

## Nenskra hydropower project: update

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*Protest in Mestia, March 4, 2018*

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The Nenskra HPP project is a 280 MW reservoir-type hydropower plant, located in the Nenskra and Nakra valleys of Svaneti, northwestern Georgia. The project cost is up to USD one billion, and it is to be cofinanced by the European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), the Asian Development Bank (ADB) and the Asian Infrastructure Investment Bank (AIIB) along with number of export credit agencies, including the Korean Development Bank and the Italian SACE. The project sponsor, JSC Nenskra hydro, is majority share-owned by Korean Water Resource Corporation and the Georgian State Partnership Fund. The project was introduced by the Georgian government in 2014 and since then it has raised a lot of the controversies and concerns among the local Svan communities.

### Project Status

In January 2018 the EBRD approved a senior secured loan of USD 214 million and a USD 15 million equity investment for the Nenskra project. In February 2018 the EIB approved USD 150 million, while the ADB and the AIIB have not yet approved loans for the project.

Since March 2018 there have been no preparatory construction works carried out on the site. Due to an incident with locals in Chuberi, the subcontractor company, Salini Impregilo, halted construction and left the project area. The subcontractor's departure was officially confirmed by JSC Nenskra in October 2018 and in November 2018 the prequalification tender for a new subcontractor was announced.

As of November 2018, JSC Nenskra claims that it has continued the development of preparatory infrastructure, for example on the bridges and roads that were destroyed by a devastating flood in July 2018. (see below).

In parallel, in January 2019 JSC Nenskra submitted a request to the Ministry of Environment and Agriculture to receive an environmental clearance for the project. Since the first project design approval in 2015, a number of significant technical changes have and supplemental ESIA studies have been conducted to ensure compliance with the safeguard policies of the lenders.

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The supplementary package includes substantially modified technical parameters. Namely, the height and length of the Nenskra River dam decreased to 125 metres and the width to 820 metres (from a height of 135 metres and a width of 870 meters). In addition, a number of other changes were made; including the design of the Nenskra dam to a rock-filled one with an asphalt face, the location of the Nakra River dam and the derivation tunnel between the two river valleys was shifted closer to the glacier.

The Environmental Impact Assessment Law of Georgia<sup>1</sup> requires that in case of any technical changes in the project design, the Ministry needs to review the project again and to issue a new environmental permit, which requires the presentation of a full-fledged EIA. However, during an official visit of a high-level KWater delegation to Tbilisi for the signing of memorandums with the Ministry of Economy and Sustainable Development, on 4 February 2019, the Georgian Ministry of Agriculture and Environment decided to waive the legal obligation for preparing a new EIA.

The court accepted an appeal submitted on 19 March 2019 by EMC and Green Alternative, requesting the annulment of the illegal decision of the Ministry of Agriculture and Environment. In this context civil society can be seen as the canary in the coalmine, conveying information about project risks to the bank and enabling it to avoid issues before they happen.

### **Bern Convention**

On 19 March 2018, the Bureau of the Standing Committee to the Bern Convention reviewed the complaint on the reduction of the Svaneti 1 candidate site (where the Nenskra project is proposed) as an important case related to a reduction in the size of a candidate Emerald site. It also required from the government a number of documents addressing the findings of the biogeographical seminar to allow the bureau to make a determination on the case. The Bern Convention Bureau decided to leave the complaint on standby in September 2018.

### **Svan declaration and lack of broad public support**

Claims by project promoters that the Nenskra project enjoys broad community support are at odds with the reality of the situation. From its beginning, the project has caused increased tensions within and among Svan communities in the region. Numerous strikes and protests actions have been organised since 2015, protesting the project and the role of IFIs.

Svans, the Georgian ethnic (social and cultural group), are approximately one per cent of Georgia's population, with their own distinct cultural and religious traditions, unique language and law. Svans recognise ancestral rules and customs on land ownership and carry out traditional activities, such as agricultural production and livestock breeding, wood processing and crafts. Svans represent the indigenous population which lives in the Samegrelo-Zemo Svaneti region.

In an unprecedented move, in March 2018 representatives of all Upper Svaneti communities convened a Lalkhor, a Svan Council meeting, to publish a joint declaration asserting Svans' status as indigenous people and opposing development projects such as Nenskra. More than 3 000 signatures were collected in support of the declaration. It should be mentioned that according to the recent census only 11000 people live in Svaneti.

### **The quality of the supplementary package submitted to EBRD**

The affected Chuberi and Nakra community representatives submitted a complaint to the Asian Development Bank (ADB) Compliance Review Panel (CRP) in November 2017. In March 2018, the CRP found the complaint eligible and defined a number of prima face non-compliances requesting future investigation, including an insufficient assessment of project alternatives, noise and vibration impacts during construction and operations, health and security risks for the local population, the absence of an assessment of environmental impacts of associated facilities.

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<sup>1</sup> <https://matsne.gov.ge/ka/document/view/3691981>

The CRP report does acknowledge that “the assessment done for this eligibility report is limited in scope...The assessment undertaken in this eligibility report does not comprehensively assess noncompliance by ADB with its operational policies and procedures. There might be other noncompliance issues which are not addressed in this eligibility report. Determinations made by the CRP at the eligibility stage will not, in any way, prejudice its findings after a full compliance review, should that be recommended and authorized by the Board”.

However, the ADB Board of Directors did not recommend further investigation of the complaint. It requested from ADB management, as the most cost effective alternative, to prepare a management response action plan to address all non-compliances and concerns identified in eligibility report. The ADB management informed the Board that, due to significant cost overruns and expected critical changes in the contractual structure and with Salini Impregilo leaving project, it expected substantial delays. In addition, with changes to the technical design, ADB management placed the preparation of the Management Action Plan on hold.

Meanwhile, the local residents are even more concerned, as in July 2018, a major flood devastated infrastructure and estates along the river in the Chuberi community. The flood was caused by heavy rains and melting of snow and glacier ice, that formed a new glacial lake and discharged mudflow in the Okrili river, a tributary of the Nenskra River. The mudflow in turn created a blockage that diverted the floodwater right through the villages. One month later, the same situation occurred in nearby Lekhizer, where the creation of 300 cubic meter lake formed in 72 hours and then caused three days of flooding on the Mestiachala river in Upper Svaneti. While the creation of the lakes from stone avalanches is a well known natural process, scientists are worried about the pace of the process caused by climate change.

### Fiscal risks

The confidentiality of the contract for the Nenskra HPP project has raised concerns. Although part of the contract has been disclosed, the information for a proper cost-benefit analysis is missing. It should be stressed that the International Monetary Fund in its fiscal transparency evaluation report on Georgia<sup>2</sup> (September 2017) and a World Bank<sup>3</sup> assessment of the power purchasing agreements in the energy sector for the Ministry of Finance (February 2018) underlined specific threats to the fiscal stability of Georgia’s budget and provided alarming data about Nenskra.

According to the World Bank, between 2022 and 2041, the Nenskra plant alone would incur over USD 1.8 billion in fiscal costs. *“Nenskra HPP has the largest impact because it has the highest indicative PPA tariff starting at 7.55 US\$/kWh with 3% annual escalation, off-take liability of 34 years, and estimated annual generation of 1.2 billion kWh per year, which is 9 percent of projected total domestic demand in 2023.”*

The analysis clarifies that the project may raise serious liabilities to Georgia’s electricity operator, as for 2023, the annual liability of the Nenskra HPP alone is foreseen to be USD 90.6 million, while by 2041, it will reach USD 154.2 million. Taking into account the fact, that *“the average wholesale electricity market price in Turkey is about 4.5 US\$/kWh whereas the PPA tariffs for these projects are higher,”* there is no chance that export will diminish the burden for the state budget.

The IMF stress that guarantees provided by the Georgian government may seriously hamper a country’s fiscal sustainability. According to the IMF, *“the main obligation is the government guarantee for a USD internal rate of return (IRR) of 12.5% on equity investments, which if not paid for could result in the government terminating the total contract, at a total cost of 800 million USD plus IRR on 180 million USD of equity (6.2% of GDP plus the IRR). Guarantee is provided in three levels should project revenues fall short, where the first would see regulated prices adjusted in the year following any shortfall (which would costs consumers, but not the government), the second where the Partnership Fund would play any shortfall, up to a maximum of 54 million USD (for which it receives a guaranteed fee of 2.5 million USD per year from the project), and third, should the government not top up any payments itself, would require the government to buy out the equity in the project (180 million USD) and assume the debt (620 million USD). This exposure is subject to exchange rate risk, and is not discussed separately in the SFR. Unlike most other PPAs, the*

<sup>2</sup><https://www.imf.org/en/Publications/CR/Issues/2017/09/27/Georgia-Fiscal-Transparency-Evaluation-45274>

<sup>3</sup>[http://greenalt.org/wp-content/uploads/2018/09/Assessment\\_of\\_HPP\\_Cost\\_2018.pdf](http://greenalt.org/wp-content/uploads/2018/09/Assessment_of_HPP_Cost_2018.pdf)

*government has also guaranteed against construction and hydrology risks (up to 30 million USD for the former, uncapped for the latter)”.*

The existing delays in the project implementation, the delay in payments and other unplanned expenses, including the change of subcontractor, are developments that almost certainly cause an increase in the project's costs. In fact, the project's expected costs have already nearly doubled since 2015, and international financial institutions estimate its price tag at over a billion dollars – a figure that is only likely to grow further.

## Conclusions

Given the complexity of the Nenskra project and its immense impact on indigenous Svan communities and the country's fiscal stability, the EBRD should take responsibility and not provide financial support until the project:

- Ensures proper and transparent public participation for the ESIA package from November 2017 and address the shortcomings and risks to communities' safety.
- Complies with national legislation.
- Justifies that the project is beneficial both to Georgia and as well the impacted communities.