G-L) Basin in Norway covers an area of about 13 percent of the country's total land and is home to about 15 percent of its total population. Overall, the region has

[72] Information on the Wuskwatim project is largely drawn from the official websites of NCN (http://www.ncncree.com/ncn/wuskwatimproject.html) and WPLP (http://wuskwatim.ca) (accessed April 23, 2018).

[73] Information on the Glomma and Lagan Basin is largely drawn from Lilleheimer, L. May 2011 and Wang, C. 2012. Lillehammer, Leif, Orlando San Martin, and Shivcharn Dhillion. 2011. "Benefit Sharing and Hydropower: Enhancing the development benefits of hydropower investments through an operational framework." Final Synthesis Report submitted by SWECO to the World Bank, and Wang, C. 2012. "A guide for local benefit sharing in hydropower projects". World Bank.

51 HPPs and a total installed capacity of about 2,165 MW. The G-L Water Management Association, which has a membership of 21 hydropower and industrial companies in the region, is responsible for the maintenance and operation of almost all of the hydropower infrastructure in the G-L basin. Majority of these companies are publicly owned, i.e., the state, a county, or a municipality has directly invested equity in the company.
The benefit sharing mechanisms implemented in the G-L Basin are not specific to this particular basin, but represent a common practice in Norway, as established by the country's various legislations. As per these laws, the basin communities are entitled to certain monetary and non-monetary benefits. Monetary benefits include, among others, the various types of taxes, such as natural resource tax and property tax, and dedicated funds such as development fund and wildlife fund. Additionally, the public agencies also have an income from the dividend income their investments in the companies. For example, in 1998, G-L Basin had an accumulated public income of $71 million, of which the largest two revenue entries were in the form of taxes, at $44 million, and dividend income at $20 million. The rest of the income was through taxes, license fees and sale of licensed energy. These monetary benefits, including the amount from taxes and dividends, are distributed to the communities for specific development activities; the aim and purpose of which is decided by the municipality board.

- ***The Province of British Columbia, Canada:***[74] The Columbia Basin Trust (CBT) was established in direct response to a longstanding challenge put up by the local communities of British Columbia against the Columbia River Treaty. The objective of this treaty, signed in 1964 by Canada and the United States, was to allow the development of four dams along the Canadian side of the border to manage the perennial problem of flooding in the region. However, the basin communities felt that they had not been sufficiently consulted in the process and approached their provincial government of British Columbia asking for their share of the benefits from the infrastructure development. Thus, in 1995, the government established the CBT and endowed it with C$276 million to invest in regional HPPs and an additional C$45 million in other projects including businesses and securities. The CBT is governed by a board of Basin residents comprising 12 directors. The main functions of the Trust are i) to invest capital and manage the assets of the Trust and ii) to use the income earned from the Trust's investments to deliver benefits to the Basin.

Interestingly, there are also similar cases in Nepal where communities have been offered equity, both of which were offered before local shares were ever introduced in Chilime Hydropower Company. The example of the Khumbu HPP and the Salleri Chiyalsa HPP are provided below:

- ***Everest, Nepal:*** In order to meet the increasing demand for electricity in the Khumbu (also known as the Everest) region, a 630 KW run-of-river off-grid HPP was developed in 1988 with the financial assistance of the Government of Austria. Since 1999, the Khumbu Bijuli Company (KBC), a local utility company set up by Eco Himal on behalf of the Austrian government, has been responsible for the operation and management of this HPP. KBC is a private limited company owned by four institutional shareholders[75] – three local user groups each holding 28.3 percent of the shares, and NEA, holding the remaining 15 percent of shares. The 85 percent of the shares were given as a grant to the three local user groups by the Austrian government.

  In 1984, a decision was made to hand over the project to the local communities. In an effort to ensure a technically sustainable solution, Eco Himal assumed full responsibility for the management of KBC until local capacity was built and staff had adequate training and experience. The handover process was only completed in 2000.

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74 This information is largely drawn from the official website of the Columbia Basin Trust: https://ourtrust.org (accessed April 23, 2018).

75 The concept of local ownership and setting up of KBC as the operator and owner did not initially exist but came up only after the main construction works were completed. It was only after their tariff structure was revised that the company started making modest profits since 2001.

- ***Solukhumbu, Nepal:*** The Salleri Chialsa Micro Hydel Project was initiated in the 1960s as part of the government's efforts to resettle the Tibetan refugees who had migrated into the Solukhumbu region of Nepal. Most of these families earned their livelihood from handicraft production, for which they had to dye wool, a process that consumed a significant amount of firewood. Therefore the Swiss government, through its Swiss Agency for Development and Cooperation (SDC), decided to electrify the Chialsa Handicraft Center.[76] Project development started around 1976 but was halted for various reasons, including technical difficulties. In 1984 the Swiss and the Nepali governments resumed the project and designed as a 400 kilowatt (kW) project,[77] which finally began supplying electricity in February 1986. In addition to electrifying the Salleri Handicraft Center, the project went on to provide electricity to other local companies, including a bakery, cereal mill and a paper factory.[78] In February 1991, the government registered the Salleri Chialsa Electric Company (SCECO) as a public limited company where SDC and NEA each held 31.5 percent of the preference shares and the household consumers of the area collectively held 37 percent of the ordinary shares of the company. [79]

Most recently, the Trishuli Jalavidhyut Company set aside five percent of its equity for the local bodies of the project-affected districts of Rasuwa and Nuwakot. However, there are considerable challenges in access to funding, management issues and governance. So how this will exactly be translated into practice and how successful it will be remains to be seen.

6.4 Local Shares versus Other Practices in Equity Investment in HPP

There are several key distinctions between local shares and other practices in equity investment in HPP. They are summarized in Table 6.1.

Table 6.1: Differences in equity investment practices

	Local shares	Other practices in equity investment in HPP
Financing of the equity	Individuals from project-affected population finance and invest directly their portion of the equity.	Equity is usually generated through a contribution from third-party sources.
Holding of the equity	Equity is directly owned by individuals.	Equity is held indirectly by locals through a communal platform in the form of trusts, community groups, or local municipalities, among others.
Benefits of the equity	Benefits from investments are accrued and enjoyed at the individual level. These include dividend payments, issue of rights and bonus shares, and capital gain.	Benefits are distributed at the community level except in some instances. The communal benefits are then further distributed to its associated individuals, though mainly in the form of dividend payments.
Risks of the equity	Individual shareholders are directly exposed to equity risks.	SAs community shareholders, individuals are not directly exposed to risks.

Given these fundamental differences between the two types of equity sharing, the offering of local shares can be viewed as a different typology of benefit offered by the project. **The benefit that the project-affected communities can derive is from the preference that has been given to them for investing in what is assumed to be a profitable business undertaking, but for which there is no guarantee of returns.**

76 Widmer, R. and Arter, A, 1992." Village Electrification." MHPG Series. Harnessing Water Power on Small Scale.
77 SCECO recently increased its power generating capacity from 400 kW to 600 kW.
78 Widmer, R. and Arter, A, 1992." Village Electrification." MHPG Series. Harnessing Water Power on Small Scale.
79 Thapa, R. S. Unknown date. Salleri Chialsa Electric Company – Experience of a New MMHP Management. Mini- and Micro-Hydropower Development in the HKH Region – The Nepal Perspective. ICIMOD.

7. FINDING AN ALTERNATIVE DELIVERY MODEL FOR LOCAL SHARES

A key characteristic of the hydropower companies that have offered local shares thus far is that all of them were seeking, for a variety of reasons, to raise equity from the general public. For this reason, these companies all fell within the jurisdiction of securities laws regulated by SEBON, which provides the necessary legal framework for the issuance of public shares, including local shares. Furthermore, the company shares were delivered directly to each member of the local community, which gave individual ownership of the allotted shares to each shareholder.

But as a result of rising aspirations at the local level and political pressure from all quarters, including communities, government officials and political actors, hydropower companies, regardless of their requirement to raise funds from the general public, are now required to provide local communities some form of equity stake in the project company. With several such companies now gradually approaching their dates of issuance for local shares, there is discussion about using special purpose vehicles (SPV) as an alternative indirect delivery mechanism for enabling hydropower companies to maintain their private status while also fulfilling the obligation to offer local shares (whether by law or contractual agreement).[80] Here, the local communities will own and participate in the SPV, which is the legal entity designed to hold all of the local shares of the hydropower company.

7.1 Possible Delivery Models for the SPV

The various institutional options available for structuring the SPV are as follows: i) companies, ii) cooperatives, iii) private trusts, and iv) collective investment schemes (CIS).

- ***Companies:*** These are entities incorporated under the Companies Act for the purpose of conducting a specified set of businesses. They have limited liability and can be structured as a private or a public entity: private companies are owned by a relatively smaller number of investors and have a lesser degree of public disclosure requirements; public companies raise equity from the financial market and thus have a larger number of investors, and as a result they fall under the jurisdiction of the securities market regulator and have significant disclosure requirements. Public companies can be either listed or non-listed in the secondary market.

- ***Cooperatives:*** These are institutions established and owned by a collection of individuals to meet a single or multi-purpose objective that has some element of social, economic or cultural development. Cooperatives have included collectives that promote access to savings and credit, production and marketing of agricultural products, and promotion of skill-based initiative, among others. The Cooperative Act allows cooperatives to invest in a hydropower project, by way of allowing them to invest in a single purpose company, but they are restricted from investing in the shares of other companies, including hydropower companies. Legal reform is needed to make cooperatives a viable model for delivering local shares.

[80] Two unpublished documents have also been reviewed: In 2015, an IBN study for the share offering of the Upper Karnali HPP proposed the pooling of all investments from local communities through the establishment of a publicly listed SPV. Another more recent study conducted by USAID's Nepal Hydropower Development Project in 2017 proposed the establishment of an SPV in the form of a mutual fund that is limited to investing in the hydropower company on behalf of the local communities. Both these studies highlight the challenges in implementation and the areas that need reform to make them viable SPVs for local shares.

- *Private trusts:* These are trusts established by a sponsor for the benefit of a designated set of beneficiaries. Trust laws were recently introduced in Nepal through the Civil Code and made effective from August 17, 2018. The formation of a trust begins with a sponsor contributing the necessary funds, which is held and managed by a sponsor-appointed trustee. Any benefit accrued from investments made by the trust are eventually channeled to the beneficiaries. In order to use trusts as a delivery model for local shares, the local population will have to serve as both the sponsor and beneficiary; a set of trustees can also be appointed from the local community to oversee the trust fund.

- *Collective investment schemes:* These are investment schemes where funds pooled by a group of interested investors are managed by a professional fund manager by investing in particular asset(s) and any gains thus made are shared among the vested participants. Five actors play a key role in this process: i) a sponsor who establishes the fund, ii) a fund manager who manages the fund, ii) a depository who serves as the custodian of the asset, iv) a supervisor who supervises and monitors the activity of the fund manager. The Securities Act envisages CIS as a broad concept, but SEBON's current law is specific to one type, namely mutual fund, which is designed as a financial instrument that is sponsored by an entity and managed by a fund manager with the intention of making a profit through the trading of shares of various investments.

It should be noted that the delivery models here are structured with the following parameters:

- Only those eligible for local shares can participate in the SPV;
- Funds raised by the SPV will be used for the single purpose of investing in the shares of a hydropower company where the local population have been deemed eligible to invest as affected communities;
- The activity of the SPV will be limited to holding the shares of the hydropower company and distributing the dividend to the SPV participants.

7.2 Evaluation of Models against Key Parameters

In this section each potential delivery model is evaluated against six key parameters from a legal and practical angle. The section offers a brief overview of the relevant legal requirements with regard to each of the parameters for all delivery models and the direct implication that it has for local shares. This is followed by brief observations on some issues relevant to the structuring of the SPV for the delivery of local shares. Where appropriate, it also points out the necessary legal reforms to make the delivery model implementable.

7.2.1 Ability to incorporate SPV and hold shares

First and foremost, a delivery model has to be able to hold asset, in this case the allotted shares of a hydropower company, in its name and local investors should not be exposed to any liability other than the initial amount they invest to participate. All delivery models discussed here are legally able to achieve this primary objective. However, in terms of practical issues around the incorporation and viability of these models, three key aspects need to be discussed (i) number of participants, (ii) initial capital required, and (iii) cost of incorporation.

Table 7.1: Number of participants required to incorporate SPV and its implications for local shares

	Private	Public		Cooperative	Trust	CIS
		Listed	Non-listed			
Current law	Minimum - 1; Maximum - 101	Minimum - 7; Maximum - none		Minimum - 30; Maximum: none	No limit on beneficiary	No limit on unit holders
Implications for local shares	Model not feasible where there are more than 101 shareholders	Process of selecting the initial 7 promoters is not clear.		Process of selecting the initial 30 members is not clear.	None	None

a. ***Number of participants:*** There are slight variations in how individual investors participate and enjoy associated rights in each delivery model. For example, in companies, they are shareholders; in cooperatives, members; in trust, beneficiaries; and in CIS, unit holders. The minimum/maximum number of participants offers the different options available in the process of incorporating the SPV (see Table 7.1).

   The restriction on the number of participants is most relevant to a private company model as the Companies Act prescribes 101 as the maximum number of shareholders. As a result, a private SPV may not be feasible as a delivery model for local shares, given that the number of eligible people generally far exceeds this maximum number. In all other delivery models, there is no restriction on the maximum number of participants. However, some models specify a minimum, e.g., a public company requires seven promoters to initiate the process of incorporation and a cooperative has to have 30 paid up members to register. In practice this may not be an issue as the number of eligible participants exceeds the minimum number and community members are sufficiently organized and can decide the initial set of participants for incorporating the SPV. It is important to note that both the trust and the CIS delivery model require at least one sponsor to establish the entity.

b. ***Initial capital required:*** For some of the delivery models, the law has specific initial capital requirement that has to be met by the SPV (see Table 7.2). This issue is relevant only at the time of incorporation, because the SPV will need to be sufficiently capitalized when the shares of hydropower companies are issued.

   This issue is most relevant to models with significant upfront capital requirement. For public companies, whether listed or non-listed, the law requires the company to have a minimum paid-up capital of NRs. 10 million ($100,000). There may be a practical issue as to who should fund this initial minimum capital requirement, but this can be worked around by having a large number of local people as promoters at the time of incorporation. For CIS, the current requirements on specific roles and associated initial capital is problematic: for example, it is not clear who can play the role of a sponsor given that that entity is required to have NRs. 1 billion ($10 million) in paid-up capital; or of a fund manager, who must have NRs. 100 million ($1 million) in paid-up capital and must contribute 15 percent of the fund.[81] Furthermore, given the high capital requirement, CIS may not be an appropriate model for smaller projects, e.g., the total capital required for a 5 MW HPP, at approximately NRs. 200 million ($2 million) per MW, is NRs. 1 billion ($10 million). This already equals the minimum paid-up capital required for CIS.

Table 7.2: Initial capital required to incorporate SPV and its implications for local shares

	Private	Public		Cooperative	Trust	CIS
		Listed	Non-listed			
Current law	No minimum capital prescribed under law	Minimum paid-up capital of NRs. 10 million ($100,000)		No minimum capital required, but initial 30 members must be paid up	No contribution prescribed under law	Sponsor needs to be a BFI with a minimum paid-up capital of NRs. 1 billion ($10 million); fund manager must have paid-up capital of NRs. 100 million ($1 million); must contribute 15 percent of the fund
Implications for local shares	None	Initial promoters are required to inject the initial capital.		None	None	Under current law, not possible to structure for local shares

[81] If the fund manager does not contribute, the sponsor can choose to do so.

Table 7.3: Associated cost of incorporating SPV and its implications for local shares

	Private	Public		Cooperative	Trust	CIS
		Listed	Non-listed			
Current law	Fee based on authorized capital; minimum of NRs 1,000 ($10) for over NRs. 10 million ($100,000), NRs. 30 ($3) per NRs. 1 million ($10,000)	Fee based on authorized capital. E.g., for capital of NRs. 10 million ($100,000), fee is NRs. 15,000 ($150); for NRS. 10 million ($100,000) to 100 million ($1 million), fee is NRs. 40,000 ($400); for over NRs. 500 million ($5 million)), NRs. 3000 ($ 30) per NRs. 500 million ($5 million)		Prescribed by concerned authority but relatively very minimal	Only administrative cost incurred, relatively very minimal	Application fee is NRs. 5000 ($50); fund registration fee is NRs. 1 million ($10,000)
Implications for local shares	Larger the capital required, higher the cost of incorporating. Not clear who pays cost.			Very minimal compared to other models		Registration fee is substantially high. Not clear who pays cost.

c. ***Associated cost of incorporation:*** Incorporating SPVs entails costs, including regulatory and advisory fees, that will have to be paid by the SPV (see Table 7.3).

All delivery models require external advisors and their associated fees in the process of incorporating the SPV. But the additional cost of incorporation is most relevant to the company models, both private and public, where the larger the capital requirement of a HPP, the higher the cost of incorporation. This issue is also important for CIS, as the registration fee of NRs. 1 million ($10,000) can be a substantial amount, especially for local communities. Whereas these costs in themselves are not prohibitive, further discussion is needed on who is responsible for covering them.

7.2.2 Ability of SPV to issue local shares

The SPV should be able to collect funds from the local community and provide evidence of ownership of the investment made by each individual investor. All delivery models allow for the collection of funds from the local population. During implementation, however, approval requirements and associated costs vary according to the delivery model.

a. ***Approval requirement and associated cost:*** Once the SPV is incorporated it is required to get approvals from respective regulatory institutions to issue shares to the local communities.

The SPV, when structured as a public listed company or a CIS, will have to meet extensive regulatory approval requirements. These include requirements such as getting credit ratings, undergoing due diligence, and developing a

Table 7.4: Ability of SPV to issue shares and its implications for local shares

	Private	Public		Cooperative	Trust	CIS
		Listed	Non-listed			
Current law	No separate approval to involve local communities	Approvals from OCR to begin operation, SEBON for IPO	Approval from OCR to begin operation	No separate approval to involve local communities	No separate approval to involve local communities	Approvals from SEBON for IPO
Implications for local shares	Process is relatively easier.	Extra administrative requirements		Process is relatively easier.		Extra administrative requirements

company prospectus prior to issuing shares to the local communities (see Table 7.4). While these approvals are in themselves not a problem—after all they are in place to protect the public shareholders—they do require additional time and effort. Local communities may see them as an administrative hassle.

b. ***Cost related to fund collection:*** Not only do the additional procedures lengthen the collection process, they also affect the cost of collecting funds from the local communities. The cost will go into setting up the SPV.

All delivery models have some administrative cost associated with the collection of funds from the local communities. However, this cost is relatively higher for public companies and CIS, given that they fall under a regulated public issuance process (see Table 7.5). Some of the associated cost can be reduced by waiving certain requirements: because these are specific SPVs designed for a unique purpose, the waivers could apply to issues such as credit rating, due diligence and underwriting. As discussed earlier, the hydropower company might need to bear the cost of fund collection as it is fulfilling the interest of the hydropower company to remain private.

Table 7.5: Cost of collecting funds from SPV and its implications for local shares

	Private	Public		Cooperative	Trust	CIS
		Listed	Non-listed			
Current law	No substantial cost	As per market practice, up to 4 percent of funds collected	No substantial cost	No substantial cost	No substantial cost	As per market practice, up to 4 percent of funds collected
Implications for local shares	Relatively minimum	Not clear who pays cost	Relatively minimum	Relatively minimum	Relatively minimum	Not clear who pays cost

7.2.3 SPV's ability to hold investment and allow communities to participate in decision-making

As an indirect delivery model for local shares, the SPV should be able to invest in the shares of hydropower companies. The company models, both private and public, and the trust model under current law are allowed to do so. The Cooperative Act restricts cooperatives from investing in the shares of other companies, including hydropower companies. This restriction should be lifted in order to make cooperatives a viable delivery model for the SPV. For CIS, the current law on mutual fund restricts it from investing in more than 10 percent of its total fund in a single entity. Given that the SPV for local shares is designed as a single-purpose entity, this limit will also have to be removed. Two issues need to be considered with regard to SPV's ability to hold investment: i) the structure of the SPV so as to ensure the representation of the interest of communities, and ii) the the operational requirement to maintain the SPV and its associated cost.

a. ***Governance structure:*** While holding shares, the SPV should have clear mechanisms to allow local investors to participate in key decisions of the project company as shareholders. This governance structure varies significantly across the various delivery models (see Table 7.6).

Table 7.6: Governance structure of SPV and its implications for local shares

	Private	Public		Cooperative	Trust	CIS
		Listed	Non-listed			
Current law	Managed by a board of directors. During AGM shareholders elect board members and decide other company matters by vote				Trust operator governs the decisions	Overseen by a CIS supervisor, but fund manager in charge of investment decisions
Implications for local shares	Communities can participate in SPV's key decisions, including selection of the board.				There is no mechanism for ensuring communities' participation in SPV's key decisions.	

The company models, private and public, and the cooperative models offer their investors the opportunity to participate in the decision making of the SPV. Whereas the overall operations and management decisions are made by the board of directors, shareholders can participate in shareholding meetings and vote on key issues of the company, including the selection of board members. For decisions that are made regularly, such as declaration of dividend and appointment of auditors, a simple majority (more than 50 percent) is sufficient. For more important decisions, such as the change in company objective, plans of merger, sale of substantial assets, a supermajority (minimum 75 percent) is required. SPVs for local shares may have an even more stringent requirement whereby its business objective can only be changed with a higher voting threshold, e.g., a unanimous consent from all shareholders. For public companies, there is a requirement that the board must have up to two independent directors, i.e., non-shareholders. On the other hand, investment decisions in the trust and CIS models are made by the trust operator and the fund manager respectively, which severely limits local representation in the decision making of the SPV.

b. ***Operational requirements:*** All delivery models have operational requirements, including those established by the relevant government agency, that the SPV has to meet (see Table 7.7).

As a legal entity, the SPV will have a set of operational functions that it has to undertake as per the delivery model it is structured under. Here, the company models, especially the publicly listed ones, have to fulfill several such requirements. Other delivery models also have their share of operational requirements. These requirements, which have been established for relatively more complex entities, may be quite burdensome for a single-purpose SPV for local shares.

These requirements also have direct implications for the operational expenses of the SPV:

a) All delivery models will incur expenses related to governance and operations.
b) Companies and cooperatives will have to spend on external expertise and advice.
c) The trust will have to pay salary to its trustee.
d) The CIS will have to pay service fees, paid as a percent of net asset, to fund supervisor (0.5 percent), CIS manager (2 percent), and depository (0.5 percent).

As stated earlier, it may be necessary to rethink the SPV's operational requirements and associated cost to make it appealing and viable as a delivery model for local shares.

Table 7.7: Operational requirements of SPV and their implications for local shares

	Private	Public		Cooperative	Trust	CIS
		Listed	Non-listed			
Current law	File share details with OCR; issue share certificate; submit and maintain shareholder register; prepare and file the inventory of shares, debentures, and loans; conduct audit; conduct board meetings and AGM. Public-listed companies must also comply with reporting requirements of SEBON, NEPSE, and CDS.			Conduct board meetings and AGM. Conduct audits and file them with concerned authority.	Maintain book of accounts and detailed record of assets. Documents to be made available to the sponsor and beneficiary, if asked.	Fund manager is authorized to launch scheme by issuing the units publicly. However, fund manager must satisfy the following conditions to make the issuance: arrange to list those units at stock exchange and manage the transaction that happens through the brokers licensed from the Board.
Implications for local shares	Expenses required for governance and operation, including hiring external experts.				Expenses required for governance and operation, including salary of the trustee.	Expenses required for governance and operation. Also requires additional service fees to CIS supervisor, manager and depository.

7.2.4 Ability of SPV to distribute earned income

An entity that is able to earn income from its investments in shares of hydropower companies must be able to distribute the earned income to its participants on a regular basis. Each delivery model has different mechanisms to do so, especially for making the corporate decision to distribute an amount. There are also tax implications of the dividend distributed by the hydropower company and the SPV itself.

a. ***Distribution of income:*** The SPV should be able to distribute any income generated from its ownership in hydropower company shares to the local population.

   The decision to distribute dividend, including the amount to be distributed, in the company and cooperative models are made by the participating shareholders during the AGM. This dividend is the income earned by the SPV minus its operating expenses; also minus any reserve that the SPV decides to maintain. However, the law bars cooperatives from distributing over 18 percent of its total profit to its members, which limits its ability to transfer dividend to the local communities. For trusts and CIS, the current law gives the trust operator and fund manager, respectively, the responsibility to decide the amount of dividends to distribute. For SPV of local shares, this can be arranged such that the SPV of the two delivery models are required to distribute all its profits, i.e., earned income through dividends minus the operating expenses of the SPV, to the participating local investors (see Table 7.8).

Table 7.8: Governance structure of SPV and its implications for local shares

	Private	Public		Cooperative	Trust	CIS
		Listed	Non-listed			
Current law	Decision, including percent of amount, made during AGM	Decision, including percent of amount, made during AGM		Decision made during AGM. Limit of 18 percent of total profit as cash dividend	Decision made by the trust operator	Decision made by the fund manager
Implications for local shares	Almost equally permissible under current law, except in cooperatives					

b. ***Tax at distribution:*** The distribution of earned income by the SPV, i.e., the dividend it receives from the hydropower companies it holds shares of, may be subject to applicable tax laws.

   Apart from CIS, which is exempt from dividend tax, all other delivery models are subject to 5 percent tax on the dividend they are entitled to from the shares of the hydropower company they have invested in. On the other hand, only the unit holders of CIS are liable for 5 percent tax on the dividend that the SPV further distributes; participants in all other delivery models are exempt from that. As a result, although the mechanisms may differ in some ways, all delivery models end up placing the same tax burden on the participants (see Table 7.9).

Table 7.9: Tax at distribution of earned income of SPV and its implications for local shares

	Private	Public		Cooperative	Trust	CIS
		Listed	Non-listed			
Current law	5 percent tax on dividend from the hydropower company withheld at payment to the SPV. When SPV further distributes that to its participants, no additional tax					Exempt from taxes on the dividend from the hydropower company, but withholds 5 percent when distributing to unit holders
Implications for local shares	Although the mechanisms may differ in some way, all individual investors are subject to the same amount of tax on the dividend they earn.					

7.2.5 Ability of local investors to divest from SPV

All delivery models need to allow local investors to exit the SPV of their own will. The choice of a delivery model in this regard depends not only on the participant's ability to choose to divest, but to do so when the asset has adequately discovered a price and there is fair applicability of tax at the time of divestiture.

a. ***Decision to divest:*** The ability to divest whenever they choose to do so is key for local communities as it offers them liquidity should they need to cash in on their asset.

The ability to divest is straightforward for SPVs that are structured as a company or a CIS as most of the necessary tasks related to transactions happen through the financial market. On the contrary, there are severe restrictions in the cooperative and the trust delivery models. In a cooperative, a member is allowed to surrender her membership right, but is not able to transfer her membership to other individuals. Similarly, in a trust, a beneficiary is allowed to surrender her right, but cannot transfer her benefits to other individuals. This non-transferability of membership/benefit, while allowing the opportunity for investors to exit, limits its true value for the individual investor (see Table 7.10).

Table 7.10: Ability of communities to sell shares of SPV and its implications for local shares

	Private	Public		Cooperative	Trust	CIS
		Listed	Non-listed			
Current law	Shareholders decide when to sell their shares.			Members can surrender their shares back to the cooperative.	Beneficiary can surrender the rights, but cannot transfer benefits.	Unit holders decide when to sell their shares.
Implications for local shares	With transferability, offers the ability to exit			The non-transferability of membership/ benefit limits the value of exit.		With transferability, offers the ability to exit

b. ***Price formation:*** Along with the ability to decide when to divest, local communities expect a transparent and profitable price of their shares during exit.

Listing of an SPV in the secondary market may offer some price formation depending on the performance of the associated hydropower company. (An SPV can be listed in the secondary market only as a publicly listed entity or a CIS.) However, given that an SPV can own the local shares of only one particular hydropower company, this price formation is likely to be limited, especially relative to that of the shares of the main hydropower company. In the private company and public non-listed delivery models, there may be some price formation as a result of negotiations between the buyer and seller. These negotiations are private; many community members may not feel comfortable during such interactions and may lack the capacity to bargain to get the best deal. Finally, the cooperative and the trust models do not offer any price formation, mainly because the law restricts any transfer of participation from these models (see Table 7.11). For example, in a cooperative, the surrendering member only gets back her membership fees, which means that the price at which an investor exits is no more than the membership fees initially deposited.

Table 7.11: Price formation and its implications for local shares

	Private	Public		Cooperative	Trust	CIS
		Listed	Non-listed			
Current law	Price negotiated between buyer and seller	Price determined by the market	Price formed in the OTC market	No price formation	No price formation	Price is formed in the market.
Implications for local shares	Less transparency, and may not result in the desired pricing	Better price formation than other delivery models	Less transparency, and may not result in the desired pricing	No price formation at all		Better price formation than other delivery models

c. ***Cost efficient exit:*** Cost efficiency relates to any applicable tax on the income earned by the individual investor while exiting from the SPV, plus any other associated cost, such as brokerage fee that needs to be paid.

Investors of an SPV structured as a private company or a cooperative are liable for a 10 percent capital gains tax on any earned income. This may, however, not be relevant to cooperatives where a member exits at the same price as the initial membership fee, without generating any capital gain for himself/herself. For SPVs listed in the secondary market, i.e., the publicly listed company and the CIS, the capital gains tax is 5 percent. There is, however, a brokerage fee that ranges from 0.45–0.6 percent that need to be paid by the seller. For trusts, there is a lack of clarity as to whether or not the benefits are transferrable and therefore a lack of clarity on any applicable taxes (see Table 7.12)

Table 7.12: Cost efficient exit and its implications for local shares

	Private	Public		Cooperative	Trust	CIS
		Listed	Non-listed			
Current law	10 percent capital gain tax	5 percent capital gain tax	10 percent capital gain tax	10 percent capital gain tax	No clarity in policy	5 percent capital gain tax
Implications for local shares	Relatively simple	Brokerage fee applies		Since no price formation, this tax is not relevant	Not clear	Brokerage fee applies

7.3 Other Key Issues

The discussion has thus far provided some details on the alternative delivery models available to hydropower companies seeking to remain private while also complying with the agreement to offer local shares. This final section discusses key overarching issues that need to be clarified for smoother implementation of any of the delivery models for the SPV. It is assumed that the decision has already been made, through negotiations among the hydropower company, the local communities and the government, to offer local shares via an indirect delivery method. This is an important point because the success of an SPV, structured as any of the delivery models discussed here, is largely based on its acceptance by the local communities. The discussion here addresses three key questions: a. who is responsible for incorporating the SPV; b. who pays the cost of the SPV; and c. when should the SPV be incorporated.

a. ***Who is responsible for incorporating the SPV:*** Community-based entities that interact with hydropower projects, e.g., sarokar samitis, are loose, self-organizing networks, albeit usually led by some politically inclined individual(s) with a common political cause. The SPVs that are being envisioned for the purpose of delivering local shares are, on

the other hand, legal institutions that require significant organizational arrangement in order for them to operate as a commercial entity. Such differences in the characteristics and requirements of SPVs and community-based entities may hinder the organic progression of actions involved in the incorporation of the desired SPV. Furthermore, the need to obtain initial capital from the community members may reduce their willingness to take the responsibility of incorporating the SPV. Conversely, hydropower companies have greater interest in establishing an SPV in order to channel their offering of local shares through it. Given these ground realities, it is beneficial for hydropower companies to take a more proactive role in communicating directly with community representatives and facilitating the process of incorporating an SPV.

b. ***Who pays for the associated costs of the SPV:*** One of the first things that comes to mind while proposing an SPV as a mechanism for delivering local shares is the associated costs. These costs fall primarily under two categories: the cost of incorporation and the cost of operations. The cost of incorporation includes, among other things, applicable fees and remuneration for external advisors such as lawyers and other financial experts. While most of these costs are not large,[82] especially compared to the company's overall capital requirement, they can still be a burden for the community. Generally, these costs are borne by the company being incorporated. But in the special case where the SPV is being created to fulfill the interests of hydropower companies that do not want to go public, a strong argument can be made for the hydropower company to pay this. This is not a large sum, and it is also in line with the current practice where the cost of public issuance is the responsibility of the hydropower companies. The cost of operations, on the other hand, should be the responsibility of the community members themselves, because some issues have direct implications for the internal governance of the SPV and the hydropower companies should not be burdened with the task of ensuring shareholders' accountability. These costs are also manageable and give communities the incentive to keep a leaner operation of the SPV.

c. ***When should the SPV be incorporated:*** The timing for the incorporation of the SPV is important because it also establishes when the local communities will have to make their contribution. This has implications for the costs that local communities will have to bear, whether they are direct costs such as interest on loans they may have taken or indirect costs such as the opportunity cost of their investment in the SPV. Additionally, the decision on timing should be aligned with other parameters of local shares, especially eligibility, as the SPV is designed to include only those deemed eligible for local shares. To ensure consistency and clarity, it is best to incorporate the SPV once the eligibility for local shares has been fully established and the hydropower company is ready to offer local shares. In addition, the hydropower company has to proactively facilitate the process and cover the cost of incorporation to increase communities' willingness to take part in the entire process.

82 The policy will have to be revised for CIS as the registration fee for the CIS is large.

8. OPTIONS AND RECOMMENDATIONS

This section offers a variety of options and recommendations on each of the parameters of local shares discussed in earlier sections. The study's findings clearly indicate that current practices in local shares meet the constitutional objective of enabling local communities an opportunity to invest and according them priority but in doing so it has too many direct risks to the shareholder. Additionally, as the majority of these investors are either ill-informed or ill-equipped or both, some risk mitigation measures are needed to protect them when they partake in such risky market instruments and to avoid exacerbating their vulnerabilities. The options and recommendations below are provided with the aim of improving and streamlining current processes. Changes are recommended only where reforms are deemed to be absolutely necessary.

Further, noting the various challenges presented by the differing economics of each project, this study does not aim to present a set of prescriptive solutions or one size fits all recommendations. The study rather recognizes the need that in time, some tweaking and tailoring may be necessary to align the recommendations to suit each individual project and its local environment. As Nepal gains more experience in hydro development, the capital market in general and most importantly in the delivery of local shares, assessing each of the options in depth and presenting a more scientific method to cater to each individual project based on size and scale, length of construction period, cost, etc. is an area policy planners and regulating agencies should be thinking about in detail in the near immediate future.

8.1 Amount of Allocation

Retain the current amount of allocation of local shares for public companies: Despite the overwhelming appetite among potential shareholders to invest in local shares, SEBON has imposed 10 percent ceiling on local shares offering by hydropower companies given the inherent risks of investing in the capital market and the need to limit the exposure of local communities, who are generally unsophisticated investors. Additionally, SEBON is of the opinion that while project-affected communities can be treated preferentially, this threshold for local shares also provides the broader Nepali population, including those living in regions with low potential for hydropower, the opportunity to invest in general shares. For example, this would be most relevant to all Nepali citizens in Province 2, which due to its flat topograhy lacks significant potential for hydropower but whose population may wish to invest in hydro shares. The current policy regime reflects a settlement of these interests and there is no sufficient reason to change it.

For mega projects, the Government of Nepal should define local shares requirement in project bid documents: SEBON's up to 10 percent policy for local shares and for the general public are applicable to hydro companies going public. In contrast, mega projects that wish to issue local shares but remain private have been negotiating and agreeing on the amount for local shares with the government. This is a feasible approach given the clarity and certainty it will provide project developers, financers as well as local communities. However, going forward, it is recommended that the government spell out the quantum of the local shares requirement in project bidding documents during the international competitive bidding process, a practice that the government has already adopted during the award of the Super Six[83] hydro projects. Inclusion of this requirement as a bid condition will eliminate the need for protracted negotations on this issue between the government and the winning bidder.

[83] The Government in 2010 had awarded six projects called the Super six through a competitive bidding process, where the bid documents had clearly outlined the need for projects to provide ten percent equity to local communities. The projects include Solu (23.5 MW), Lower Solu (82 MW), Khare Khola (24.1 MW), Maya Khola (14.9 MW), Singati Khola (16 MW) and Mewa Khola (50 MW) HPPs.

8.2 Process of Allocation (Relevant to Both Private and Public Companies)

Promote further automation in Nepal's capital market: As a result of the increasing shift towards a computerized capital market in Nepal, the process of becoming a shareholder is gradually becoming less cumbersome for the public. For example, aspiring investors no longer have to deal with the inconvenience of being physically present at collection centers while applying for shares. They can apply from anywhere as long as they have access to the online banking system. Furthermore, as a result of the integration with the banking system, the application process, especially the process of allotment, is now more efficient and secure for all investors. It is highly recommended that the relevant government agencies continue with their plans to further streamline and integrate the electronic and computerized systems into the country's capital market.

Ensure that local communities have the necessary capacity to participate in and take advantage of the modern systems: While pushing for a more computerized process of allocation, it is important to keep in mind that information on the capital market and user platforms have not adequately reached certain parts of the country. In some cases, SEBON has allowed local shares to be processed through the previous paper-based mechanism. This flexibility may be temporary, but careful attention must be paid to ensure it does not further delay the integration of all shareholders into the new system. Therefore, even though it may take more effort at the outset, it is recommended that SEBON and CDS make special arrangements to educate and help build the capacity of local communities to use the new share application process, and ensure that the necessary support systems are in place, especially in remote and rural areas.

Ensure adequate focus on women and vulnerable populations to enable smooth transitionary measures: SEBON and CDS must make sufficient efforts to train key members of mothers' groups (aama samuha), women's savings and credit groups, community-based user groups, etc. so that they can assist other women and poor, vulnerable and marginalized community members in adopting and learning about the new systems.

8.3 Timing

The timing of the local share offering is a highly critical component, one that must strike a balance between the interests of local shareholders and project developers. The study presents the following options:

a. two possible options for public companies, for whom the public shares issuance (up to 10 percent for local shares and at least 10 percent general shares) would be applicable; and
b. an option for private companies that are required to issue local shares but wish to retain their company's private status.

If the current practice of offering local shares prior to general IPO is to be continued, then do so with additional safeguards for poor vulnerable households: The current securities regime, which establishes the timing for hydropower companies to issue shares to the public, requires that the company address most of the risks associated with project development prior to going public. This is to ensure some protection for the public investors. The law offers companies the flexibility to decide when to do an IPO, and most companies do it when they need cash the most – many companies need it when about 70 percent of construction is completed to fund further construction works, while others need it well after COD to service their debts or invest in another project. Although some companies have offered local shares on or after COD, requiring all companies to offer local shares post COD would pose constraints for companies that are genuinely seeking to raise equity from the public to develop their project. From this perspective, the current approach

appears practical. However, from a benefit sharing or risk reducing perspective, this policy can only be truly effective if it is augmented by a comprehensive financial access and awareness program that will help reduce the financial risks and socioeconomic vulnerabilities of the local communities. (For further details, see section below on financing and informing stakeholders.) SEBON should require that the time gap between the offerings of local shares and general shares be limited to a maximum of few months.

Reverse the sequence of the shares offers but allow companies flexibility in the timing of offer: The current regime requires local shares to be offered prior to the general public offer. In most companies both the general public and local share offers take place when about 70 percent construction is complete, while in others, they takes place on or after COD. If the the sequence is reversed while allowing the companies some flexibility in the timing of offer, four principal objectives can be achieved:

a. Companies can directly go to the general public to raise capital (at least 10 percent) after meeting the requirements established by SEBON.
b. Project-affected communities still get a preferential opportunity to invest but now have an added layer of protection. In the new setting, the general public, considered to be a more sophisticated subset of the broader community of public investors, gets to weigh in on the value of the company shares before their local counterparts. This gives local communities the benefit of observing how well the first phase of IPO performs before making their investment decisions. For example, if a company offering is heavily undersubscribed during the general IPO, this could be a signal for local communities on the risks of investing in that company.
c. Companies are allowed a certain degree of discretion to decide when to approach the public in order to raise equity as long as SEBON requirements are fulfilled; and
d. Carrying out the two offerings in immediate sequence and through the same approval process lowers the shares issuance costs and makes the overall process more efficient.[84] Furthermore, the current sequence of allotment can be maintained such that undersubscribed local shares can transferred to the general shares category.

Reversing the sequence may have key implications for pricing in a situation where local shares are offered after the company shares are floated to the general public and the company has been listed at NEPSE. Listing shares in NEPSE would enable price discovery through trading of stocks in the secondary market. That price, it should be noted, may have a value that is higher or lower than the offer price at IPO. Hence, a policy decision is needed whereby companies are required to offer local shares at the offer price of the IPO or at market value, whichever is lower. If the offer price is lower than NRs. 100 ($1), this will require another legal reform for all shares at the IPO to be offered at a par value of NRs. 100 ($1). The preferential pricing for local shares may also intensify the communities' interest in claiming their eligibility. To prevent this, the eligibility for local shares, at least for the severely affected, should be decided prior to the issuance of general shares, the cut-off date being the financial closure date. (See section 8.5 on Eligibility for more details.) However, if the two offerings are carried out in tandem, as proposed in point d. above, the issue of IPO price discovery will not arise.

For private companies, local shares should be offered on or after COD: The government has set different timings for the three private companies that are in the process of fulfilling their requirements for offering local shares, namely Upper Trishuli-1, Upper Karnali, and Arun-3,. Going forward, the government should establish a standard requirement on timing for all private hydro companies so that they don't have to negotiate the timing of offer for each new project. The fact that a. these companies are not really looking to rely on local communities to raise capital, and b. that the primary benefits that these companies provide local shareholders are most likely to be in the form of dividends, the government

[84] This is already in the news but not yet practiced and implemented by SEBON.

should require all private hydro companies to offer their local shares on or after COD. If the private company is issuing convertible preferred shares or convertible debt, they can do so prior to COD, but such shares or debt can be converted into equity only after COD. This way, one of the most critical risks to project development, i.e., contruction risk, is eliminated, enabling the project to start generating electricity, earn revenue, service its debts and eventually distribute dividend payments to shareholders from its profits.

8.4 Price

There is no need to alter the current pricing mechanism, but expect change due to newer policies being discussed: SEBON currently requires that the offer price of shares at IPO of all companies (regardless of the sector) be set at par value. There is an exception to this rule: only companies that are able to fulfill SEBON's specific eligibility criteria can get its approval to offer shares at a premium. One of these criteria[85] requires the company to demonstrate a three-year history of capitalized earnings, which is not possible for most hydropower companies, especially those limited to a single HPP. Such companies will have to wait at least three years after COD, by when it will have generated some revenue. Hence, the share price of such companies at the IPO and during the local shares offer are likely to be at par if the existing practice of issuing shares is continued. However, in the event that SEBON allows the companies to declare an IPO with premium value based on other price discovery methods, where capitalized earnings are not necessary, then an increasing number of companies may be eligible to call an IPO with a premium value embedded in the offer price. In such cases, the government should clarify whether the company is required to offer the shares to locals at a subsidized rate or it has the right to seek premium value from the local communities.

8.5 Eligibility

Introduce a set of common definitions across all EIAs for eligibility and cut-off date: The varying definitions of eligibility for local shares has led to some confusion among stakeholders. There is need to establish a common framework to ensure consistent definition across projects. SEBON's recent effort to introduce a regulation to align project area with the project-affected area as identified in the EIA is a commendable start. But this needs to be strengthened by ensuring that all EIAs follow a standard set of definitions for project-affected people; these definitions should be based on the degree of affectedness and the project's area of influence, which include direct impact areas and indirect impact areas along with administrative boundaries.[86] For the purpose of local shares, a common cut-off date should also be identified for all projects, which is ideally the date of financial closure.

Different treatment for different categories of eligible people: Categories based on affectedness will help identify affected communities that should receive first priority for local shares. They should be separated them from the rest of the people residing within a given administrative unit, which in general practice is the district. Each category should receive different treatment with regard to preferential access, allotment and/or pricing. It is difficult to prescribe standard criteria for preferential allocation for all projects given that the degree of affectedness varies across projects and the population density in the severely affected areas is different from that of the rest of the district. However, regardless of

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85 Section 36 of Securities Issuance and Allotment Directive, Revised 2017.

86 Direct impact areas include areas that may be disturbed by the project's construction and installation activities, whereas indirect impact areas include areas which are not directly affected by project activities but which could potentially experience beneficial/adverse impacts of the project or may raise community expectations/concerns about such impacts. Administrative boundaries include villages, towns or districts. Refer to Hydro EIA Manual, 2018, Ministry of Forests and Environment.

whether or not the current timing of local shares is switched with the general IPO, first preference in allotment, financing and price should be given to the directly affected.

Standardize proof of eligibility requirements; eliminate the use of land titles for eligibility: The established proof of eligibility requirement does not appear to be a major hurdle for people looking to participate in local shares; current identification requirements include any one of the government-issued legal documents such as citizenship, marriage, birth, or migratory certificate. For all such documents, a standardized cut-off date, for example, the financial closure date, is recommended to avoid any confusion among local stakeholders. In some cases, projects had also accepted land titles as documents for proof of eligibility. Such practice, however, had allegedly boosted opportunistic land rush in the affected areas, which almost all local communities flagged as a major issue for them. Hence, the study recommends the elimination of land titles as proof of eligibility for local shares. The study further recommends that SEBON monitor the effectiveness of the current policy requirement to grant special consideration to women, poor and vulnerable households that have difficulty in establishing proof of eligibility.

8.6 Alternate Delivery Model for Private Companies

CIS is a possibility but requires significant reform: In redesigning CIS as a possible delivery model for local shares, the new regulation should consider the fact that the SPV being created will be limited to – collecting funds from the eligible population of a project-affected area; investing all its funds thus collected in the local shares of a particular hydropower company; holding the allotted shares for the lifetime of the project; and distributing dividends to its participants at regular intervals. Designed as a company with limited mandate and minimal asset, the SPV can also have a set of fewer administrative requirements (e.g., limited roles of sponsor, fund manager, supervisor and depository, resulting in reduced cost of operation) and protective measures in place (e.g., minimum requirement in the capacity of the sponsor or the fund manager given that they don't need to make active investment decisions), especially in relation to the current mutual fund regulation. These changes would have a direct impact on the associated cost of incorporating and operating the SPV. While this model does provide limited representation of local communities in the governance of the SPV, the relatively low cost of incorporation and operation and the opportunity for a market-based price efficient exit for unitholders[87] helps in making it a potential model for the delivery of local shares.

The public-listed company model is currently the best option, but requires some changes: While the private company model is restricted by the maximum number of shareholders, structuring the SPV as a public company, whether listed or non-listed, does away with the limits on local participation. However, the process of establishing a public company is relatively more burdensome than that of establishing other delivery models. These include requirements on initial capital and regulatory fees, which by themselves are not prohibitive but need to be reconsidered. Also, local communities may consider them to be a nuisance. As a public company, the SPV will have to meet the requirements set by SEBON prior to collecting funds from the local communities, including, among other things, conducting due diligence of and developing a prospectus for the SPV. These extensive processes are aimed at protecting the public investors with better disclosure of information from companies. These requirements may be appropriate for public companies, but in the case of the single-purposed SPV, these could mean avoidable paperwork and associated costs. Changing some of these requirements could help in reducing the high administrative cost associated with incorporating and operating public companies.

[87] Albeit with a value relatively less than that of the shares of the company that owns the project.

A key benefit of structuring the SPV as a public company is the opportunity for local communities to participate in the company's decision-making process. While this adds to the overall cost of operation, in the long run this contributes to a greater sense of ownership of the SPV by the local communities, thus reducing the possibility of friction and dispute between the management and local communities. However, as a special case where the SPV is being created to meet the interest of the hydropower companies that do not want to go public, there is a strong argument to be made for the hydropower company to pay and help set up the SPV. Finally, both the public option, listed or non-listed, have the potential to offer a price efficient exit to local investors after they are listed in the NEPSE and the OTC market, respectively. However, the local communities have an incentive to have their SPV listed in the secondary market, as it allows them to benefit from a better and transparent price formation. For all these reasons, the public-listed company model is currently the best option for companies looking for alternative delivery models for local shares. However, as stated earlier, the success of the delivery model depends on the willingness of the local communities to accept and comply with the process of establishing and operating the SPV. Making the changes recommended here could help increase the possibility of this happening.

8.7 Financing

Ensure effective implementation of the deprived sector lending requirement: Given that most HPPs to date have been relatively small, there has been, except in Chilime, no provisioning of institutional financing for local shares. However, such financing options may be required as the size and number of projects in each district increases and communities become eligble for a proportional increase in allotment of shares. The provisioning of alternative financing mechanisms for community members is recommended so that they will not have to seek loans at exorbitant rates from informal money-lenders. As part of this, the government needs to develop operational guidelines and ensure strict enforcement to implement its deprived sector lending requirements, for example, with deferred payment options under escrow arrangement of future cash flows. Reducing the cost of borrowing is another factor that needs to be considered, which is possible if the NRB guidelines also offer a refinancing facility of such loans at lower rates, allowing the BFIs to add a decent spread on the rate offered by NRB. This would not only enable local access to low-cost loans but also allow faster repayments with adequate cash flows.

Offer alternative financing without exacerbating the vulnerabilities of the marginalised poor: Given the risks associated with HPP and the inability of most community members to hedge, it is important to build their capacity to cope with inherent risks involved in equity participation and ensure some interceptive risk mitigation measures. Two primary elements should be considered to ensure the inclusion of economically disadvantaged people: how they source their fund and what financing instruments best serve their interests.

***Source of fund*:** First and foremost, the government can make the current application process for receiving funds from the deprived sector lending window less cumbersome for the target population.

a. One option is that the government establishes a dedicated fund to provide a certain percentage of the amount required for the total allotted shares as loans to the target population. Such loans can be offered under relatively favorable lending terms, including the possibility of using shares as collateral. But the details on how to finance this fund are very limited, in terms of both amount and structuring, which is going to pose a major challenge in implementation. Some of the financing options offered include either a loan or a grant from the government or apportioning a small percentage of the current revenue from royalty. Next, this fund will have to be administered by a distinct entity: one agency that may be best suited for this task is the Hydropower Investment and Development Company Limited (HIDCL). HIDCL is a public company, with 80 percent ownership of the government and the rest

of the general public,[88] that mobilizes funds to invest in HPPs. While HIDCL is currently designed to function as a wholesale lender, its mandate and institutional structure will have to be expanded to include retail lending, such that it can then directly provide loans to the target population. HIDCL can also partner with other BFIs to leverage the latter's network to reach the target population. Given that such loans have cost implications given that all community members will desire to receive under such favorable conditions, it is important to define the criteria for eligibility for this fund. For example, the current definition in the NRB circular, which defines the "poor section" as population with low income, women, ethnic community, differently abled, and marginalized communities, could be taken as a basis for defining eligibility. This could further extend to households designated as those living below the poverty line. As of 2017, the government had distributed ID cards (gareeb parichaya patra) to almost 400,000 households as part of efforts to reinforce targeted programs and subsidies aimed at poverty alleviation. The government must ensure that such a proactive policy of encouraging local communities to invest in the non-productive sector does not deplete the already limited fund that needs to be invested in other productive sectors.

b. Another option that might be more feasible for mega projects is for project companies to arrange for financing since this is generally a relatively small target population of vulnerable people. The financing could include a mix of grant and a small portion of loan with arrangements in place to channel dividend payments to service the loans or make periodic payments as part of the company's corporate social responsibility. The details would need to be captured in the project's individual benefit sharing agreement, where women, poor, and vulnerable households would be given preferential treatment.

Investment Instrument: The instrument currently being used to invest in local shares is equity. However, other possible instruments can be considered to lessen some of the negatives associated with equity. For example, equity is an instrument that is simple to understand and manage, even for relatively unsophisticated buyers, it can provide a return to investors, in the form of dividend, only after the company has started making profits and adjusted the accumulated losses and other pre-incorporation issues. For local investors that have taken a loan to purchase shares, some at a very steep interest, this can mean a significant cost and risk. Below are brief analyses of two types of financing instruments, which are not recommended at this time but could be made available when risk of equity becomes more evident.

a. ***Convertible preferred shares:*** Preferred shares are a special category of company shares that offer several key benefits, which could make it a better instrument for risk-averse local investors: payout of dividend (from the distributable profit) can be in the form of a fixed rate and done prior to that of ordinary shares; in case of liquidation of the company, the shareholders under this category are paid prior to those who hold ordinary shares. Preferred shares can also be structured to offer cumulative dividend such that shareholders are able to earn dividend even when the company is not making profit, which is paid cumulatively only when the company is profitable. The option to convert them into ordinary shares, for which the conversion date and ratio need to be predetermined, allows shareholders to enjoy the possible capital gains in the secondary market. The downside is that the instrument is fairly complex and requires certain decisions to be made very early on, including decisions about the convertible date and ratio. Also, shareholders are not allowed any voting rights in the company. Tax on income is 5 percent.

b. ***Convertible debt:*** In this instrument, funds collected from the local communities are initially considered to be a loan taken by the company, with the understanding that this loan amount will be converted into ordinary equity at a pre-defined time in the future. This enables local communities to start earning a fixed interest immediately after making their investment, even before the completion of the project or if the company is unable to make a profit. The interest can also be structured as a payment or with the option to capitalize it. The ability to convert into ordinary shares, for which the conversion date and ratio need to be predetermined, allows local communities to enjoy the possible capital gains in the secondary market. The downside here is that this is also a fairly complex instrument that needs early decisions on timing and conversion ratio. Also, this instrument does not allow local community any representation in the company. Plus, the tax on income is 15 percent.

[88] Established in 2011, 50 percent of HIDCL is owned by the Government of Nepal and 30 percent by three state-owned companies. Twenty percent was to be raised from the general public.

The success of these alternative financing instruments depends on whether or not they are accepted by the following stakeholders:

a. ***local communities*****:** given the simplicity of equity investment and their experience with equity investment, local communities may find it difficult to appreciate and accept other forms of relatively more complex instruments. Furthermore, because these alternative instruments may not fetch the same value in the secondary market (at least until conversion), communities may not agree to use such instruments.

b. ***project lenders:*** in order to be able to use the alternative instruments, the project lenders, who constitute the largest share of the company through their loans, will have to be satisfied with the new arrangement. For example, they may not accept any arrangement that allows the holders of these instruments precedence over them for repayment or arrangements that increase the company's debt level (which can be financially unsustainable). Project lenders may also be concerned about convertible debt structure if the instrument requires payment of interest even during construction. The reason being, project lenders capitalize the interest portion of their loan during the construction period. Hence they would not be comfortable allowing interest payment to convertible instruments and allowing cash flow to exit the company during the construction period when there is no cash flow in the company.

It is important to note here that efforts to find alternative instruments to ensure financial inclusion in local shares raise more questions than answers. This report has looked into some of the possibilities and challenges involved in such efforts. However, the scope of this study limits the possibility of delving further into this subject.

8.8 Holding and Divestment

There is no sufficient reason to suggest change in the lock-in period: The three-year lock-in period for local shares limits the liquidity of one of the most prized assets of the local people. The intent of this policy, as expressed by SEBON, is to prevent potential elite capture of local shares immediately after it is listed and eligble for trade. This policy also ensures that local communities remain associated with the project through their shareholding for at least three years. Several stakeholders, including in the communities, had stressed the need to update this policy to give local communities more control and liquidity of their assets. However, after reviewing the views expressed by the various constituencies, and the preferential treatment in pricing and timing this population is recommended to receive, the study did not find a strong reason for changing the current regulation.

Reinforce automation in the process of holding and divesting shares: While there has been an increasing shift towards a computerized system of allocation, a similar push to computerize the holding and divestment system will help make the process more efficient. For example, the dividends that most local investors have thus far been deprived of will now be directly deposited in their bank account. Despite the challenges of uptake for some rural investors, this transition to a computerized capital market ecosystem is highly encouraging and needs to be efficiently expedited.

Decentralize brokerage service, including through the banking channels and move towards online trading: A critical factor that limits the local communities' ability to divest of their own volition is the high transaction cost. For this, the appropriate policy response would be to decentralize the current brokerage service, not only by requiring current brokers to offer services at the district level (which they consider to be too costly), but also to allow banks to provide this as an additional service (for which they already have most of the necessary infrastructure in place). The transaction cost for divestment is also likely to decrease with further technical advancement in the sector in the form of online trading.

9. TRANSFORMING LOCAL COMMUNITIES INTO INFORMED SHAREHOLDERS

The policy alternatives and recommendations offered in the previous section focused on ways to minimize the risk exposure of local shareholders. But because equity investments have inherent risks, investors' ability to secure returns largely depends on how informed they are about both quality and timing. This section discusses ways to make local communities more aware and informed about their investments in local shares of HPPs.

The section first analyzes the overall environment within which local communities and projects have been interacting. It then assesses the various types of local stakeholders the study team met during its field visits and categorizes them based on their interest in and ability to shape the discourse of local shares. The section then examines ongoing government-led initiatives aimed at ensuring that potential investors, especially from local communities, can participate as informed decision makers with a sound of understanding of both the overall capital market and local shares. Finally, it makes recommendations on the roles that various stakeholders can be play to ensure that local communities become better-informed shareholders.

9.1 The Current Environment for Communication

The level of trust between the communities, the project developers and the government bodies in project implementation at the local level is discernibly very low. Several overarching factors dictate the process of hydropower development in Nepal, including weak rule of law, and governance challenges that have impeded the state's ability to deliver development to citizens.[89] Some of the direct consequences this has for communication are described below:

Project developers are wary of local communities: The ability of current benefit sharing practices to uplift the lives of the project-affected communities are limited by how they are implemented. For example, Nepal's royalty regime, in which half of the revenue collected by the central government is meant to flow back to the project-affected communities for their development, is limited as very little of it actually has made it to the intended population. The result is a mismatch between the development aspirations of communities and the development they expect hydropower companies to offer. Instead of working to make local bodies more accountable, communities seem to prefer to engage directly with the hydropower companies, with whom they have more leverage than with government bodies. This is further exacerbated by the question of who truly represents the local communities, as companies feel that political actors often hijack the community's agenda in pursuit of their own interests, e.g., their interest in deriving petty contracting opportunities. All this leads to a situation where developers are not comfortable divulging more information than what is deemed absolutely necessary to get their work going, as they believe that it weakens their position during negotiations and also gives communities more space to extract money/benefits from them.

Local communities are wary of project developers: Developing a HPP is a lengthy process and HPCs have to begin engaging with communities very early on, including while conducting feasibility studies and preparing environmental assessment reports, and during other government established procedures. HPCs typically rely on consultants to undertake these activities. For local communities, these consultants are their first point of contact with and the primary interface

[89] Shrestha, P., Lord, A., Mukherji, A., Shrestha, R.K., Yadav, L. and Rai, N. 2016. Benefit sharing and sustainable hydropower: Lessons from Nepal. ICIMOD.

of the project. But limited by their terms of reference to producing short-term outputs, the consultants' incentives may differ from those of the companies that have to maintain long-term engagement with the communities. As a result, consultants may not be able to convey the appropriate messages on benefits that local communities can expect from the HPC; at times consultants may make assurances of benefits that are far beyond what projects can deliver. During field visits, the study team found that local communities are skeptical about the process of public consultation, which they feel is done perfunctorily, sufficient only to fulfill the requirement on paper.

Limited capacity of many HPCs to communicate and of local communities to comprehend: Many HPCs, especially of the smaller national IPPs, lack adequate human resources and capacity to communicate with local communities about local shares, among many other things. This shortcoming is compounded by the general lack of conviction in the industry that greater transparency can offer a solution to their disputes with the communities. Meanwhile, the average person in the local community, as described in earlier sections, can barely grasp the process of developing hydropower and is not savvy and proactive enough to participate in the capital market. This creates an environment of mistrust that has to be taken into consideration while discussing communication strategies to make companies more proactive about sharing information on local shares and locals more receptive to such information.

9.2 Assessing the Local Landscape of Stakeholders

During the course of the investigation, the study team met with a wide range of stakeholders at the local level. These stakeholders can be categorized based on their interest and ability to shape the discourse of local shares. It is important to keep in mind that these are overlapping categories; each individual is likely to be a part of multiple institutions at any given moment. An individual may be a member of a local youth club, a non-governmental organization, a political party, and a sarokar samiti all at once. This stakeholder mapping is done with the purpose of understanding the interest of these constituencies in local shares and their roles in shaping the discourse of local shares.

High Interest-High Influence: These are stakeholders who have high interest in acquiring local shares and can also push the political agenda.

Sarokar samitis: These are groups of self-proclaimed representatives of the affected communities that are seeking to negotiate with the project. They carry out negotiations over a variety of community demands including local shares. These samitis, however, do serve a very useful purpose in that it gives an institutional character to the dispersed voices in the community, and HPCs have a body to communicate and negotiate with. But because these samitis are often linked with political parties, there is a likelihood that a project has to negotiate with more than one such samiti, which can complicate things. These samitis are difficult to ignore because they are well organized and can severely disrupt project work if their concerns are not adequately addressed. Samiti members are relatively better informed than their community counterparts, but the quality of information they possess may not be accurate. And because samitis have very specific agendas, they have limited incentive to try to understand and share information that may not serve their immediate purpose. Most projects to date have negotiated with project-specific sarokar samitis for defining many of the parameters of local shares, including the process of allocation, timing, and most importantly, eligibility.

Elected representatives and their offices: With federalism now underway, and the completion of elections to the central, provincial and local bodies, it is likely that the newly appointed representatives will want to be better informed about HPPs in their jurisdictions, including the concerns of their constituencies with regard to local shares. Further, many of these elected officials may also have personal interest in this matter, as they have either invested in local shares or desire

to do so. Either way, well-informed elected representatives and their offices can be instrumental in facilitating the flow of relevant information to the local communities. More importantly, they can be instrumental in mediating disputes between the project and communities, including on issues of local shares. Most recently, in Upper Tamakoshi HPC, the project stated that it is now beginning to engage with elected representatives as their primary means of communication and negotiation with local communities.

Local politicians and political parties: Like the elected representatives, local politicians and political parties also represent the voices of communities and have significant influence on how local politics, including that of local shares, unfold. They may also have personal interest in the development of HPPs in their localities, given that many of them, as evidenced during local-level consultations, often serve as petty contractors and are looking to negotiate with the project. Many of them, as eligible local community members and also as local agents that HPCs are interested in appeasing, especially the more influential ones, are invested in the local HPP. These political actors can play a major role in increasing the bargaining power of sarokar samitis by giving them the necessary political patronage. Given the power they hold to negotiate a settlement between factions, promote an enabling environment, and even disrupt projects, it is of utmost importance that this group is well informed and willing to engage.

Media and journalists: Traditional media in Nepal is fairly strong and has significant power to shape and influence national agendas. At the sub-national level, too, there is a strong media presence, mostly in the form of radio, print and television. Such media could bring information to communities and also to the national level agencies. Journalists in project areas mostly report for local media outlets, while some have reporting arrangements with Kathmandu-based media. However, they are limited by their capacity to report on technical subjects, including hydropower and capital market. Making the effort to keep them adequately informed can go a long way in ensuring that correct information is transmitted to all stakeholders. Regular monitoring of the media is also necessary to ensure that they are relaying accurate and unbiased information and that timely corrections can be made when needed.

High Interest-Low Influence: This category comprises institutionalized bodies of eligible community members who serve some specific purpose within the community. Despite their limited ability to politically influence the larger discourse, these networks are trusted by their members for information on, among other things, financial literacy and local shares.

Community-based social groups: There are two types of social groups in local communities: the first type is based on ethnic identity, whose primary purpose is to promote their groups' ethnic identity and culture, e.g., Sherpa or Kirat Samaj (society); the second type engages in activities that enhance community welfare, e.g., aama samuha, women's cooperatives, forest user groups, etc. Members of these groups meet regularly to discuss issues within their mandate or to decide local projects on income generation and other development activities. As both types of groups hold frequent meetings and engage with networks of community members, local people seek and receive information on various issues including local shares from them. A proper mapping of such social groups can be helpful in developing an effective mechanism to engage with the target population within these communities.

NGOs and local clubs: These organizations also have a strong presence at the community level. They deliver specific services to target populations, promote social reforms, or serve as local platforms for discussing various topics that concern the community. It is also likely that some such organizations work in the areas of indigenous rights and environmental conservation in some project areas. These organizations usually have voluntary or salaried staff whose job is to reach out to the traditionally marginalized and ensure their inclusion. As with the previous community-based social groups, identifying such agencies at the outset and collaborating with them as potential partners can serve as a vital channel of communication.

Local businesses and industry associations: There is a sizable local population that may not fit into the traditionally marginalized and vulnerable categories. It includes aspiring investors who are equally unaware about the intricacies of investing in local shares. These individuals have relatively more income than their community counterparts, sourced from, among other things, their small and medium-sized enterprises. Like others in the community, they also rely on their industry-based associations to network and to share information, so such associations can be tapped as a means of communicating with them. Given their relative affluence, they are also influential members of their communities, and transforming them into informed individuals can have a ripple effect within their larger community. In addition, other local businesses, especially banks, have an interest in becoming an information hub for local shares, given that all potential shareholders have to have bank accounts.

Teachers, social mobilizers and other extension workers: These individuals engage directly with communities, and because they provide valuable services, community members usually regard them as credible and trustworthy. As the literate population in the community, people in this group are either more informed than their local counterparts or have the capacity to grasp, and more importantly, relay such information to the target population. Some projects such as Chilime HPC had successfully tested the use of teachers as local engagement channels.

Others: There are a few other stakeholders within communities that can be engaged to ensure more effective dissemination of information to target populations. One category of individuals is those who have low interest in local shares – because they are not eligible – but can have high influence because of their professional position. For example, senior officials at government agencies, banks and other private sector institutions, and journalists. These individuals are usually knowledgeable and can serve as influential information hubs for local community members.

9.3 Current Initiatives of Communicating with Communities

There are two categories of information local people need in order to become astute investors in shares. The first type concerns the overall regime of the capital market within which local shares are transacted. The second type has to do with company specific information that can indicate their financial health.

Information related to capital markets: As the apex regulating body of the country's capital market, SEBON is responsible for promoting awareness among investors and ensuring the flow of reliable information in the sector. In this regard, SEBON's primary interface with the public is through a website that holds sector-related information, including securities laws and directives issued by it. SEBON has a Facebook page that is not very active but SEBON representatives said they intend to use it more frequently in the future. SEBON also has a designated information officer, as required by Nepal's Right to Information laws. According to SEBON, it is in the process of establishing an institution that will train as well as provide accreditation to other institutions that offer trainings on the securities market, for which it has set aside NRs. 60 million ($600,000). SEBON should introduce a special scheme that encourages women to join its training programs and ensure participation of more women in the capital markets sector in general.

SEBON's proactive efforts in ensuring better information in the sector include an annual training of journalists on capital markets and related subject matter. In 2017 it organized the training in partnership with the Society of Economic Journalists of Nepal. SEBON has also been conducting 15–20 one-day investor awareness programs at the sub-national level annually. According to SEBON, the demand for these sessions is very high, with up to 200 participants at an offering. Participants of these programs generally include local businessmen, brokers, bankers, educators and students.

Other government agencies do not have similar initiatives for reaching out to the general public with information on the capital market. There are, however, some market-led initiatives that offer paid courses to interested individuals on investing in shares and the capital market. While most of these offerings are available in Kathmandu, some of these institutions said they had also offered courses in the districts. The study team participated in a two-day introductory course on shares; it found that the content of such courses and the language of delivery are largely targeted at individuals looking to trade shares in the secondary market. There is a need for courses that are more accessible to the average person in the local communities. Such tailored courses in the districts should prioritize women trainers to ensure greater participation of rural women and increase their overall understanding.

Information related to specific project: The process of disseminating project-specific information is largely dictated by the policy regime established by SEBON. For the issuance of public shares, SEBON requires extensive disclosure of company information in a prospectus that is to be prepared by the issue manager. A company is allowed to issue shares to the public only after SEBON approves its prospectus. Information that needs to be disclosed mandatorily in the prospectus includes:

- Company details, such as name, registration, location, history, main objectives
- Pricing of and eligibility for local shares
- Credit rating of the company
- Company financials, future plans and strategy
- Description of the capital structure
- Information on other companies the promoters of the said company are associated with.
- Details on salaries and wages of the company's promoters and managers
- Various risks that the company may face, including risks due to lack of financial resources, unavailability of raw materials, changes in the market, cost overrun, changes in exchange rate, changes in legal proceedings while obtaining approval, changes in national and global markets, changes in national and international policy and rules, changes in technical know-how, and changes in the price of shares.
- Power purchase agreement signed with the government
- Details on the objective of issuing shares and the use of cash collected
- If the shares are to be issued at a premium price, the reason and objective behind it
- The process of shares allocation and the arrangement to return funds not allotted
- The conditions and restrictions for local communities during the application process
- Details of underwriting
- Details on the fulfillment of SEBON's requirement to issue shares to the public, including the date when construction gets completed, full investment of the promoter, etc.

SEBON requires HPCs to make the prospectus available to all interested investors. However, it does not specify sites or locations where the prospectus has to be made available. HPCs and their issue managers usually keep a copy in their office that can be accessed during office hours. Previously, HPCs would take some printed copies of the prospectus to the local communities and these were placed at the collection centers. HPCs also made the prospectus available on the company website. SEBON, in recent times, has started making these prospectuses available through its own website as well. In addition to the prospectus, some information related to local shares is also made available through public notices that SEBON requires the companies to publish in a national daily newspaper. Before the application process was computerized, SEBON required the companies to publish a summary of key information from the prospectus, such as company financials, strategic plans, details of promoters, risks and mitigation measures, and the process of allocation on the back page of the paper-based application form.

9.4 Pathways to More Effective Communication

Certain information should be presented prominently on the prospectus and project website: Given the lack of clarity among local people on what may happen to their share value at the end of the project company's license period, it is important to strengthen the requirements on hydropower companies to disclose all relevant information to their potential shareholders through the prospectus and other documents. The prospectus as well as the project website should clearly and prominently state the following: the length of the concession period, the expiry date of the project's concession period or PPA, and the projected status of the hydropower company in the post-concession period and the potential impact on shareholders (particularly, for projects that are within five years of achieving the end of their license period).

Producing understandable information: Because a prospectus is a legal document, it uses highly technical language and is extremely detailed. As a result, it reads as if the information is written not with the intent to communicate with any target audience but solely to fulfill SEBON's disclosure requirements. Further, the lengthy details on the company provided in the prospectus can be confusing, not only to the rural communities but even to the relatively more literate urban population. Any effort to make the prospectus more accessible must take into consideration the varying capacities of audiences to absorb the information. To that end SEBON should disseminate a package comprising three separate documents:

a. First, for the purpose of full disclosure, several printed copies of the prospectus should be made available to local communities through offices of designated sub-national government bodies.
b. Second, a summary of the most relevant information in the prospectus, written in non-technical language (similar to the summary profile from the paper-based application form) should be printed and made available, especially at urban centers and also at the offices of the local bodies. These can also be handed out during training sessions (described later) to selected individuals who can serve as information hubs within the social network of the local communities.
c. And third, a more accessible document targeting the rural communities should be prepared with only the information most relevant to them. These include the conditions and restrictions that apply to the application process, a few case studies that illustrate investment risks, e.g., the National Hydropower Company (see Box 4), and a brief sum-

Box 4: Issue of Corporate Governance: A case study

National Hydropower Company Limited (NHPC), which has been operating the 7.5 MW Indrawati III Hydro Power Project since 1999, issued 1,400,000 units of public shares in 2004. However, it has not yet been able to distribute profit to its shareholders nor conduct annual general meeting on time; has a negative earning per share of NRs. 2.81, and a net worth per share of less than NRs. 100. This reflects a serious issue of corporate governance. The problem started when its subsidiary, Sunkoshi Hydro Power Company, failed to complete the construction of the 4.5 MW Lower Indrawati Hydropower Project. This was because of management issues including construction delays and high cost overruns, especially after raising 1:1 rights shares worth NRs. 694 million in 2008. In 2014, the Ministry of Energy, at the instruction from the Commission for Investigation of Abuse of Authority, cancelled its generation license. This resulted in a huge loan default by the company that completely ruined its balance sheet, resulting in no dividends for shareholders. Further, the promoter shares had already been converted into tradable ordinary shares. In 2011, the company's share price dropped from a high of NRs. 600 to NRs. 37. This brought to the forefront several issues of corporate governance: i) capacity of hydropower developers to use the money raised from the public, ii) accountability of promoters who put the public investment at risk, iii) public investors' lack of education and inability to understand and respond to the corporate malpractice, and iv) urgent need for a hydro sector regulator to monitor issues of corporate governance for protecting the investment of general citizens.

mary of the kinds of shares and rights associated with each: local shares, promoter shares, employee shares, general public shares, etc.

Enhancing education and information uptake: At the other end of the communication spectrum are the recipients of the information. Given their limited capacity to absorb the information, SEBON should, on its own and in collaboration with hydropower companies, invest in making them better informed for making investment decisions. This can be done through various literacy programs, which should include subjects on financial literacy focused on the capital market, plus courses on hydropower and the process of HPP development. Such programs can be carried out earlier in the project cycle in order to make people more aware of the context of hydropower development in their area. Local communities would also benefit indirectly if these literacy programs are offered to other stakeholders in the community, such as the local media as well as the elected representatives and the staff of the sub-national government offices. Other important stakeholders include the traditional community-based networks, such as aama samuhas, local clubs, women's cooperatives, schools, and business associations. These can serve as intermediaries for disseminating information to the target groups. As described earlier, these agencies have high influence in the community and can provide necessary guidance to those who are not able to make their own decisions. These activities can be undertaken by SEBON or a SEBON-approved/accredited training agency, and can be financed in part or whole by the HPCs. Increased efforts must also be made to encourage the business media and independent brokers to monitor, analyze and produce accurate and well-researched information through blogs and websites. These can play an important role in assuring that investors have improved stock market knowledge.

Along with efforts to build capacity, any strategy to make communities more informed about local shares should include the use of multiple mediums to be able to reach them. The primary medium in this regard is the traditional media, which mainly comprise television, radio, newspapers and internet-based news portals. Efforts should be made to find out the target population's preferences regarding channels/stations, programs and timings. Special population groups such as housewives would require door-to-door awareness campaigns. For example, if the morning and evening news bulletins have a large audience, it would be ideal to make a short public service announcement on local shares during those time slots. The announcement could direct people to other platforms, such as the company website where detailed information is available. Long-form communication materials can include special supplements in newspapers or other printed materials such as brochures, pamphlets and factsheets. Further, with the gradual penetration of social media, especially Facebook, in the rural communities, new media can serve as a two-way communication platform for relevant actors, including SEBON, HPCs, individual shareholders, and local populations.

Project websites for communication: SEBON can consider making it mandatory for HPCs to use project websites as one of their information outlets. Logistical challenges are often a big barrier for local communities in accessing the project's public information center. Given that Nepal's internet penetration rate has reached 63 percent, with over 95 percent using 2G or 3G mobile data, internet is an effective and cost efficient way to reach the local communities. A website in Nepali that provides information in simple, reader-friendly language can serve as a platform for providing correct information, allowing communities to go beyond news or updates on social media.

Strengthening communication and public consultation: Effective communication is a result of sustained effort to communicate. HPCs have a long project development period and should therefore prepare engagement plans and standardize communication tools with local communities. This should be done at the outset, even during the initial surveys, and sustained throughout the life of the project, even after the project is up and running. Public consultations are an integral part of community engagement, and it is crucial that the HPC engage in continuous dialogue with communities about potential environmental and social impacts, including community development activities, and

community needs so that HPCs understand the expectations of local communities and vice versa. In addition to engaging with existing stakeholder groups, the hydropower company should require the project-affected populations to elect their own project level committee with at least two women representatives that can work to represent genuine local interests. This committee will work with the company to develop community development plans, benefit sharing agreements, and agree on compensation, land acquisition, resettlement and rehabilitation. Two projects[90] that have done this have been successful in their local level negotiations with the communities that included acquisition of private land and resettlement planning. With regard to local shares, HPCs should prepare a set of factual and accessible messages and consistently communicate them during all their interactions with local communities. They should also ensure adequate outreach to those unable to participate in public meetings – these can include people with diminished mobility, those occupied with household chores, adolescents or young adults attending school, among others. A sample set of communication activities for HPCs with timing of local shares is provided in Table 9.1.

Table 9.1: Sample communication activities for hydropower companies

Timing	Targeted communication (for project-affected people)	Other Communication (for the general audience)	Back-end preparations
Before shares are issued	Stakeholder mapping Public notices inviting people to consultations/ listening sessions Focused consultations with target groups, include orientations for local people on use of company website Notices, fact-sheets, posters, printed FAQs, newsletter (printed and digital) Orientation of frontline staffs on key messages Toll-free number and other points of contact	Press statements/ conference announcing launch Website with information on hydropower company and HPP, EIA reports, financials, and benefit sharing mechanisms, including shares Other communication based on events: e.g., achievement of progress markers (financial closure, PPA, tendering, etc.) Make phone lists of media, organize small group briefings	Set up a communication office Prepare key messages for this stage, state facts, don't overpromise (Err on side of caution) Draft stage-specific messages, notices, posters other communication collaterals Document concerns Prepare backgrounders for media
During the process of issuing shares	Continue consultations/listening sessions Grievance handling and help centers How-to instructions: for filling forms, distribution lists, contact numbers/addresses Focused consultations/ listening sessions with vulnerable people Media notices of events (share application dates, locations, etc.) FAQs updated and on website Pamphlets/booklets on BSMs, newsletter (printed and digital) Simplified booklet on share ownership, financial literacy, printed FAQs	Media events tied to AGM, major board decisions, and achievement of progress markers (work completed, IPO dates, etc.) Annual public interactions at project site/district on progress Media briefings, guided site visits to demonstrate progress Focused consultations at site office with different interest groups Continuously populate and update website	Draft stage-specific messages, notices, posters and other collaterals Plan and hold consultations with different stakeholder groups Draft communication materials, press statements, place media notices Draft, design, publish how-to materials, pamphlets, booklets, etc. Prepare financial literacy material and training aids

[90] Upper Karnali HPP and Arun 3 HPP.

Timing	Targeted communication (for project-affected people)	Other Communication (for the general audience)	Back-end preparations
After shares have been issued	Orientations on share market behavior Regular corporate communication with shareholders on market prices, dividends, new projects, rights shares, etc. Newsletter (printed and digital) Annual post-AGM public consultation at project area AGM related communication on website, email lists and local media	Media events tied to AGM, new projects, share listing information, etc. Continuously update website	Stage-specific printed materials for media, other communications Media briefings Annual reports

10. KEY OBSERVATIONS AND CONCLUSION

This section highlights the main issues related to local shares that were identified during the investigation. While these are key takeaway points of the report, the underlying intention is also to reiterate and emphasize the context within which local shares have evolved so that the development of relevant policies in the coming days is grounded in reality.

Learning lessons from Chilime: The aspiration to invest in shares of hydropower companies, at both the local and national level, has been propelled by the narrative established by Chilime's bullish run in the share market. At the policy level, local shares continue to get huge support from politicians and policymakers, because it fits into the national narrative that Nepal and its people can achieve prosperity by exploiting the country's hydropower potential. Communities across the country, for the most part, are fixated on the possible capital gain, similar to what they believe was made by the residents of Rasuwa. However, the exuberance has somewhat subsided in recent times thanks to the volatile performance of the secondary market. But the biggest lesson from Chilime is that despite its uniqueness – it had a favorable PPA rate and entered the capital market at a favorable time – it has established that if the concept of local shares gains momentum and is carefully executed, value can be created or shared.

The rise (and fall) of mass speculation: The local shares phenomenon is happening at a time when Nepal has tapped only a fraction of its hydropower potential, which means that there is currently a very limited supply of hydropower company shares in the capital market. This scenario of high demand and short supply of hydropower company shares has resulted in rampant mass speculation. Numerous experts interviewed during this study expressed concern that the current local shares discourse might be occurring within a market bubble. Others flagged the issue that with thousands of additional MW in the potential pipeline and a corresponding increase in the supply of hydropower company shares, there will be a natural downward pressure on the average price, which may have a significant impact on how local communities view hydropower company shares as an asset and their willingness to invest in it. This increased the difficulty of projecting future demand for local shares and of analyzing the impact of local shares on communities.

A market yet to mature: The local shares regime has been in place for a very short period of time. During this period, about two dozen hydropower companies have offered or are in the process of offering local shares. Local communities have participated enthusiastically in all these offerings, placing immense faith in the performance of companies and the overall share market, albeit with limited understanding of both. But to date neither the investors nor the market have faced a major adversity that tested their tenacity to make long-term investments. Conversely, at the tail end, only a couple of companies have completed their lock-in periods and most local investors have not had the opportunity to realize profit from their investments. However, the Nepali share market has experienced a long bearish run—a significant portion of which happened during the course of this study period—resulting in a drastic decrease in the price of hydropower company shares. Because this new price point offers lesser return, it could change how communities perceive the potential to ensure capital gains and their demand for local shares. Additionally, given the long gestation period, the associated opportunity cost, and the delayed returns from investment, local communities may no longer be attracted to shares, especially if the current market hype ends. As the market for hydropower shares matures, community members may find better short-term investments.

Minimizing risks to local communities: Meanwhile, the state, as a key promoter of the local shares phenomenon, is responsible for coming up with policies that minimize the risk exposure of local communities, particularly the vulnerable and marginalized section. This also aligns with the spirit of the constitution, which provides local communities a preferential opportunity to invest in infrastructure projects that exploit natural resources within their locality, such that these economic opportunities will enable them to improve their lives. But the primary assumption here is that these investments are profitable undertakings with guaranteed returns for local investors. Currently, government agencies have various measures in place to minimize risks to the general public, which include SEBON's requirement on the timing at which hydropower companies can issue public shares and the comprehensive disclosure requirements in the prospectuses of all companies going public. Despite their limitations, these measures are noteworthy, as the focus in the coming days need not be on establishing new policies but on identifying ways to strengthen the implementation of existing ones. There are other critical areas that require increased efforts from the government, especially in improving governance-related issues at both the corporate and the sector level. The newly established Electricity Regulatory Commission can take the lead in coordinating with other regulatory agencies to ensure the successful performance of the overall electricity sector (see Box 5).

There are two important things to note- First, policies on local shares must find a fair balance between a. ensuring adequate protection for the local communities and b. ensuring that these policies do not drastically upend the accepted practices of hydropower development. Such balance is important because Nepal is already struggling to provide an enabling environment for investment, and will have to work harder to avoid placing unnecessary and excessive burden on the private sector. Second, investments, more precisely investments made in a speculative market, are always going to have inherent risks that no policy regime can fully eradicate. The best way to minimize risks for local communities is to increase their understanding of how the capital market works and the fundamentals of the hydropower company they are about to invest in. For this, the state needs to invest in financial literacy programs and impose stringent disclosure requirements to ensure that the general public gets accurate and timely information.

Rebalancing income in rural areas: The study demonstrates that offering equity presents too many administrative challenges and risks. So other local benefit sharing mechanisms can be much more effective, such as skills training, jobs and local business development. But the report does show particular benefits from share ownership for women, a group that is easy to identify, and so they can be a target group for redistribution of income opportunities through equity. Efforts by hydropower companies, SEBON and the government to focus on this group have immense potential to yield tangible outcomes in terms of improved access to wealth, financial literacy, and the ripple effect on family health and education, among others.

Box 5: Nepal's Electricity Sector Regulator

Many experts identified the need of a regulator to ensure healthy competition within the electricity sector. SEBON's approval process for public shares is about compliance with disclosure and not about the actual risks of the company. In the banking sector, the sector-specific risks of BFIs are regulated by Nepal Rastra Bank, the central bank of Nepal, to ensure the soundness of the company. Similarly, the Insurance Board is the regulator for insurance companies. There is currently a lack of a regulator in the electricity sector to ensure healthy and competitive market practices.

The Electricity Regulatory Commission, established after the enactment of Electricity Regulatory Commission Act 2017 on September 4, 2017 has the mandate to, among other things, determine power purchase rate for NEA, fix electricity tariffs after holding public hearings, and develop grid and distribution codes. While SEBON continues its role as a market regulator, the newly established Electricity Regulatory Commission can lead in coordination with other regulatory agencies in securing the health and performance of the overall electricity sector.

Strengthening traditional forms of benefit sharing: If the intent of any benefit sharing mechanism in infrastructure development is to improve the lives of the project-affected communities, especially the vulnerable and traditionally marginalized, then the ability of local shares to ensure this particular outcome is fairly limited. This is because the impact of local shares depends not only on the performance of the market, but also on each shareholder's ability to make timely investment decisions. Furthermore, there is also a limit on the extent to which this instrument of benefit sharing can be made socially inclusive: investments naturally offer a higher degree of rewards (albeit non-guaranteed) to those willing to take larger risks. In the case of local shares, the more affluent population in the communities, with their greater financial capacity and a stronger social safety net, can have a larger appetite for risk and hence the potential to reap higher rewards than their non-affluent counterparts.

Nepal has in place a number of traditional benefit sharing mechanisms that could be improved for the benefit of local communities. These include,[91] among others, a. a royalty sharing mechanism that apportions back half of the revenue collected by the central government to the subnational governments through the development budget, b. local livelihood support initiatives undertaken by hydropower companies that offer various types of livelihood trainings and employment opportunities to project-affected community members, c. community development and local infrastructure initiatives, wherein hydropower companies contribute to smaller community-based infrastructure like rural electrification, drinking water supply, irrigation facilities, etc. The intended benefits of these existing mechanisms, however, have not been adequately realized as a result of a failure in implementation. Local communities said they do not trust these mechanisms to deliver the development they desire.

Finally, it is important to keep in mind that local shares evolved to fulfill a specific purpose and, as of now, it has served the purpose well: for local communities, it offers opportunity for capital gains that they aspire for; for hydropower companies, it offers the possibility of reducing project disruption through increased local ownership of their project. This equilibrium will likely continue to exist as long as both the local communities and the hydropower companies perceive local shares as a win-win situation for both. However, given the uncertainty in the Nepali capital market for hydropower company shares and likelihood of oversupply of hydro shares in the secondary market, it is difficult to predict the future direction and the impact that local shares will have on local communities. In pursuing policies on local shares, it is important to carefully consider the multiple facets of this phenomenon, and it is hoped that the authors of this investigation have contributed toward this objective.

[91] For details, see Shrestha, P., Lord, A., Mukherji, A., Shrestha, R.K., Yadav, L. and Rai, N. 2016. Benefit sharing and sustainable hydropower: Lessons from Nepal. ICIMOD.

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APPENDICES

Appendix 1: Rationale for Selection of Hydropower Projects for Study

In Rasuwa district, the study team assessed Chilime Hydropower Project, Trishuli 3A/3B Hydropower Project and Rasuwagadhi Hydropower Project:

- Chilime Hydropower Project (22.5 MW) is the first hydropower project to provide local shares to the residents of Rasuwa. The concept of local shares and subsequent policies regarding local shares in hydropower have been shaped by Chilime.
- Trishuli 3A Hydropower Project (60 MW) and Trishuli 3B Hydropower Project (37MW) were assessed as the latter is planning to offer shares to municipalities, which will be the first of its kind for hydropower projects in Nepal. Trishuli 3B will also offer 10 percent local shares to people affected by Trishuli 3A (which did not issue local shares when it was constructed).
- Rasuwagadhi Hydropower Project is a subsidiary of Chilime Hydropower Company and is constructing the Rasuwagadhi Hydroelectric Project 111 MW in Phalanku Khola and is expected to give local shares in the future.

In Solukhumbu district, the study team assessed Solu-Dudhkoshi Hydropower Project, Lower Solu Hydropower Project, Solu Hydropower Project and Junbesi Hydropower Project:

- Solu-Dudhkoshi Hydropower Project (86MW) developed by Sahas Urja has more than 8000 promoter shareholders and among them about 2900 promoter shareholders are from the local affected population.
- Lower Solu Hydropower Project (82 MW) developed by Essel Clean Solu Hydropower Pvt Ltd. has international financing. During the study period, the issue of local shares had not been discussed with the project affected people.
- Solu Hydropower Project (23.5 MW) developed by Upper Solu Hydroelectric Company was awarded to a national IPP through a competitive bidding process and plans to offer local shares based on their license agreement.
- Junbesi Hydropower Project (5.2MW) developed by Gurkhas Himalayan Hydro Pvt. Ltd., is a national IPP.

In Dolakha district, Upper Tamakoshi Hydropower Project, Sipring Khola Hydropower Project and Charnawati Hydropower Project were evaluated:

- Upper Tamakoshi Hydropower Project (456 MW) developed by Upper Tamakoshi Hydropower Company Ltd. has made significant progress in defining eligibility criteria for offering local shares based on a series of consultations with local people. After Chilime, this project has been under the media limelight as a national pride project.
- Sipring Khola Hydropower Project (9.2MW) developed by Synergy Power Development Limited has issued some shares free of cost to the local project affected population, where the money for free shares was set aside from the money allocated for social and environmental mitigation measures.
- Charnawati Hydropower Project (3.2 MW) developed by Nepal Hydro Developer Limited was developed by a SPV of National Hydropower Company, whose share value at some point of time was below the par value.

In Lamjung district, the study team assessed Nyadi Hydropower Project and Suiri Khola Hydropower Project in the Nyadi corridor and Dordi Khola Hydropower Project and Super Dordi Hydropower Project in the Dordi corridor:

- Nyadi Hydropower Project (30 MW) has estimated COD for Dec 2020. The project is led by a consortium of Nyadi Hydropower Limited, Butwal Power Company and Lamjung Electricity Development Company Limited. According to discussions, the company has agreed to give 10 percent local shares during the construction phase due to demand from the local people, although the date is yet to be specified.
- Suiri Khola Hydropower Power (5 MW) project's COD was in 2012. The hydropower company Ngadi Group Power Ltd. issued 4,86,868 units of local shares in 2016.
- Dordi Khola HPP (27MW) has estimated COD for June 2017. Until November 2017, it was yet to achieve COD. The company, Himalayan Power Pvt. Ltd. made a local IPO (10 percent) in March 2017 and a general IPO (20 percent) in June/July of 2017.
- Super Dordi Hydropower Project (49.6 MW) began construction in 2016 and has estimated COD for end of 2020. According to the project, People's Hydro will invest 60 percent, Merchant Company will invest 30 percent and the local population will invest 10 percent in the project.

Appendix 2: Focus Group Discussions

A total of 22 Focus Group Discussions were carried out in Rasuwa, Solukhumbu, Dolakha, and Lamjung.

Clockwise from left: Women's group in Rasuwa; mixed group of participants at Salme Bazar, Solukhumbu; women's group at Lamabagar, Dolakha and; mixed group of participants at Dordi Village Municipality, Lamjung.

Rasuwa District

Four FGDs were organized between 12 and 16 September 2017 in Betrawati, Thambuchet, Syafrubesi, and Timure.

Location	Associated HPP	No. of participants	Remarks
Betrawati	Trishuli 3A/3B	10	Mixed group
Thambuchet	Chilime HPP	20	Women's group
Syafrubesi	Chilime HPP	11	Mixed group
Timure	Rasuwagadhi HEP	6	Mixed group
TOTAL		**47**	

Solukhumbhu District

Six FGDs were organized between 29 October and 1 November 2017 in Junbesi, Tingla, Tagdin, Salme Bazar and Solu Dudhkoshi.

Location	Associated HPP	No. of participants	Remarks
Junbesi	Junbesi HPP	10	Mixed group
Tingla	Lower Solu HPP	6	Women's group
Tagdin	Lower Solu HPP	7	Mixed group
Salme Bazaar	Solu HPP	19	Mixed group
Solu Dudhkoshi Municipality	Solu HPP	7	Elected members of the municipal office and employees
Solu Dudhkoshi Ward # 3	Solu Khola Dudhkoshi Project	8	Mixed group
TOTAL		**57**	

Dolakha District

Six FGDs were organized between 10 and 12 November 2017 in Lamabagar, Gongar, Kalinchowk and Bhimeshwor Municipality.

Location	Associated HPP	No. of participants	Remarks
Lamabagar	Upper Tamakoshi HEP	8	Women's group
Lamabagar	Upper Tamakoshi HEP	15	Mixed group
Gongar	Upper Tamakoshi HEP+ Sipring Khola HEP	11	Mixed group (men + project construction workers)
Gongar	Upper Tamakoshi HEP + Sipring Khola HEP	12	Women's group
Kalinchowk	Upper Tamakoshi HEP and Sipring Khola HEP	6	Men's group (political leaders)
Bhimeshwor	Charnawati HEP	15	Mixed group
TOTAL		**67**	

Lamjung District

Six FGDs were organized between 26 and 29 December 2017 in Dordi village, Simi Gaun, Sera, Thulo Besi and Besisahar.

Location	Associated HPP	No. of participants	Remarks
Dordi Village Municipality, Ward no. 6	Super Dordi HPP	16	Men's group
Dordi Village Municipality, Ward no. 8	Super Dordi HPP and Dordi Khola HPP	20	Mixed group
Simi Gaun	Super Dordi HPP	21	Mixed Group
Sera, Ward no.7	Suiri Khola HPP	19	Mixed group
Thulo Besi, Marsyangi 6	Nyadi HPP	32	Mixed group
Besisahar	HPPs in Lamjung	6	Political group
TOTAL		**114**	

Appendix 3: Questionnaire for Focus Group Discussions (FGD)

The following set of questions were used for FGDs. However, depending upon the nature of participants and their knowledge about shares, the questions and their sequence were adapted.

FGD questions where local shares have already been issued

1. How many of you have bought local shares? - note the number of people who have the shares
2. Local shares – Chilime shares or other shares if any shares were bought from secondary market or IPO?

Benefits and risks

3. Has the project done anything for the locals?
   - Any benefits? - e.g. employment, road construction, electrification, knowledge of any royalty
4. Would you have been okay with other programs which were beneficial for the community instead of local shares? – e.g. road construction, school, health posts
   - Why?
5. What are the benefits you've received through local shares?
   - In your opinion, what are the risks and benefits of local shares?

Eligibility

6. Did you demand for local shares from the project?
   - Were there protests while demanding local shares?
7. Should more shares be allocated to people who lost their land, houses?
   - What do you think about allocating different amounts of shares to different people?
8. Who do you think are PAP? Who should get shares?
   - Who should get priority for local shares? – (probing question- affected by roads and transmission line, should they be given shares?)
9. Other than the locals, who else should receive local shares? – e.g. government employee, journalists etc.)
   - Why?
   - Do you think people working at the project should get local shares? Why?
10. Did you face any difficulty during the share buying process?
    - Does any group face difficulty? (Probing questions- women, disabled, Janjati, illiterate, Dalit, etc.)
    - Do you know of any organization which can help in addressing these problems?

Ownership versus capital gains

11. Why do you think local shares should be given? – (Probing questions- for ownership in the project or to increase the capital of the project?)
12. In place of local individual shares, would you rather have community owned enterprise to collectively invest in shares?
    - Why?
13. Should local shareholders have a representative in the project? In your opinion, should there be local representation?

Timing - are they aware of the impact

14. When do you think local shares should be provided? (Probing question- before construction or after construction?)
15. Do you know about the lock in period of 3 years- where you can't sell your shares in this period?
    - How did you know about it?
16. What is your view of the lock in period? Should the period be decreased or increased?
    - Why?

Pricing

17. Would you be willing to buy local shares at premium value? (The market value may be more than NRs. 100 ($1))
    - Why?

Communication

18. Do you think there should be any programs for financial literacy, to share knowledge on local shares?
    - Why?
19. For information related to local shares, which source of information would you trust more? Like- Radio, newspapers, Company officials etc.)
    - What is your preferred source of information?

FGD questions where local shares have not been issued

1. How many of you have bought local shares from IPO or from secondary markets? Please raise your hands. [note the number of people who have shares]

Benefits and risks

2. What hydropower projects exist in this area? Which projects are you affected from?
3. Has the project done anything positive for the locals?
    - Can you name any benefits you have received from the project? - e.g. employment, road construction, electrification, knowledge of any royalty.
4. Would you prefer to have other development programs that are beneficial for the community instead of local shares? Like, Roadways, School, Health Post- would you have been satisfied with these instead of local shares?
    - Why?
5. In your opinion what are the benefits of local shares?

Eligibility

6. Did you demand for local shares from the project? If yes, how did you do it?
    - Was there any sort of strikes/protests? Why? How?
    - Within the project affected people, should some be eligible for more shares or should some get shares at subsidized rate?
7. How do you think Project Affected people should be identified? Or let's say, who should be eligible for local shares?
    - And even within that do you think some people should get more priority or not? (Probing question- Like people who have lost their land and houses, people affected during road construction, people affected by the construction of transmission lines, should they get local shares or not?)
8. In your opinion, beside the locals, should the people who have lived here for long but cannot be termed as locals but aren't local, get local shares or not? (Like-Police, Government officials, Journalists, etc.)
    - Why?
9. Should people who have local citizenship and have houses in this area but don't physically live here get local shares or not? Why? (They aren't directly affected by the project)
10. In your opinion, should the people working in the project get local shares? If they want to invest the money earned through the project in the project, can that be considered local shares?
    - Why?

Ownership versus capital gains

11. Why do you think local shares should be given? (Probing Questions- for ownership in the project or to increase the capital of the project?)
12. In place of local individual shares, would you be okay with getting the shares in a group (Like Cooperatives, Gaupalika etc.)?
    - Why?

13. From among the people who have local shares, is there any representative in the project or not? In your opinion, is that necessary or not?

Timing - are they aware of the impact

14. In your opinion, when do you think local shares should be offered? (Probing questions- during the construction period or after the construction is over?)
15. Do you know that you have a lock in period of 3 years- where you can't sell your shares in this period?
    - How did you know about it?
16. What is your view on the lock in period? Should the period be increased or decreased?
    - Why?

Pricing

17. Would you be willing to buy local shares at premium value? (The market value may be more than NRs. 100 ($1))
    - Why?

Communication

18. Do you think there should be any programs that gives information about local shares (share's education)?
    - Why?
19. What is the process of participating in the local share offering? Do you have any information about that?
20. For information related to local shares, which source of information would you believe more? Like- Radio, newspapers, Company officials etc.)
    - Which is your preferred source of information?

Appendix 4: Semi-Structured Interviews

A total of 110 Semi-structured interviews (SSIs) were carried out with community members who may not have been able to participate in public discussions, especially the traditionally marginalized. The study team carried out 37 interviews in Rasuwa, 34 interviews in Solukhumbu, 18 interviews in Dolakha and 21 interviews in Lamjung.

Profile of semi-structured interview participants in Rasuwa

Thirty-seven semi-structured interviews were carried out in Rasuwa district.

No.	Profile of 37 Respondents (Rasuwa Field Visit September 12th- 15th, 2017)	
1	Ethnicity	• Hindu: 2 • Dalit: 9 • Janajati: 26
2	Education	• Illiterate: 21 • Primary education (Class 1 to 5): 5 • Lower Secondary education (Class 6 to 8): 2 • Secondary education (Class 9 to 10): 5 • Higher Secondary level (Class 11 to 12): 4
3	Age	• Below 20 years: 3 • 20-60 years: 32 • 60 years above: 2
4	Gender	• Female: 26 • Male: 11
5	Disabled	• 1
6	Affected hydropower company	• Chilime: 19 • Mailung: 1 • Chilime+Mailung: 12 • Chilime+Sanjen: 1 • Not aware: 4
7	Occupation	• Farming: 15 • Business: 12 • Tailoring/ Knitting: 7 • Student: 1 • Driver: 1 • Conductor: 1
8	Monthly income (NRs)	• Less than 5000: 11 • 5000-14999: 9 • 15000-24999: 2 • 25000-49999: 5 • More than 50000:1 • Not fixed: 9

Profile of semi-structured interview participants in Solukhumbu

Thirty-four semi-structured interviews were carried out in Solukhumbu district.

No.	Profile of 34 respondents (Solukhumbu Field Visit Oct 29- Nov 1, 2017)	
1	Ethnicity	• Hindu: 12 • Dalit: 5 • Janajati: 17
2	Education	• Illiterate: 13 • Primary education (Class 1 to 5): 8 • Lower Secondary education (Class 6 to 8): 2 • Secondary education (Class 9 to 10): 6 • Higher Secondary level (Class 11 to 12): 3 • Undergraduate level: 2
3	Age	• Below 20 years: 1 • 20-60 years: 30 • 60 years above: 3
4	Gender	• Female: 16 • Male: 18
5	Disabled	• 0
6	Affected hydropower project	• Beni+Lower+Upper+Jun Besi: 10 • Solu Khola+ Lower Solu: 4 • Lower Solu+ Upper Solu+ Solu Khola: 12 • Solu Khola Dudhkoshi: 3 • Not aware: 1 • Not affected: 4
7	Occupation	• Farming: 14 • Business: 13 • Government Employee:3 • Student: 1 • Carpenter: 1 • Private company employee: 1 • Unemployed: 1
8	Monthly income (NRs)	• 0: 2 • Less than 5000: 8 • 5000-14999: 9 • 15000-24999: 9 • 25000-49999: 3 • More than 50000: 3

Profile of semi-structured interview participants in Dolakha

Eighteen semi-structured interviews were carried out in Dolakha district.

No.		Profile of 18 respondents (Dolakha Field Visit Nov 10- 12, 2017)
1	Ethnicity	• Hindu: 11 • Dalit: 2 • Janajati: 5
2	Education	• Illiterate: 8 • Primary education (Class 1 to 5): 4 • Lower Secondary education (Class 6 to 8): 2 • Secondary education (Class 9 to 10): 2 • Higher Secondary level (Class 11 to 12): 1 • Undergraduate level:1
3	Age	• Below 20 years: 0 • 20-60 years: 12 • 60 years above: 6
4	Gender	• Female: 7 • Male: 11
5	Disabled	• 1 (broke his leg during an argument with UTHP)
6	Affected hydropower project	• Sipring: 1 • Upper Tamakoshi and Sipring: 13 • Upper Tamakoshi and Charnawati: 3 • Not aware: 1
7	Occupation	• Farming: 7 • Business: 4 • Tailoring/ Knitting: 2 • Mason: 1 • Carpenter: 1 • Teacher: 2 • Unemployed: 1
8	Monthly income (NRs)	• 0: 1 • Less than 5000: 3 • 5000-14999: 6 • 15000-24999: 5 • 25000-49999: 2 • More than 50000: 1

Profile of semi-structured interview participants in Lamjung

Twenty-one semi-structured interviews were carried out in Lamjung district.

No.	Profile of 21 respondents (Lamjung Field Visit December 26-29th , 2017)	
1	Ethnicity	• Hindu: 10 • Dalit: 1 • Janajati: 10
2	Education	• Illiterate: 5 • Primary education (Class 1 to 5): 5 • Lower Secondary education (Class 6 to 8): 3 • Secondary education (Class 9 to 10): 3 • Higher Secondary level (Class 11 to 12): 1 • Undergraduate level: 2 • Masters level: 2
3	Age	• Below 20 years: 0 • 20-60 years: 20 • 60 years above: 1
4	Gender	• Female: 8 • Male: 13
5	Disabled	• 0
6	Affected hydropower project	• Suiri Khola: 4 • Dordi Khola: 1 • Super Dordi: 3 • Sino HPP: 3 • Suiri and Dordi: 2 • Nyadi: 4 • Not aware: 4
7	Occupation	• Farming: 6 • Business: 11 • Teacher: 2 • Government employee: 1 • Social worker: 1
8	Monthly income (NRs)	• Less than 5000: 3 • 5000-14999: 7 • 15000-24999: 3 • 25000-49999: 2 • More than 50000: 6

Appendix 5: Questionnaire for Semi-Structured Interviews

The following set of questions were used for SSIs. However, depending upon the nature of participants and their knowledge about shares, the questions and their sequence were adapted.

Please fill in the boxes.

Name	
Caste (Note: if other than Hindu or Buddhist mention Religion)	
Education	
Affiliation for any organization	
Age	
Gender	1. Female 2. Male 3. Others
Disability	
Affected hydropower company	
Municipality and ward no.	
Number of family members	
Occupation (Your occupation/ Head of the family's occupation)	
Monthly income (Individuals income/Family income)	• 0 • Below NRs. 5000 ($50) • NRs. 5000-NRs. 14999 ($50-$150) • NRs. 15000-NRs. 24999 ($150-$250) • NRs. 25000-NRs. 49999 ($250-$500) • Above NRs. 50000 ($500)

Awareness/ access to information

1. Do you know what local shares are? What do you know about local shares?
2. Do you know of any project which has given local shares? Which one?
3. Are you aware of the hydropower projects in your area? Which projects are they?
4. Do you know if they are offering local shares? Which projects are and which aren't?
5. How did you come to know about it?
   - Newspaper
   - People from the project
   - TV/radio
   - Friends
   - Family
   - Others
6. Which would you suggest is the most preferred source of information, why?

Decision making mechanism

7. Would you invest in local shares if they were provided? Why?
8. How would you make your decision to invest in shares?
   - Self-knowledge,
   - Based on family/friend's suggestion,
   - Based on whim
9. Who makes the decision in your household regarding investment in local shares?
10. What type of information would you gather before you make your investment decision? (e.g. about company, hydrology, finance…etc.)

Benefits

11. Which is the hydropower project in your area? Has the project provided the community with any benefits? What kind of benefits are they?
    - Employment opportunity
    - Construction of infrastructure
    - Electrification
    - Royalty
    - Or any other benefits
12. Are you satisfied with the benefits? Would you still want local shares? Why?

Financing for shares

13. If you are to apply for local shares, what amount will you be willing to invest in local shares? (If not exact amount, get range.)
14. How will you raise the money to invest in shares?
    - Savings,
    - Remittance from immediate family members,
    - Selling jewelry/livestock,
    - Loan from informal sector,
    - Loan from financial institutions
    - Any other
15. If you take loans, how much money are you willing to borrow and at what interest rates? Why? Where will you take these loans from, banks/ informal lenders?

Process

16. Do you think you are eligible to buy local shares? What type of evidence will you present to show your eligibility?
17. Do you know the process to apply for shares?
    - Where do you go?
    - How far from your house?
    - Filling forms,
    - Bank account,
    - DMAT,
    - ASBA
18. How did you know about this/these?
19. Have you received any education on shares? If yes, what type of education? And by whom? When?
20. If you have questions about local shares, where do you go to ask them?
21. In your opinion what are the positive (benefits) and negative (risks) aspects of local shares?
22. Have you invested in any other hydropower projects or any other projects? Which one(s)? How do you keep track of the value of these shares? (Get detailed story)
23. Have you sold the shares in the secondary market? Why did you sell your shares? What was the return on the shares? Was it financially beneficial?

Appendix 6: Key Informant Interviewees

Fifty key informant interviews were conducted to explore the discourse around the emergence, adoption, and transformation of the concept of local shares in Nepal.

No.	Key Informant Interviewees	Sector	Date of the interview
1	Shreejesh Ghimire, CEO, NMB Capital	Merchant Bank	25 Aug 2017
2	Bijay Lal Shrestha, CEO, Sunrise Capital	Merchant Bank	28 Aug 2017
3	Niraj Giri, Executive Director, SEBON	Regulator	29 Sept 2017
4	Dambar Nepali, Former Project Director, Chilime Hydropower Company, NEA	Public Utility	30 Aug 2017
5	Giri Raj Adhikari, General Manager, Nepal Water and Energy Development Corportaion (NWEDC)	IPP-FDI	3 Sept 2017
6	Rabindra Bahadur Shrestha, Former Deputy MD, NEA	Public Utility	5 Sept 2017
7	Sharad Basyal, Project Chief, Mailung HPP	IPP	5 Sept 2017
8	Ganesh Neupane, Chief, Environment health safety and Public Relations, Upper Tamakoshi	IPP	6 Sept 2017
9	Hararaja Neupane, official, NEA	Public Utility	8 Sept 2017
10	Satish N Joshi, Former Consultant IBN	Government	10 Sept 2017
11	Kulman Ghising, MD NEA	Public Utility	19 Sept 2017
12	Dr. Subarna Das Shrestha, MD, Sanima Hydropower Pvt. Ltd.	IPP	24 Sept 2017
13	Kumar Pandey, Chairman, National Hydro	IPP	25 Sept 2017
14	Him Pathak, Chairman, Sahas Urja	IPP	18 Oct 2017
15	Sashi Sagar Rajbhandri, CEO, Upper Solu Hydroelectric Company, ICTC	IPP	22 Oct 2017
16	Dhurba Timilsina, CEO, Siddhartha Capital	Merchant Bank	24 Oct 2017
17	Kishore Prasad Bimali, Assistant Vice President, ICRA	Rating Agency	9 Nov 2017
18	Ms. Srijana Pandey, Head of corporate department, NIBL	Bank	19 Nov 2017
19	Mr. Bijay Man Sherchan, Chairman, Pashupati Energy Development Company	IPP	21 Nov 2017
20	Mrigendra Shrestha, Project Director Nyadi Hydropower Company	IPP	27 Nov 2017
21	Shailendra Guragain, President, IPPAN	IPP	29 Nov 2017
22	Keshav Bahadur Rayamajhi, Executive Director, Super Dordi Hydropower Company	IPP	15 Dec 2017
23	Kuber Mani Nepal, Director, Ridi/Rairang Hydropower Development Company	IPP	20 Dec 2017
24	Ambika Paudel, Executive Member, Dordi Khola Hydropower Development Company	IPP	22 Dec 2017
25	Prem Khanal, Consultant, Investment Board of Nepal	Government	15 Jan 2018
26	Lila Mani Pokharel, Political Leader, CPN-Maoist	Political Party	15 Jan 2018
27	Rabin Shrestha, Senior Energy Specialist, World Bank	Multilateral Bank	16 Jan 2018
28	Dili Raj Ghimire, Joint Secretary, Ministry of Law	Government	16 Jan 2018
29	Kamal Khatri, Head-Merchant Banking, Civil Capital limited	Merchant Bank	16 Jan 2018
30	Niranjan Phuyal, Senior Officer, NEPSE	NEPSE	16 Jan 2018
31	Prem Tamang, former MP	Political Party	17 Jan 2018
32	Chiranjibi Chataut, Joint Secretary, Ministry of Energy	Government	17 Jan 2018
33	Ram Prasad Lamsal, Joint secretary, Ministry of Population and Environment	Government	17 Jan 2018

34	Chhabi Raj Pokharel, CEO, Hydropower Investment and Development Company Limited	Debt/ Equity investor	17 Jan 2018
35	Nepal Bhusan Shrestha, Head- Corporate and Credit, Prime Commercial Bank	Bank	17 Jan 2018
36	Geeta Kumari Humagain, Registrar, Office of Company Registrar	Government	19 Jan 2018
37	Tor Bendik, General Manager, Himal Power Limited/ Statkraft	IPP-FDI	19 Jan 2018
38	Khadga Bisht, Project Development Director, HPL	IPP	19 Jan 2018
39	Rabindra Tuladhar,SRM-Project Finance, Sanima Bank	Bank	19 Jan 2018
40	Ananda Pokharel, Political Leader – Dolakha, CPN-UML	Political Party	21 Jan 2018
41	Uday Raj Sapkota, Joint Secretary, Ministry of Finance	Government	22 Jan 2018
42	Kamal Thapa, Former Deputy Prime Minister and Leader, Rastriya Prajatantra Party	Political Party	24 Jan 2018
43	Pashupati Chaulagain, MP-Province -3 , CPN-UML	Political Party	24 Jan 2018
44	Dr. Gobinda Raj Pokharel, Former Vice Chairman, National Planning Commission	Government	31 Jan 2018
45	Jamindra Man Ghale, MP Lamjung	Political Party	1 Jan 2018
46	Gagan Thapa, MP Nepali Congress	Political Party	2 Jan 2018
47	Santosh Kumar Ghimire, Deputy Director, Nepal Rastra Bank	Bank-Regulator	2 Jan 2018
48	Sandeep Kumar Dev, Deputy Director General, DoED	Government	9 Jan 2018
49	Shabda Gyawali, Senior Investment Manager, Dolma Impact Fund	Equity Investor	15 Jan 2018
50	Nawaraj Adhikari, Director, SEBON	Regulator	28 Mar, 2018

Appendix 7: Questionnaire for Key Informant Interviews

Hydropower developers

1. In your opinion, why are local share offerings necessary?
2. Is your project in the process of issuing local shares? If so when?
3. Hydropower shares issuance are often known to cause hindrance to project development in form of cost and time overrun. Why do these issues keep coming up? Has the issuance of the local shares helped in project development and operation process?
4. Did you provide financial literacy programs before/during/after the share issuance process?
5. Were extra efforts made to ensure marginalized communities within the affected area could participate in share allotment process?
6. Are there any standard community engagement guidelines to focus on managing community disputes?
7. It is also noticed that once the lock-in period is over and the locals sell their shares, there is no provision to stop locals from making further demands from hydropower? Was this something seen? How do you think this issue can be mitigated?
8. Which model of local shares issuance do you think will meet the objective of the project as well as satisfy the local aspirations?
9. Would you be issuing shares to the local if it was not mandatory for public companies?
10. Was the timing of share issuance a subject of local demands? Did the local's demand on timing of shares conflict with the company's decision?
11. When do you think is the right time for issuance of local shares?
12. How much shares should be set aside for the locals?
13. Do you think that the company should help facilitate the financing of local shares?
14. Are there any suggestions on your behalf to better the prevailing share issuance policy?

Issue managers

1. How do you perceive the emergence of local communities as investors in the hydropower sector? What are the benefits of local shares for local people? What are the inherent risks associated with equity investment that seems to be ignored in many instances?
2. What is the criteria of eligibility for local shares? (Do you have to be a resident of the area?)
3. The recent trend in public offering shows the number of listed hydropower companies is on the rise. In this context, the investment of local communities in the hydropower sector will also increase. So how do merchant bankers perceive the emergence of local communities as investors in the hydropower sector?
4. Do you think local communities are aware about the inherent risks associated with equity investment? Your perception on how local shares are actually viewed as local communities: either as an investment with long run recurring benefits or short term capital gain. Please give examples from your experience, what you have seen or heard.
5. Hydropower energy has emerged as a lucrative sector; there are investors (domestic and foreign) with the intention to maintain private status of the project company yet issue shares to project affected people. What challenges and policy hurdles do you see, as a merchant banker?
6. What in your opinion would be the most appropriate timing to offer shares and at what price? What are the pros and cons of offering shares for purchase early on during the project cycle at face value versus mid-construction or at or after commercial operations date? Similarly, what is the impact on the company's value on the pricing of shares if offered at face value at COD or after COD?
7. What was the percentage of shares allocated in the local offering you managed, methodology that was adopted (allotment, screening and governance), community response (level of awareness), and implementation challenges?
8. What is your view on exploration of alternative models for offering equity to local stakeholders to capture the essence of benefit sharing?
9. What seems to be the trend of local shares trading after the end of lock in period?

10. Investor education is necessary for informed decision. Were you engaged in any such program targeted at local people? What is your perception about communities wanting to buy local shares – are they even aware about dividend payments or is the focus only on short term capital gains? What has been your experience?
11. For households who can't afford local shares, what kinds of provisions should be in place?
12. Can you give us some examples of elite capture on local shares and how we can insure the local communities?
13. What type of investor (potential investor) education do you do? if any?
14. Were any measures taken to ensure that the local shares are subscribed equitably to women, *dalit* and other marginalized members of the community?
15. Have you made any specific effort to target communication to vulnerable groups of local shareholders (women, *Dalits,* etc.)?

ICRA

1. Why are ratings necessary in context of Nepal's Capital Market? Can you please elaborate on its role in promoting transparency in capital market (information disclosure)?
2. Is ICRA ratings of public offerings for hydropower companies any different than ratings of other companies? How?
3. What are your views on ratings for local shares and general shares? Are there any differences?
4. What is the rating process for hydropower Companies (crucial information, stakeholder's view (bankers, merchant bankers), hydropower expert)?
5. What is the methodology adopted for ratings? (prospect of company in industry, key variables in case of Hydropower company) E.g.: financial indicators, operating efficiency, management quality, corporate governance practice.
6. What are the major sources of information for your ratings? Self-declaration or site visit?
7. What are the major risk factors considered while rating a hydropower company? Are EIA documents referred to assess risks when rating hydropower companies?
8. How is rating information disclosed and how can it be made more effective?
9. Do you have any comments on recent trend of hydropower companies receiving 5 ratings (Poor Fundamentals) and its implication in the hydropower sector?
10. What is your opinion regarding the timing of share offering in hydropower companies? At what phase of construction does the hydropower company normally raise its equity?
11. How do you view the emergence of local investors (project affected people) in the hydropower sector and your role in conveying significance of ratings to them?
12. What, in your opinion, are roles of SEBON, Merchant Bankers, ICRA and other stakeholders in disclosing ICRA ratings and other crucial information to local investors?

Political leaders

1. Given that citizens of Nepal have shown high interest in local shares offered by hydropower projects throughout Nepal, what position do you and your political party take on the issue of local shares?
2. Is 10percent amount for local communities a good number for local shares? Why?
3. Should it be offered at par or at premium price? Why?
4. When is the right time to offer local shares – before COD or after COD? Why?
5. Should shares be issued to affected rural municipalities or districts or province? Why?
6. How can finance be arranged for local shares applicants?
7. Should there be lock in period in local shares? Why?
8. Some private companies, prefer not to give local shares directly to preserve their private status. Generally, a company with more than 101 shareholders cannot remain private and will have to convert into a public limited company. Can companies issue local shares and still remain private? How is this being discussed in the political arena?
9. Should there be any special provision for marginalized groups (poor, Dalits, physically impaired, illiterate, etc.) to participate in locals shares in hydropower projects? Why?
10. What is the role of political leaders in hydropower projects –

a. To design policies related to locals shares in hydropower projects?
b. To ensure informed decision making by local share applicants?
c. To monitor the progress, quality, environmental impact, and disputes in construction of hydropower projects?

11. What do you think will happen or should happen to shares bought by local communities after the hydropower projects are handed over to the government?

SEBON

1. Does the regulator perceive the emergence of local communities as pure investors or vulnerable group that needs to be protected?
2. In your opinion, what is the intent/justification behind issuing local shares?
3. On the discourse on benefit sharing in the hydropower sector, from a regulator's perspective how do you think local shares/equity investment have evolved over the years?
4. What is your view on the requirement to issue up to 10percent of equity to local population?
5. As a regulator, are certain communities given more preference than others? What is SEBON's current practice and perspective in prioritizing different communities?
6. Talking about the risk involved, the risk exposure of local marginalized, impoverished population seems to be high, what can SEBON do to protect such vulnerable group of investors?
7. For those households who may not be able to afford local shares, what mechanisms could be explored?
8. The constitution has envisaged prioritizing local communities in investment in natural resources. How may such a provision affect the future discourse on and the regulation of local shares?
9. How do you define the project affected population?
10. Real sector such as hydropower are not as regulated as banking and other financial institutions, how is SEBON envisioning regulation of such in terms of policies, and modalities for collaborating with other stakeholders of capital market?
11. How is SEBON planning to regulate them and what will be its structure? Is there a necessity of a separate body to regulate this sector?
12. In addition to individual shares, community based user groups are now increasing their interest in community shares. What in SEBON's opinion would be the right approach to streamline people's participation in project shareholding while aiming to balance stakeholder interests and aspirations? What are policy constraints to such communal models?
13. There seems to be conflicting and competing interest regarding timing and pricing of local shares. The developers want to raise capital as early as possible to mitigate risk from local communities and raise capital during construction phase where the local community wants to postpone issuance near the commercial operation date so as to reduce the uncertainty. In such scenario, what is the regulator or policy maker's opinion on the timing and pricing of local shares?
14. How does SEBON perceive the risk associated with local shares and who should bear the risk of local shares?
15. Chilime Hydropower issued shares to severely affected people at par value and other local communities at premium price and even general shares at premium price. But later all the hydropower floated local shares at NPR 100. Why was Chilime an exception in relation to issuance at premium price? How will the recent provisions to float shares at premium price affect the pricing and timing of local shares?
16. Does SEBON require companies offering local shares to have specific communication events/approaches to ensure that vulnerable groups (women, Dalit and other marginalized members of the community) make informed purchase/no-purchase decisions?
17. Is SEBON considering rules on information disclosure to ensure that companies make special efforts to reach vulnerable groups with critical information on risks and benefits before locals make decisions on buying local shares?
18. Investor education is one of the core responsibilities of SEBON. What is SEBON doing to ensure local communities have necessary information before they buy shares?
19. Any final recommendations?

Appendix 8: Selection of Study Sites for the Rapid Socio-Economic Assessment

The study was conducted in two project sites, which have issued local shares and completed their three-year lock-in periods, namely, Chilime Hydropower Project in Rasuwa district and Sanima Mai Hydropower project in Ilam district. Both these projects are being traded in the share market at very high values, i.e. at least 7 times its par value.

For both the hydropower projects, the following VDCs were covered based on their affectedness.

For Chilime hydropower project in Rasuwa district:

- Severely affected area: Chilime, Goljung, Syafru VDCs
- Other affected area: Dhunche, Ramche, and Laharepauwa VDCs

[Note: Ramche VDC is also affected VDC of Mailung hydropower project. Therefore, we also looked at issues of Mailung hydropower project whose local shares is not traded but its per share net worth is below the par value because of impacts of earthquake and landslides.]

For Sanima Mai hydropower project in Ilam district:

- Severely affected area: Danabari and Chisapani VDCs
- Other affected area: Ilam municipality and Soyak and Goduk VDCs

Selection of respondents

The study was conducted among shareholders who have purchased local shares in Rasuwa and Ilam districts. The respondents were chosen based on the number of shares bought and best efforts were made to include respondents from the marginalized category (women, disabled, Dalit and illiterate). Twenty in-depth interviews were conducted with shareholders from severely affected areas and 20 from affected areas of the project site. A total of 80 respondents in both project sites were interviewed.

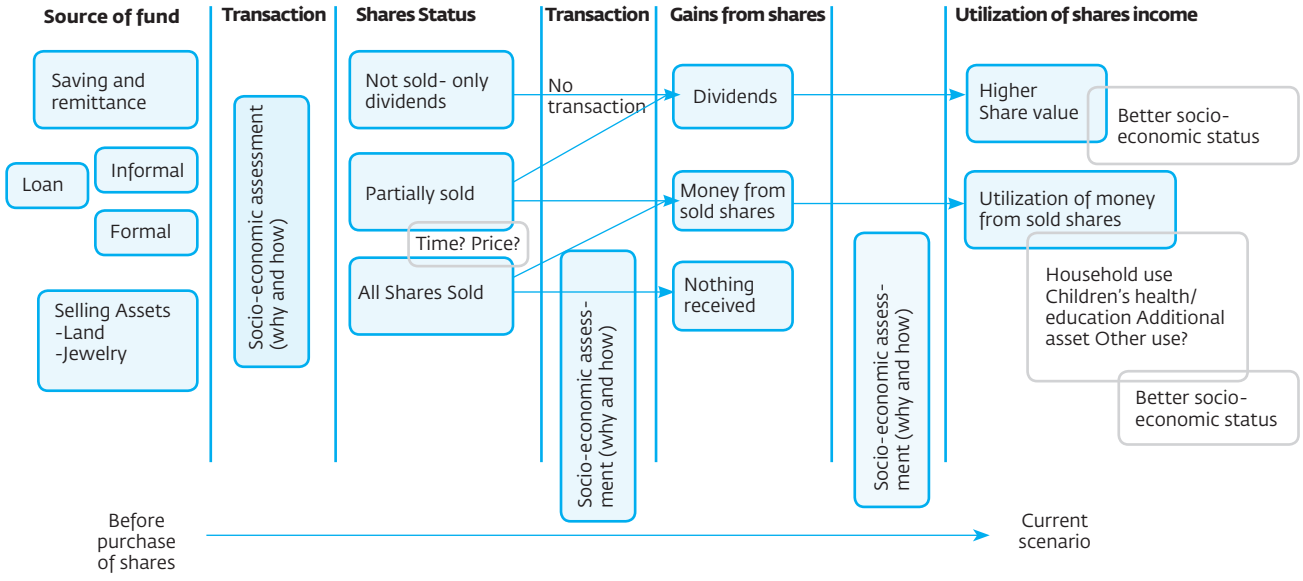
Both these projects have defined severely affected areas (villages that are mentioned in environmental assessment report as affected areas) and other affected areas (other remaining villages within the district). In Chilime hydropower project, the number of shares range from 10–33 shares in highly affected areas and 10-45 shares in other affected areas in the district. In Sanima Mai hydropower project, all those who had applied from the severely affected areas got the exact number of shares they had applied for. For rest of the district, the shares were oversubscribed and were distributed based on SEBON's allotment rules.

Limitations

It is difficult to ascertain changes in the socio-economic status of respondents directly to the procurement of local shares. Therefore, there is no attempt to establish a causal relationship between local shares benefits incurred by and socio-economic status of respondents, as this exercise may require isolating different socio-economic variables, which is outside the scope of this study.

The current assessment only captures the socio-economic issues (economic changes and empowerment of marginalized groups) in the two projects whose shares are trading in the secondary market and cannot be generalized for other projects in Nepal.

Flow chart: Local shares buying process showing the critical times for which accounts from the field are collected



Appendix 9: Survey Questionnaire

Section A. Demographic and socio-economic characteristics

No.	Questions	Coding Categories	Code	Skip
1	Hydropower Project Name	.....		
2	Name of VDC	.....		
3	Gender	Male..... Female.....	1 2	
4	How old are you?	Completed age..... ☐☐		
5	Caste/ethnicity	Tamang..... Dalit..... Brahmin/Chhetri..... Newar..... Rai..... Magar..... Other (specify)	1 2 3 4 5 6	
6	What is the highest level of education you have completed?	Completed education ☐☐ Illiterate..... Non-formal education	 00 77	
7	What is your marital status?	Unmarried..... Married..... Widow..... Separated..... Divorced.....	1 2 3 4 5	
8	Do you have any children?	Yes..... No	1 2	 Q.10
9	How many children do you have?	☐☐		
10	What is your main work?	Do not work..... Agriculture farmer..... Student..... Teacher..... Daily wages labourer..... Govt service holder..... Private service holder..... Petty business..... Other (specify)	1 2 3 4 5 6 7	
11	On average, how much do you earn per month?	Rs. ☐☐☐☐		
12	What are the main sources of income in your family?	Agriculture..... Business..... Craftsmanship..... Govt. service..... Daily wages..... Own business..... ..... Petty business..... Rear cattle..... Others (Specify).....	1 2 3 4 5 6 7 8	

No.	Questions	Coding Categories	Code	Skip
13	What was your main source of income before you bought shares?	Agriculture..... Business..... Craftsmanship..... Govt. service..... Daily wages..... Own business..... ..... Petty business..... Rear cattle..... Others (Specify).....	1 2 3 4 5 6 7 8	
14	Do you have any type of disability?	Yes..... No	1 2	 Sec B
15	What type of disability do you have? Multiple response possible	Visual impairment..... Physical disability..... Deaf..... Deaf blind..... Speech and hearing disability.....	1 2 3 4 5	
16	When did this disability occur?	At birth..... Number of years ago... ☐☐	99	

Section B. Background information on shares

No.	Questions	Coding Categories	Code	Skip
17	How many local shares did you buy?	☐☐☐		
18	At what price?	☐☐☐☐☐		
19	Which project are the shares for?	.....		
20	When did you buy it	.....		
21	Did you buy it for yourself?	Yes..... No	1 2	 23
22	If not, whom did you buy it for?	.....		
23	How many bonus shares did you receive?	☐☐		
24	How many rights shares did you buy?	☐☐		
25	Have you sold any shares?	Yes..... No	1 2	 IDI
26	How many did you sell?	☐☐		

Interview guidelines used for the socio-economic assessment

Themes	Main questions	Probing questions
Process of buying shares	Earlier you mentioned that you bought …. shares, can you tell me the process through which you bought shares?	• Where did you hear about it first? • Why did you decide to buy? • Who was involved in the decision making process? • How did you manage funds to buy the shares? (loans, selling off assets) • If loans, at what interest did you take the loan? • If you sold assets, what did you sell? • Where did you go to buy the shares? • Did anyone accompany you? • How much did you spend to go there? • Did you fill your own form? (If no, who filled the form for you?) • Have you filled any forms before? (children's school, women cooperative etc?)
Familiarity with the banking system	Were you familiar with the banking system before buying shares?	• Do you have a bank account? • Did you have an account before you bought shares? • For what other work have you gone to the bank or other financial institutions before?
Use of shares money	If you have sold the shares, what have you used the money on? How satisfied are you for selling the shares for that amount?	• What did you use the money for? • Who decided what the money should be used for? • (If money not used till now) How do you intend to use the money? • Is this money deposited in any financial institution?
Bonus shares Dividends and Use of Shares	How many bonus shares have you received till now?	• How do you know that you have received bonus shares?
	How much dividend have you received till now?	• What's the process for collecting the dividend? • Have you collected dividends yourself? • If not, who collects the dividends for you? • Where did you go to collect to dividends? • How much does it cost to get there? • What have you used the money on? • Who usually decides what this money should be used for? • (For women) Are you able to use this money without asking your husband or family members for permission? • Are you a member of any women's cooperative/women groups? • Have you discussed shares in cooperatives meetings before? • If yes, have you deposited some of the dividends in the women's cooperative? • How useful are these dividends for you and your family?
Rights shares	How many rights shares have you bought?	• How did you know about the right shares? • Where did you go to apply for rights shares? • What amount of cost and time did you spend to get the rights shares? • How did you manage funds to buy the rights shares? (saving, loans, selling off assets)

Themes	Main questions	Probing questions
Shares status	Do you still have any shares? Have you sold any shares?	• What is the value of the shares today? • How many shares have you sold? • Why did you sell them? • Who decided to sell the shares? • How many do you have now? • How much money did you receive from selling the shares? • Can you tell me where you went to sell the shares? • How much did you spend for the transaction/travel? • (If they have not sold the shares) In future if you want to sell the shares, do you know the process?
Intra-household decision making (women)	I would like you to think back to the time before you had shares, how involved were you in making major decisions in the family?	• Is it different now? • Are you now able to go to the financial institutions alone and make deposits or other cash transactions? How different was this before you bought shares? • Who has the final word about decisions involving how your family spent money on large investments such as buying land, vehicle etc? • If you want to sell your shares, will your husband/children let you?
Participation in community saving and credit schemes and other groups	Are you involved in other saving and credit groups?	• Are there shares related meetings that you attend? • How regularly do you attend these group meetings? How useful are they? • Did you participate in any community level meetings before? • What kind? • Are you involved in any community level organization? • How long have you been involved in these groups before you bought shares?
Economic changes	How has the economic status of your household changed after buying shares?	• If there is any (health/education) emergency in your family, how would you manage the expenses? • Would you sell the shares? • How do you manage money to pay for the children's school fees? • Have you added any asset to your household with shares income? • How has income from shares helped you?
Perception of self	How do you feel about shares ownership?	• What assets do you own? (land, jewelry etc) • Is shares an asset? • How have things changed for you post shares ownership? • In what ways has it made easier for you? • How do the community members view you now that you have shares? • Was this different before you had shares? • Do you think you have earned more respect post shares ownership, both from within the district and outside the district? • What are the positive aspects of owning shares? • Would you sell your shares without consulting your husband/ children?

Thank you for your time.

Appendix 10: Profile of People Interviewed for the Rapid Socio-Economic Assessment

Ninety-seven people were interviewed in Rasuwa and Ilam Districts.

Profile of 97 Respondents	
Gender	• Male: 46 • Female: 51
Age	• Below 20 years: 2 • 20-40 years:43 • 41-60 years: 44 • 61 years above: 8
Ethnicity	• Tamang: 49 • Dalit: 2 • Brahmin/ Chhetri: 17 • Newar: 4 • Rai: 14 • Magar: 2 • Other: 9
Education	• Primary education (Class 1 to 5): 12 • Lower Secondary education (Class 6 to 8): 14 • Secondary education (Class 9 to 10): 18 • Higher Secondary level (Class 11 to 12): 10 • Bachelors and Above: 6 • Illiterate: 24 • Non-formal education: 13
Marital status	• Unmarried:4 • Married: 89 • Widow:4 • Separated: 0 • Divorced: 0
Children	• Yes: 91 • No:6
Occupation	• Do not work: 3 • Agriculture farmer: 40 • Student: 1 • Teacher: 6 • Daily wage laborer: 7 • Government service holder: 4 • Private service holder: 3 • Petty business: 18 • Other: 8 • Farmer and Petty Business-4 • Farmer and laborer-2 • Didn't answer-1
Monthly income (NRs)	• Less than 5000: 7 • 5000-14999: 14 • 15000-24999: 13 • 25000-49999: 23 • More than 50000: 12 • Not fixed: 4 • Not answered: 24

Profile of 97 Respondents	
Main source of income	• Agriculture: 24 • Business: 15 • Craftsmanship: 0 • Govt. service: 7 • Daily wages: 10 • Own business: 3 • Petty business: 9 • Rear cattle: 7 • Others:13 • Agriculture and business:1 • Agriculture and government service:1 • Business and government services:1 • Agriculture and daily wages: 2 • Not answered: 2
Disability	Yes:3 No:94
Affected hydropower company	Chilime HPP: 55 Mai HPP: 43
Share price (NRs.):	100: 68 >300: 15 Unaware:14
Sold shares:	Yes: 29 No: 68

Appendix 11: Analysis of Current Worth of Shares for Chilime and Sanima Mai

If a local resident of Rasuwa district bought 10 local shares of Chilime Hydropower at NRs. 100 ($1) - invested worth NRs. 1000 ($10)), what is its current worth including the dividend and bonus shares?

Chilime Hydropower

Cash and Bonus Dividend of Chilime

No.	Events
1.	40 percent Bonus shares and 30 percent cash dividend (for FY 2010/11)
2.	30 percent bonus and 20 percent cash (for FY 2011/12)
3.	30 percent Bonus shares and 10 percent cash dividend (for FY 2012/13)
4.	20 percent Bonus shares and 15 percent cash dividend (for FY 2013/14)
5.	15 percent bonus and 12 percent cash (for FY 2014/15)
6.	10 percent Bonus shares and 10 percent cash dividend (for FY 2015/16)
7.	15 percent Bonus shares and 10 percent cash dividend (for FY 2016/17)

The local shares were offered to residents of Rasuwa district on November, 2010. The local shareholders are eligible for all cash and bonus dividends declared thereafter. The question is what will be the current value of the shares (adjusting for all the cash and bonus dividends) if the local shareholders have kept their initially allocated shares intact.

Current Value of Chilime Hydropower Shares

Year	Total Shares at IPO	Cash Dividend (percent)	Cash Dividend (NRs.)	Bonus Shares (percent)	Bonus Shares	Total Shares
2010/11	10	30 percent	300.00	40 percent	4	14
2011/12	14	20 percent	280.00	30 percent	4	18
2012/13	18	10 percent	182.00	30 percent	5	24
2013/14	24	15 percent	354.90	20 percent	5	28
2014/15	28	12 percent	340.70	15 percent	4	33
2015/16	33	10 percent	326.51	10 percent	3	36
2016/17	36	10 percent	359.16	15 percent	5	41
Total Cash Dividend till date			2143.27	Number of Shares		41
Initial Investment				NRS. 1,000		
Price of shares as of October 25, 2017				NRs. 755		
Current worth of shares including bonus shares (Price of Share x Total Number of Share)				**NRs. 31,183.96**		

Had the local shareholder kept the shares intact till date (October 25, 2017), the local would have received NRs. 2143.37 ($20) on cumulative as cash dividend and the number of the shares would have reached 41 units of shares. The current market value of total shares as of October 25, 2017 is around NRs. 31,183.96 ($300) (as the share of Chilime are trading at NRs 755).

(Note: This calculation includes the recent declaration of Bonus (15 percent) and Cash (10 percent) Dividend by Chilime Hydropower for Fiscal Year 2016/17 which was not incorporated in previous data.)

Sanima Mai Hydropower

Timeline of Sanima Mai Hydropower

No.	Events	Date
1.	Allotment of local shares	July 2, 2013
2.	Allotment of ordinary shares	November, 2013
3.	Listing and trading of Sanima Mai	January, 2014
4.	Commercial Operation	February, 2015
5.	Issuance of 100 percent Right Shares	August 2017

The local shares of Sanima Mai Hydropower were offered on July, 2013. Sanima Mai has not declared any cash and bonus dividend to its shareholders but it has issued 100 percent right shares to its shareholders.

Current Value of Sanima Mai Hydropower Shares

Year	Total Shares in Beginning	Cash Dividend (percent)	Bonus Shares (percent)	Right Shares	Total Shares
2013/14	10	0	0	-	10
2014/15	10	0	0	-	10
2015/16	10	0	0	-	10
2016/17	10	0	0	-	10
2017/18	10	0	0	100 percent	20
Total Number of shares				20	
Initial Investment				NRs. 1,000 ($10)	
Right Issuance (100 percent)				NRs. 1,000 ($10)	
Total investment				NRs. 2,000 ($20)	
Price of shares as of October 25, 2017				NRs. 510 ($5)	
Current value of shares including right issuance (Price = NRs. 510)				**NRs. 10,200 ($100)**	

The issuance of 100 percent right shares means all the shareholders are eligible for equal number of share they are holding. In case of local, if they are holding 10 units of share, then they are eligible for 10 more units of share. But, they have to pay the par value of NRs. 100 ($1) for each share. The local shareholders holding 10 share have to invest NRs. 1,000 ($10) more in equity.

Had the local shareholder applied for right issuance, the number of shares would reach 20 units The current market value of total shares as of October 25, 2017 is around **NRs. 10,200 ($100),** as the shares of Sanima Mai are trading at NRs. 510 ($5).

Appendix 12: Expert Consultations and Key Stakeholders Meeting

Four expert consultations were conducted during the study period:

a. Delivery models for local shares
b. Defining affectedness for local shares and its interconnected issues
c. Delivery mechanism for local shares
d. What happens after the end of concession period?

Expert Consultation I: Delivery models for local shares

The first consultation was held on October 25th, 2017 attended by experts from a range of relevant sectors, particularly from the legal and financial sector, to deliberate on the potential delivery models for the allocation of local shares in Nepal. The participants included prominent personnel representing the following institutions/sectors: Investment Board of Nepal (IBN), the Securities Board of Nepal (SEBON), Nepali independent power producers (IPP), issue managers with experience in local shares, bank and financial institutions, and bilateral aid projects currently supporting the development of hydropower in Nepal. Also present were prominent lawyers with long experience of practice in Nepal's hydropower sector.

Based on an extensive internal discussion held prior to the consultation, the study team presented six different delivery models for local shares, namely i) direct shareholding, ii) special purpose vehicle – private or public, iii) cooperatives, iv) mutual funds, v) local bodies, and vi) trusts. These models were then evaluated on fourteen different parameters deemed to be important based on their preliminary analysis, namely i) constitutional requirement, ii) local aspiration, iii) entry and permissibility, iv) fund raising mechanism, v) cost implication of issuance, vi) governance of the company, viii) profit distribution restriction, ix) tax implications, x) price formation, xi) exit liquidity of shares, xii) transaction cost, xiii) regulatory oversight, xiv) developer's perception, and xv) lender's perception.

Relevant issues raised by participants:

- Some of the prominent Nepali IPPs appreciated the benefits of the shareholding model, which they felt brought in local ownership of their project and served as a medium for them to interact with the communities. This they felt had helped in minimizing disputes between their project and their surrounding communities.
- But others expressed their company's preference to remain private, especially given the hassle of going public that includes large Annual General Meetings. Furthermore, for foreign investors, there is a question of whether or not it makes sense to require them to list their project publicly in Nepal when they may not done so in their home country. The question raised was: How can a hydropower company that does not want to go public still comply with the legal requirement of local shares?
- Some felt that in order to capture the aspiration of local communities vis-à-vis their demand for local shares, the key parameter for which, is essentially capital formulation and liquidity of assets, the best option was to channel it directly to them through direct shareholding.
- One option proposed by a study conducted on local shares by IBN, Deloitte, and IMC Worldwide, especially for international companies investing in hydropower projects (HPP) in Nepal, is to have the communities invest through a mutual fund mechanism, wherein the funds of eligible local citizens is collectively invested in their particular HPP and is managed by an authorized financial expert. This indirect model of allocation of local shares allows the hydropower companies to remain private.
- Although not related directly to the delivery mechanisms, a question that requires due attention is: what will happen to the shares of HPPs at the end of the project's concession period?

Expert Consultation II and III: Workshop on local shares in hydropower projects in Nepal

The second and third expert consultation was designed as a full-day workshop and conducted on December 22, 2017.

Panel 1: Defining affectedness for local shares and its interconnected issues

Panelists:

a. Ganesh Neupane, Chief - Environment and Public Relations, Upper Tamakoshi Hydropower Company Ltd.
b. Bijaya Man Sherchan, Chairman, Khani Khola Hydropower Company Ltd./Pashupati Energy Development Co.
c. Subarna Das Shrestha, Chief Executive Officer, Sanima Hydropower Limited.
d. Kuber Mani Nepal, Director, Ridi / Rairang Hydropower Development Co. Ltd.

- From the description of each of the panel members on the local shares process in their respective projects, it was evident that each project had different ways of approaching local shares in terms of defining eligibility, timing of issuance, and reasons for giving local shares.
- All projects had some involvement of local community leaders in the local shares process, either in defining the boundary for eligibility, as in Upper Tamakoshi HPP or ensuring awareness of local shareholders, as in Sanima Mai or Khani Khola HPPs.
- For eligibility, Khani Khola offered local shares to project affected villages, while Ridi HPP offered local shares to entire district. Sanima Mai offered local shares to the entire district and Upper Tamakoshi will also offer local shares to the entire district, but these two projects have set aside a hierarchy of different tiers of affectedness giving more priority to the most affected people for the amount of shares.
- Upper Tamakoshi has categorized people affected by transmission and access road in second category out of three categories of affectedness, but the project official clearly spelled out that they have been prioritized because they are residents of Dolakha district and not because they are affected by transmission. This practice should not have repercussions in other transmission lines constructed in other parts of the country.
- About the timing and pricing of local shares, the panelists identified the need to clarify why shares are given, i.e. as a benefit or as an investment. All of the project officials agreed that local shares should be given at par value and sometime closer towards the commercial operation date, preferably before but after ensuring that major risks are mitigated. However, one official mentioned that besides local shares other general IPO share should be allowed to be offered at premium value, as the objective is not aimed at ensuring local benefits.
- All panelists think that the current provision of issuing shares of 'up to 10percent of the project equity' should be continued. For small projects it can be used as a limit, but for larger projects even if all shares are not subscribed, the remaining can be transferred to general IPO.
- Out of the four projects, the capital raised from local shares was used for building the project, whereas Khani khola raised the capital to invest in its other project – Maya Khola HPP. On the accusation of irregularities, the official mentioned that it was done in consultation with local shareholders and they are happy to invest in other projects.

Panel 2: Concerns of project affected people

Panelists:

a. Mijhar Sherpa, Local resident (Upper Tamakoshi Hydropower Project)
b. Ram Bahadur Tamang, Local resident (Chilime Hydropower Project)
c. Ang Bhomu Sherpa, Local resident/Mother's group (Upper Tamakoshi Hydropower Project)
d. Raj Kumar Pradhan, Local resident (Solu Hydroelectric Project)

- All participants unanimously agreed that hydropower projects should give local shares to project affected people for the use of water in their locality and the adverse environmental impacts that they have to bear due to such projects.
- Even though local people understand some risks of hydropower shares, they believe that it is highly profitable.
- In Chilime people understood the potential for profitability only after they saw profits made by NEA staff in Chilime. They protested and disrupted the project, demanding for local shares.
- Panelists opined that the affectedness should be defined based on loss of land, negative environmental impact due to construction (dam, tunnel/canal, power house), similar to how EIA defines affectedness.
- All panelists believed that share should be given to individuals and not to any community or government organizations because people do not have trust in these institutions.
- They stressed that information about local shares should be given to local people by the hydropower projects.

Panel 3: Ensuring effective delivery for local shares

Panelists:

a. Rabindra Tuladhar, Senior Relationship Manager, Project Financing- Sanima Bank
b. Shreejesh Ghimire, CEO, NMB Capital
c. Priya Raj Regmi, Chairman, Stock Brokers Association of Nepal
d. Dev. Prakash Gupta, CEO, CDS and Clearing Limited
e. Prakash Raj Sharma, CEO, Laxmi Laghubitta Sanstha Limited/ Vice president, Microfinance Association

- From the merchant bankers' perspective, despite more access to financial institutions and easier shares' process compared to previous years, the level of awareness among local people is still very low. In many cases, with the help of issue managers, sarokar samiti (concerned committee) was formed to facilitate the share buying process.
- People are yet to figure out fully the DEMAT and ASBA process. However, CDS is currently encouraging project developers to urge locals to have DEMAT and bank account to engage is shares' process. They have also removed the malpractices where there were cases of non-locals buying shares on behalf of locals by making sure that the local person appear before trading is done.
- Opening brokerage office in rural areas is not cost effective. Sub-brokers can be appointed in rural areas as a temporary solution, but internet based trading system has to be introduced in a long run.
- On the high cost of shares transaction, the CDS representative mentioned that there is more than NRs. 2.3 billion ($23 million) of unclaimed dividends throughout Nepal. Connecting DEMAT and Bank account is necessary to ensure that people are able to get the benefits of dividends. Automation, i.e. internet based system, is the only way out where investors can reap benefits from shares.
- If people can use Facebook through mobile phones, people will be motivated to learn about automated systems if there are benefits associated with it.
- Investing in hydropower is very risky and if NRB hadn't made the provision, banks would not have invested in HPPs.
- Giving loans to underprivileged, marginalized and vulnerable people is not advisable as they are already under risk, and adding another risk in the name of loans will make them more vulnerable.
- On deprived sector lending, banks are interested to invest where there are immediate returns. If the deprived sector requirement can be met through other sectors, banks are not interested in the hydropower sector due to the tedious process involved.
- Microfinance institutions are more accessible to the deprived sector, but giving loans for hydropower doesn't befit the microfinance model, which is to provide loans for revenue generating activities.
- Awareness on shares should be SEBON's responsibility.

Panel 4: Policy issues for participation of local project affected people as shareholders

Panelists:

a. Khadga Bisht, Panel Member – IFC local shares' study / Immediate Past President, IPPAN
b. Damber Nepali, Former Head, Chilime Hydropower Project
c. Dr. Nawaraj Khatiwada, Ph.D, Associate Professor, Environmental Science and Engineering, Kathmandu University
d. Deepesh Vaidya, Executive Director, Kriti Capital and Investments.

- Chilime, as a first project to offer local shares, was built against the stereotype that Nepal lacks the financial and technical resources to build a project. It was only learnt later that shares can mitigate risks of delays.
- The permutation of different variables, such as timing, pricing of shares, determine whether shares is a benefit or just an investment based on how the risks are addressed.
- EIA does not look into demography when defining affected area, but only looks into the natural components of the environment. Therefore, local shares should not be blended into the EIA.
- From a developers' perspective it is not just about social insurance, but also about raising equity to build projects. But from the lens of local affected people in remote areas of Nepal, it is one of their rarest opportunities of investment.
- On the direct investment model versus using a SPV, panelists think that people are individually driven than the idea of community. In addition, a lack of transparency and trust in Nepali institutions make direct investment a better option for hydropower projects.
- Only very few people have a good understanding about shares, but people should be made aware about finances as well as the environmental implications of hydropower development.

Expert Consultation IV: What happens at the end of the concession period?

The fourth expert consultation was organized on 16 March 2018 in Gokarna Forest Resort. The primarily objective of the discussion was to seek clarity on what happens to the value of hydro shares at the end of each project's concession/license period. The discussion started with a presentation by the study team on the current legal provisions for hydropower projects after the hydropower projects, followed by discussion. The program was attended by about 12 participants, mostly from various government organizations. Some of the key highlights of the meeting are given below:

- General consensus amongst all participants that the law is clear that after the end of the concession/license period, the **project** is handed over to Government; not the company. However, clarity from Government needed to communicate what this means to shareholders.
    - Understanding amongst the participants is that in cases where a company has been established for the sole purpose of developing a project, for example, a SPV (special purpose vehicle), then it is clear that the company will cease to function (dissolve) after handover as it is restricted from conducting any other business apart from the development of the project, in which case the value of shares will become minimal or zero at the end of the concession period.
    - However, in the case of companies that have portfolio projects, shares are likely to continue to trade for as long as all projects under the company portfolio continue to operate. For example, Chilime Hydropower Company Limited will continue to trade its shares even after the end of the license period of 22.1MW Chilime Hydropower Project because of the company's remaining pipeline investments in Rasuwagadhi, Syanjen, etc.
- Case of Bhotekhoshi discussed where in 2026, Bhotekoshi's PPA with NEA will come to an end. The company was forced to agree to give in to local demands for 6 percent of local shares after 15 years of operation. Although the company and the locals are yet to agree on a suitable modality for shares, it is clear the company will retain its private status. The complexity of the issue is such that there is no visibility on what may happen after the end of the PPA term, which is just 8 years away, and locals want shares.

- Need for policy uniformity also raised across all legislation (Electricity Act, BOOT Act, etc.) re handover provisions. Clarity on what happens after the concession, relating to Operation & Management also needs to be made clear by Government. The principles of leasing it out long term is clear but equally important to identify what the next steps will be.
- Additionally, classifying investments based on scale of projects rather than whether domestic or foreign raised to be a better option.
- Further, since there will be three levels of Government – at the local level, provincial and central level, clarity also required on which level of Government will the project and associated assets to be handed over to.
- Newly established Natural Resources Distribution Commission assessing how revenue sharing should take place and homework underway on whether that should take a basin wide approach.
- Need for policy clarity raised on whether Government sees local shares only as a tool to provide local communities with a preferential investment opportunity (which is the practice till date) or mandate the hydropower industry to treat it as benefit sharing. This will ensure all stakeholders have a common understanding and will enable a uniform approach.
- Need for clear disclosure. Prospectus is the primary document which should clearly state when the handover will occur and what is expected to happen to the status of shares at the time. Similarly, the Annual Report will have to include this information along with the requirement to disclose this on the project website and the stock exchange website. There is a role for capital markets and stock brokers to also educate people. Company Registrar's Office has an Investment Protection Fund that they can access to educate investors.
- The relevant Government agency (MoEWRI, IBN, etc.) has to monitor. But looking at the current capacity, may not be feasible. Perhaps better for Electricity Regulatory Commission to delegate responsibility of monitoring to a specific agency. More discussion on this is required among the GON agencies.
- SEBON expected to bring out policy changes in the days to come to address this.

Key stakeholders meeting

A two-day residential stakeholders meeting was held on 16 and 17 March 2018 at Gokarna Forest Resort. The meeting was aimed at a wider group of stakeholders associated with the hydropower industry to share the findings of the study and discuss the study team's proposed options and recommendations. The study team presented each section of the study report followed by short discussion on the findings and the proposed recommendations The meeting was appreciated by the participants. Efforts to document and assess the issue of local shares and identify possible options on this very complex and evolving subject was welcomed by the participants. Representatives from various Government agencies expressed the confidence that the discussions and the report's findings would help them engage further at the policy level and that they looked forward to reading the final report.

The below captures only the key points raised by the participants during the presentations as well as the discussion sessions.

- There are too many applicants who end up having a small number of shares. Critical to assess what is the net gain. There is a need to critically analyse if this approach is the right one – whether this system is justified and whether it is sustainable.
- Important to clarify the level up to which awareness needs to be raised and how, so that we do not end up creating more confusion.
- Fundamental question that the study must ask is the objective of giving shares to local people – why are we doing it? This must come out clearly in the report.
- The report needs to come out with clear opinions with justifications that will guide policymakers in decision-making, otherwise it will just be a report with no teeth.
- The objective of local shares should not be just to fund raise. There are/will be projects that are not able to give out dividends. Should such projects even be allowed to issue local shares?

- Recommendations should list out different modalities for different options so that it enables policymakers to compare, assess and decide.
- Bid documents for projects should specify the amount of shares so that this is clear to the developer upfront.
- For options on alternative delivery models, key to add a disclaimer that locals need to be consulted before deciding on a suitable delivery model.
- Would be helpful if the report can also list out the practical problems that may be faced during the setting up of the alternate delivery models.
- Need to also look at cooperatives in more detail to see how this can be mobilized as an investment vehicle.
- At the same time, need to be careful that we do not end up promoting the idea of producing a nation of uneducated investors.
- On access to financing, issue of cost of insurance schemes and guarantees need to be raised. Who bears the cost. Also, would be helpful if report can identify what Government can do – which vehicle can be set up to create a fund in the context of social security discussions currently underway in the country. Equally important to address is how to sell this idea to other equity investors, bankers, etc.? What is their incentive to do this?
- Socio-economic assessment is based on two projects, and their stories are very positive and this is conflicting with the access to information's and communication findings.
- Need to analyse the 15 or so other companies that haven't completed their lock in period but their share value is not looking so good. Need to assess this from the view of how the picture looks like on average. And the challenges it presents.
- Communication – who does what needs to be identified in detail.

Appendix 13: Hydropower Companies that have issued Local Shares as of July 15, 2017

Hydropower Company	Project name	Size (MW)	Local Shares		Local shares subscription status
			Percent allocated to locals	Number of shares allocated	
Api Power Company Limited	Naugarh Gad	8.5	10	1,000,00	Oversubscribed
Arun Kabeli Power Limited	Kabeli B 1 Hydropower Project	25	10	1,500,000	Oversubscribed
Barun Hydropower Company Limited	Hewa Khola Hydroelectricity Project	4.5	10	243,000	Oversubscribed
Chhyangdi Hydropower Company Limited	Chhandi Khola Small Hydropower Project	2	10	270,000	Oversubscribed
Chilime Hydropower Company Limited	Chilime Hydropower Project	22.1	10	960,000	Oversubscribed
Dibyashwari Hydropower Limited	Sabha Khola Hydropower Project	3.3	10	264,000	Oversubscribed
Himalaya Power Partner Limited	Dordi Khola Hydropower Project	27	10	1,065,417	Oversubscribed
Khani Khola Hydropower Limited	Tungun Thosne Khola & Khani Khola Hydropower Project	4.36 2	10	465,714	Oversubscribed
Mailung Khola Jalvidyut Company Limited	Mailung Jhola Hydroelectric Project	5	10	368,143	Oversubscribed*
Nepal Hydro Developer Limited	Charnawati Hydroelectric Project	3.2	10	260,000	Oversubscribed
Ngadi Group Power Limited	Siuri Khola Small Hydroelectric Project	5	10	486,868	Oversubscribed
Radhi Bidhyut Company	Radhi Hydropower Project	4.4	10	410,000	Undersubscribed
Rairang Hydropower Development Company Limited	Iwa Khola Small Hydropower Project	9.9	10	560,000	Oversubscribed
Ridi Hydropower Development Company Limited	Ridi Khola Hydropower Project	2.4	10	300,000	Oversubscribed
Sanima Mai Hydropower Limited	Mai Hydropower Project and Mai Cascade Hydropower Project	22 7	10	1,055,000	Oversubscribed
Synergy Power Development Limited	Sipring Khola Hydroelectric Project	10	10	7,00,000	Oversubscribed
United Modi Hydropower Limited	Lower Modi-I Hydropower Project	10	10	1,150,000	Oversubscribed

*As the local shares were highly oversubscribed, the promoters of the company had to give up some of the shares for locals.

Note: All hydropower companies have issued local shares at par value of NRs. 100 ($1) per share, except for Chilime Hydropower Company which offered 780,000 unites of shares at NRs 323.70 ($3) per share and the remaining shares at NRs. 100 ($1) per share.

Of the 17 hydropower companies that have offered local shares only 14 have been listed in NEPSE. The three companies that have not been listed in NEPSE are:

- Mailung Khola Jalvidyut Company Limited
- Radhi Bidhyut Company
- Rairang Hydropower Development Company Limited

The other hydropower projects that are publicly listed, but have not issued local shares are:

- Butwal Power Company Limited that operates 9.4 MW Andhikhola Hydropower Project and 12 MW Jhimruk Hydropower Project
- Arun Valley Hydropower Development Company Limited that operates 3 MW Piluwakhola Small Hydropower Project
- National Hydropower Company Limited that operates 7.5 MW Indrawati-III Hydropower Project

Sources of Information: Complied from various sources including, www.sharesansar.com (accessed on 20 Mar 2018), grading reports of hydropower companies available in www.icranepal.com (accessed on 20 Mar 2018)

Appendix 14: Hydropower Companies Operating before 2010 that have not issued Local Shares

Hydropower Company	Project name	Size (MW)
Alliance Power Nepal P.Ltd	Chaku Khola	3
Bhotekoshi Power Company	Upper Bhotekoshi	45
Himal Power Limited	Khimti -I	60
Khudi hydropower limited	Khudi Khola	4
Nepal Electricity Authority	Tatopani	2
Nepal Electricity Authority	Tinau	1.024
Nepal Electricity Authority	Sun Koshi	10.05
Nepal Electricity Authority	Panauti	2.4
Nepal Electricity Authority	Trishuli	24
Nepal Electricity Authority	Gandak	15
Nepal Electricity Authority	Kulekhani-I	60
Nepal Electricity Authority	Devighat	14.1
Nepal Electricity Authority	Seti	1.5
Nepal Electricity Authority	Kulekhani-II	32
Nepal Electricity Authority	Marsyangdi	69
Nepal Electricity Authority	Puwa	6.2
Nepal Electricity Authority	Modi Khola	14.8
Nepal Electricity Authority	Kali Gandaki A	144
Nepal Electricity Authority	Madhya Marsyangdi	70
Sanima Hydripower Pvt.Ltd	Sunkoshi Small	2.6
Thoppal Khola Hydropower Company	Thoppal Khola	1.65

Source: Adapted from the information given in the Department of Electricity Development Website, http://www.doed.gov.np/operating_projects_hydro.php (accessed on 12 April 2018)

Appendix 15: Hydropower Companies Operating after 2010 that have not issued Local Shares

Hydropower Company	Project name	Size (MW)
Aadi Shakti Bidhut Bikash Co. P. Ltd	Tadi Khola (thaprek)	5
Ankhu Jalvidut Co. Pvt. Ltd	Ankhu Khola - 1	7
Bhagawati Hydropower Development Company	Bijayapur-1	4.5
Bhairabkund Hydropower Pvt. Ltd.	Bhairab Kund Khola	3
Bhugol Energy Development Company Pvt Ltd	Dwari Khola SHP	3.75
Bojini Company (P.) Ltd	Jiri Khola SHP	2.4
Daraundi Kalika Hydro	Daraundi A	6
Electrocom and Research Centre	Jhyari Khola	2
Gandaki Hydropower Development Co. P. Ltd	Mardi Khola	4.8
Himal Dolkha Hydropower Co Ltd	Mai Khola	4.5
Joshi Hydropower Co. P. Ltd	Upper Puwa-1	3
Laughing Buddha Power Nepal Pvt. Ltd	Lower Chaku Khola	1.8
Laughing Budha Power Nepal	Middle Chaku Khola	1.8
Madi Power Pvt Ltd.,	Upper Madi	25
Panchakanya Mai Hydropower limited	Upper Mai Hydropower Project	12
Mai Valley Hydropower P.L.,	Upper Mai -C	6.1
Mandakini Hydropower Pvt. Ltd.	Sardi Khola	4
Panchthar Power Company Pvt. Ltd.	Hewa Khola A	14.9
Puwa Khola - 1 Hydropower Pvt. Ltd	Puwa Khola-1	4
Ruru Jalbidyut Pariyojana Pvt. Ltd	Upper Hugdi	5
Sanvi Energy Pvt. Ltd.	Jogmai Khola	7.6
Sayapatri Hydropower Pvt. Ltd.	Daram Khola-A	2.5
Sinohydro-Sagarmatha Power Company Pvt Ltd	Upper Marsyangdi A	50
Unique Hydel Pvt Ltd	Baramchi Khola HPP	4.2

Source: Adapted from the information given in the Department of Electricity Development Website, http://www.doed.gov.np/operating_projects_hydro.php (accessed on 12 April 2018)

Appendix 16: Hydropower Companies and the Allotment Guidelines used for Local Shares

Hydropower Company	Project	Size (MW)	Allotment Guideline used
Api Power Company Limited	Naugarh Gad Hydroelectric Project	8.5	Securities Issuance and Allotment Guideline 2008
Arun Kabeli Power Limited	Kabeli B1 Hydropower Project	25	
Barun Hydropower Company Limited	Hewa Khola Hydro Electricity Project	4.5	
Chhyangdi Hydropower Limited	Chhandi Khola Small Hydropower Project	2	
Chilime Hydropower Company Limited	Chilime Hydropower Project	21.5	Securities Allotment Guideline 1995
Dibyashwari Hydrpower Limited	Sabha Khola Hydroelectric Project	3.3	
Himalaya Power Partner Limited	Dordi Khola Hydropower Project	27	
Khani Khola Hydropower Company Limited	Tungun Khosne Khola and Khani Khola Hydropower Project	4.36 2	
Mailung Khola Jalvidyut Company Limited	Mailung Khola Hydroelectric Project	5	
Nepal Hydro Developer Limited	Charnawoti Hydro Electrical Project	3.2	
Ngadi Group Power Limited	Suiri Khola Small Hydropower Project	5	Securities Issuance and Allotment Guideline 2008
Radhi Bidhyut Company	Radhi Hydropower Project	4.4	
Rairang Hydropower Development Company Limited	Iwa Khola Small Hydropower Project	9.9	
Ridi Hydropower Development Company Limited	Ridi Khola Hydropower Project	2.4	
Sanima Mai Hydropower Limited	Mai Hydropower Project and Mai Cascade Hydropower Project	22 7	
Synergy Power Development Limited	Sipring Khola Hydroelectric Project	10	
United Modi Hydropower Limited	Lower Modi-I Hydropower Project	10	

Note: There are some hydropower companies (e.g. Panchakanya Mai Hydropower Company) that have issued local shares based on Securities Issuance and Allotment Guideline 2017. As the current study includes hydropower projects that have issued local shares prior to July 15, 2017, they are not included in the above list.

Appendix 17: Hydropower Companies and Local Shares Allotment Timing

Company name	Construction start month	Local shares allotment date	General shares allotment date	COD	Timing of local shares allotment
Api Power Company Limited	Jun 2003	18 Mar 2015	01 Sep 2015	19 Aug 2015	After COD
Arun Kabeli Power Limited	Apr 2016	08 Jul 2016	20 Dec 2016	RCOD: Jul 2018	Before COD
Barun Hydropower Company Limited	Nov 2007	13 Jul 2014	23 Apr 2015	02 Aug 2011	After COD
Chhyangdi Hydropower Limited	Sep 2007	20 Feb 2017	01 July 2017	26 Mar 2016	After COD
Chilime Hydropower Company Limited	1995	26 Jan 2011	22 Jul 2011	23 Aug 2003	After COD
Dibyashwari Hydrpower Limited	Feb 2007	22 Apr 2016	24 Aug 2016	RCOD July 2016	Before COD
Himalaya Power Partner Limited	May 2017	22 Mar 2017	19 Jul 2017	RCOD 15 Jun 2017 but have delayed by 18-24 months	Before COD
Khani Khola Hydropower Company Limited	Oct 2012	17 Jan 2016	26 July 2016	Tungun: 24 Nov 2016 ; Khani Khola: 5 Dec 2016	Before COD
Mailung Khola Jalvidyut Company Limited	Jul 2002	14 Jul 2017	Not yet issued	3 Jul 2014	After COD
Nepal Hydro Developer Limited	2006	03 Feb 2017	15 Sept 2017	Jun 2013	After COD
Ngadi Group Power Limited	Feb 2006	19 Dec 2015	25 May 2016	16 Oct 2012	After COD
Radhi Bidhyut Company	May 2005	18 Apr 2017	17 Jan 2018	14 Jun 2014	After COD
Rairang Hydropower Development Company Limited	2002	24 May 2017	23 May 2018	Required COD: Jul 2018	Before COD
Ridi Hydropower Development Company Limited	Aug 2007	13 Nov 2013	1 Apr 2014	27 Oct 2009	After COD
Sanima Mai Hydropower Limited	Mai Jan 2011; Cascade Jul 2013	2 Jul 2013	1 Nov 2013	Mai Hydro- 26 Feb 2015; Mai Cascade- 12 Feb, 2016	Before COD
Synergy Power Development Limited	Jan 2013	5 Oct 2016	16 Feb 2017	16 Jan 2013	After COD
United Modi Hydropower Limited	2010	4 Nov 2016	13 Apr 2017	24 Nov 2012	After COD

Note: RCOD (Required Commercial Operation Date) is mentioned for those hydropower projects that haven't gone into operation.

Sources of Information: Complied from various sources including, www.sharesansar.com (accessed on 20 Mar 2018), www.merolagani.com (accessed on 12 Apr 2018) grading reports of hydropower companies available in www.icranepal.com, hydropower project details mentioned in Department of Electricity Development website www.doed.gov.np, respective hydropower company websites and respective issue manager websites.

Section 9(3) of the Securities Registration and Regulation 2016 mentions the following conditions required to be fulfilled by the body corporate willing to publicly issue securities: -

a. completion of one year from the date of initiation of works required to fulfill their objectives,
b. accomplishment of audit and annual general meeting of the Company,
c. obtained any kind of permission, approval required by prevailing laws for the operation of the company,
d. purchased required land or initiated construction of factory, building, office building, warehouse,
e. initiated the process to purchase equipment, machineries and its parts through tender etc., by selection of production technology necessary for the industry,
f. entered into an agreement with the Issue Manager,
g. agreed to maintain the share capital and loan of the company during the construction period of the project in a ratio prescribed in the Directive,
h. paid-up all shares agreed to be subscribed by the promoters,
i. financial closure of the company,
j. entered into power purchase agreement,
k. Underwriting of the shares as prescribed in the directive.

Appendix 18: Hydropower Companies and their IPO price for Local Shares and General Shares

Company	Project	IPO price (NRs)
Api Power Company Limited	Naugarh Gad Hydroeletric Project	100
Arun Kabeli Power Limited	Kabeli B1 Hydropower Project	100
Barun Hydropower Company Limited	Hewa Khola Hydro Electricity Project	100
Chhyangdi Hydropower Limited	Chhandi Khola Small Hydropower Project	100
Chilime Hydropower Company Limited	Chilime Hydropower Project	100 and 323.75
Dibyashwari Hydrpower Limited	Sabha Khola Hydroelectric Project	100
Himalaya Power Partner Limited	Dordi Khola Hydropower Porject	100
Khani Khola Hydropower Company Limited	Tungun Thosne Khola & Khani Khola Hydropower Project	100
Mailung Khola Jalvidyut Company Limited	Mailung Khola Hydroelectric Project	100
Nepal Hydro Developer Limited	Charnawoti Hydro Electrical Project	100
Ngadi Group Power Limited	Suiri Khola Small Hydropower Project	100
Radhi Bidhyut Company	Radhi Hydropower Project	100
Rairang Hydropower Development Company Limited	Iwa Khola Small Hydropower Project	100
Ridi Hydropower Development Company Limited	Ridi Khola Hydropower Project	100
Sanima Mai Hydropower Limited	Mai Hydropower Project & Mai Cascade Hydropower Project	100
Synergy Power Development Limited	Sipring Khola Hydroelectric Project	100
United Modi Hydropower Limited	Lower Modi-I Hydropower Project	100

Sources of Information: Complied from various sources including, www.sharesansar.com (accessed on 20 Mar 2018), www.merolagani.com (accessed on 12 Apr 2018), and public notices.

Hydropower projects that made an IPO for general shares at premium price

Company	Project	Public share at premium price (NRs)
Chilime Hydropower Company Limited	Chilime Hydropower Project	408.36
Arun Valley Hydropower Development Company	Piluwa Khola Hydropower Project	184

Sources of information: News articles in The Himalayan Times.

- For Chilime, news article published on 19 May 2009 - https://thehimalayantimes.com/business/sebon-approves-chilimeaes-ipo/ (accessed on 12 April 2018)
- For Arun Valley, news article published on 25 June 2009 - https://thehimalayantimes.com/business/good-response-to-arun-valley-ipo/ (accessed on 12 April 2018)

Appendix 19: Hydropower Companies and the Share Allocation Criteria for the Project Affected Areas

Company Name	Project	Project affected areas	Percentage of shares allocated among different affected areas
Api Power Company Limited	Naugarh Gad Hydroeletric Project	Dethala, Dhuligadh, Rani Shikh and Shikhar, Rudreshwar VDCs in Baitadi and Darchula districts.	2 percent shares to the project affected area and 8 percent to the rest of the district
Arun Kabeli Power Limited	Kabeli B1 Hydropower Project	Nagi, Amarpur and Tharpu VDC's in Panchthar district and Sablakhu, Sinam, Thumbedin and Chaksibote VDC's in Taplejung district	4 percent shares to the project affected area and 6 percent to rest of the district
Barun Hydropower Company Limited	Hewa Khola Hydro Electricity Project	Jaljala and Shiddha Pokhari VDCs, 31 VDCs and Khandbari Municipality in Sankhuwasabha district.	10 percent shares to the entire district
Chhyangdi Hydropower Limited	Chhandi Khola Small Hydropower Project	Faleni, Bansar, Chiti, Dhodeni and Nauthar VDCs in Lamjung district.	8 percent shares to the project affected area and 2 percent to rest of the district. Of the total local shares (270,000 units), the company awarded 40 percent to the locals in Faleni and Bansar VDCs, another 40 percent to Chiti, Dhodeni and Nauthar VDCs, and the remaining 20 percent to the rest of the district.
Chilime Hydropower Company Limited	Chilime Hydropower Project	Goljung, Chilime, and Syafrubesi in Rasuwa district.	3.5 percent to the project affected area and 6.5 percent to the rest of the district. Residence of three projected affected VDCs got 180,000 units of shares at NRs. 100 and 156,000 units at NRs. 323.70, while the residents of the remaining 15 VDCs got 6,24,000 units of shares at NRs.323.70 per share.
Dibyashwari Hydrpower Limited	Sabha Khola Hydroelectric Project	Dhupu, Syabun, Wana VDC and Ward no. 8,9, and 11 of Chainpur Municipality in Sankhuwasabha districts	10 percent shares to the project affected area
Himalaya Power Partner Limited	Dordi Khola Hydropower Porject	Chiti, Dhodani, Bansar, Nauthar, Shimbhanjan, and Archalbot VDCs in Lamjung District	5 percent shares (5,32,708 units) to the project affected area and 5 percent to the rest of the district
Khani Khola Hydropower Company Limited	Tungun Thosne Khola & Khani Khola Hydropower Project	Bhatedada, Ikudol and Sankhu VDCs in Lalitpur district.	10 percent shares to the project affected area
Mailung Khola Jalvidyut Company Limited	Mailung Khola Hydroelectric Project	Dadagau and Ramche in Rasuwa District	5 percent shares (1,84,072 units) to project affected area and 5 percent to the rest of the district
Nepal Hydro Developer Limited	Charnawoti Hydro Electrical Project	Ward no. 8, 9 and 11 of Bhhimeshwor Municipality; Ward no. 5 of Maagpauwa VDC; Ward no. 6 of Katakuti VDC in Dolakha district	10 percent shares to the project affected area

Company Name	Project	Project affected areas	Percentage of shares allocated among different affected areas
Ngadi Group Power Limited	Suiri Khola Small Hydropower Project	Bhulbhule VDC in Lamjung District	10 percent shares to the entire district.
Radhi Bidhyut Company	Radhi Hydropower Project	Ward no. 4 and 5 of Marsyandi Rural Municipality	10 percent share to the entire district. Of the total local shares, 60 percent went to Ward no. 5 of Marsyandi Rural Municipality and 40 percent to Ward no. 4 of Marsyandi Rural Municipality
Rairang Hydropower Development Company Limited	Iwa Khola Small Hydropower Project	Tharpu VDC in Panchthar district and Sablakhu VDC in Taplejung district.	4 percent shares to the project affected area and 6 percent to rest of the district
Ridi Hydropower Development Company Limited	Ridi Khola Hydropower Project	Ruru, Dugam, Siddheshwor, Kheha and Argali VDCs in Gulmi and Palpa districts	4 percent shares to affected people and 6 percent to rest of the district
Sanima Mai Hydropower Limited	Mai Hydropower Project & Mai Cascade Hydropower Project	9 project affected VDCs of Ilam district	6 percent shares to the project affected area and 4% to the rest of the district
Synergy Power Development Limited	Sipring Khola Hydroelectric Project	Gaurishankar, Khare, Lamabagar, Warang, Bulung, Laduk, Chankhu, Marbu, Lamidada and Suru VDCs of Dolakha district. (Note: Chankhu, Marbu, Lamidada and Suru VDCs added in the second call only.)	10 percent shares to the project affected area
United Modi Hydropower Limited	Lower Modi-I Hydropower Project	Project affected areas in Parbat district	10 percent shares to the entire Parbat District

Sources of Information: Complied from various sources including, prospectuses of respective hydropower companies, www.sharesansar.com (accessed on 20 Mar 2018), www.merolagani.com (accessed on 12 Apr 2018)

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