

## Nenskra hydropower project: update



The 280 MW Nenskra HPP project introduced by the Georgian government in 2014 has raised a lot of controversies and concerns among the indigenous Svan communities, as well as the general public in Georgia. The one billion dollar reservoir-type Nenskra hydropower plant is located in the Nenskra and Nakra valleys of Svaneti, northwestern Georgia. The project is planned to be implemented by JSC Nenskra Hydro, a joint venture between Georgia's state-owned Partnership Fund (10%) and the Korean K-Water state company (90%) under the BOT scheme (Build-Operate-Transfer).

In February 2018, the European Investment Bank (EIB) approved USD 150 million for the 280 MW Nenskra HPP project, following the approval of a senior secured USD 214 million loan by the European Bank for Reconstruction and Development (EBRD) a month earlier. The Asian Development Bank (ADB) and the Asian Infrastructure Investment Bank (AIIB) still have not made decisions on the project. Two years ago, Italian Salini Impregilo, then the main contractor on the plant, mysteriously abandoned the project without even starting the actual construction work. This mega-project has been in the cards for at least five years, during which it has seen fierce opposition from local communities, and has become notorious for countless issues – from its environmental impact to its shady economics.

### New contractor new risks

At the end of 2019, Hyundai Engineering & Construction (Hyundai E&C) announced in South Korean media that, together with Turkish Limak, it had won a USD 737 million tender to realize the Nenskra project.

The Hyundai E&C Company has been accused several times of misconduct, and in May the company admitted it had bribed a politician to stop local protests over a coal power plant in Indonesia<sup>1</sup>. Limak, on the other hand, was one of the main defendants in Turkey's famous "Blue Line" investigation<sup>2</sup> in 2008 that uncovered rigged tenders, bribery and money laundering.

The way the new Korean contractor was declared also adds to the ambiguity of the process: only two weeks before the news emerged, Hyundai E&C was not even among the pre-qualified candidates for the project's tender in the official list published by the EBRD<sup>3</sup>.

<sup>1</sup> [https://www.koreatimes.co.kr/www/tech/2019/05/693\\_268175.html](https://www.koreatimes.co.kr/www/tech/2019/05/693_268175.html)

<sup>2</sup> <https://bankwatch.org/wp-content/uploads/2017/02/risky-business.pdf>

<sup>3</sup> <https://www.ebrd.com/documents/procurement/prequalified-and-shortlisted-firms.pdf?blobnocache=true>

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CEE Bankwatch Network's mission is to prevent environmentally and socially harmful impacts of international development finance, and to promote alternative solutions and public participation.

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Only a week after the news emerged, and after being approached by journalists multiple times, did Nenskra Hydro, the project promoter, confirm it had contracted Hyundai E&C and Limak for the project<sup>4</sup>.

The USD 737 million contract awarded to Hyundai E&C and Limak is substantially higher than Salini's USD 575 million contract. This increase could, in turn, entail a change to the guaranteed power purchase agreement and with it a further increase in fiscal risks as well as electricity prices in Georgia. In such case, the agreement between the government and Nenskra Hydro would likely need to be reviewed as well.

The project's financial feasibility has long been questionable. Now that its costs have increased, Nenskra Hydro, as well as its international financiers and the Georgian government, would need to explain how continuing to pursue this hefty project is in the public's interest.

### **Leaked contract – fiscal risks**

The fiscal risks of the Nenskra HPP project were already revealed by the International Monetary Fund (IMF) and World Bank back in 2017 and 2018 (respectively). These risks have also been confirmed by the leaked contract. Information in the contract contradicted the claims of the Georgian government and JSC Nenskra, which have long maintained that the 280 MW hydropower plant is essential for Georgia's energy security, arguing it would provide the country with considerably cheaper electricity.

An analysis of the contract shows that the government has committed to buy electricity generated by Nenskra during its first 36 years of operation at a price that is on average double the current tariff for domestic electricity, and three times the price of electricity Georgia exports. This means that if the project materializes, it will generate losses of approximately USD 60 million every year for the public coffers.

Initially signed in August 2015 and amended in June 2017, the contract also reveals that the Georgian government has agreed to reimburse the company for any losses in case Nenskra fails to generate the anticipated amount of energy due to various hydrological reasons. This is not an unlikely scenario, given the projected impacts of climate change in the region, as well as the under-performance of earlier hydropower projects in Georgia like the Paravani, Dariali and Shuakhevi plants.

International financial institutions considering the project, including the EIB, EBRD, Korean Development Bank, ADB, and AIIB have long been aware of the outrageous terms in this contract. Now that it has finally been made public, they need to seriously re-think their engagement.

### **Status of the complaint in Bern Convention**

On 19 March 2019, the Bureau of the Standing Committee to the Bern Convention once again reviewed the complaint on the reduction of the Svaneti 1 candidate site (where the Nenskra project is proposed) as an important case related to the reduction in the size of a candidate Emerald site. It required the government to provide a number of documents addressing the findings of the biogeographical seminar to allow the bureau to make a determination on the case.

As a result, the Bern Convention Bureau decided to leave the complaint on standby, noting for need of consideration how good the compensation for the initial site is in quality terms and “to identify and designate an additional site with freshwater habitats to compensate the loss and to further work towards the completeness of the Emerald network in Georgia.”

The Bureau instructed the Secretariat “to request a new report [from] the national authorities for its first annual meeting in 2020 and to invite the NGO to comment on the authorities work and progress in the frame of the complaint”.

### **Status of complaints to IFIs regarding the project**

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<sup>4</sup> <https://publika.ge/nenska-hidro-adasturebs-koreul-kompania-hyundai-ec-stan-molaparakebas/>

Green Alternative, together with the CEE Bankwatch Network, have submitted two joint complaints on behalf of local indigenous communities regarding Nenskra HPP to the EIB and EBRD accountability mechanisms in May 2018. The complaints raise a number of concerns such as: failures of the IFIs to conduct a gender impact assessment, to recognize and treat the Svans as indigenous peoples, to afford them the right to Free Prior Informed Consent (FPIC) on the project and to ensure meaningful consultations with Svans, including women and vulnerable groups.

It is notable that while the final assessment reports from both institutions have been postponed since August 2019, another case from the EIB Complaints Mechanism (EIB-CM) on the lack of transparency and disclosure of Indigenous Peoples assessments in this same project was escalated to the European Ombudsman, who accepted the case and is investigating the matter.

Prior to these complaints, the affected Chuberi and Nakra community representatives submitted a complaint to the ADB Compliance Review Panel (CRP) in November 2017. According to the CRP report, the complaint has been found eligible and defined a number of instances of non-compliance for which the CRP requested future investigation. While the ADB Board of Directors did not recommend further investigation of the complaint, it requested ADB management to prepare a management response action plan to address all instances of non-compliance and concerns identified.

In May 2018, ADB management informed the board that due to significant cost overruns and expected critical changes in the contractual structure, the project is expected to be delayed substantially. In addition, anticipating changes to the technical design, the ADB management put the preparation of the Management Action Plan on hold, which was requested by the board on the basis of the CRP report.

### **EIB ombudsman case**

On 9 March 2018, CEE Bankwatch Network also lodged a complaint to the EIB-CM on the bank's failure to disclose several documents, including the expertise the bank possesses related to the issue of identification of Svans as indigenous people. Bankwatch further insisted the bank disclose all analyses on the issue of indigenous people. In April 2019, Bankwatch escalated its complaint to the European Ombudsman after the EIB-CM failed to assess whether the documents which the bank possesses could be disclosed in order to satisfy the request.

In a reply to the European Ombudsman, the Bank confirmed that they have documents related to the identification of Svans as Indigenous People; however, they refused to disclose them, arguing that it could result in serious political and diplomatic consequences. The European Ombudsman opinion is due in February.

### **Recommendations**

Taking into account the complexity of the Nenskra project and its drastic social and environmental impacts, together with the foreseen impacts on the country's fiscal stability, the EIB should revise its decision on the Nenskra HPP project and re-think its engagement in the project. In addition, the EIB has to provide:

- A detailed assessment of the project and a track record of the new actors to justify that the project really serves public interest;
- A detailed Cost Benefit Analysis of the project for the country, taking into account updated information about increased project costs.