



**Room Document No. 11**

**CONSULTATION BETWEEN CIVIL SOCIETY ORGANISATIONS AND MEMBERS OF THE  
OECD WORKING PARTY ON EXPORT CREDITS AND CREDIT GUARANTEES  
AND THE PARTICIPANTS TO THE ARRANGEMENT  
ON OFFICIALLY SUPPORTED EXPORT CREDITS**

**PAPER REGARDING CRITERIA  
FOR ASSESSING HYDRO-POWER SCHEMES**

**UNEP**

**3 October 2005 (starting at 10.00)**

**Room 1, OECD Headquarters, La Murette, Paris**

This note outlines the views of the United Nations Environment Programme (UNEP) regarding criteria for assessing the sustainability of hydropower schemes. It has been prepared as a contribution to the 'Consultation between civil society organisations, and members of the OECD working party on export credits and credit guarantees and the participants to the arrangement on officially supported export credits' that will be held on 3 October 2005. UNEP hopes that the note contributes to the discussion about extending to hydropower projects the special terms for renewable energy and water projects now being applied by the participants to the arrangement on officially supported export credits ('the participants') on a two year trial basis. Specifically, the note puts forward suggestions on operational criteria that could be used to assess whether or not a specific hydropower scheme meets evolving standards for environmental and social acceptability.

In general UNEP believes that renewable energy projects are superior to conventional energy projects because they have a lower environmental burden, particularly with regard to emission of greenhouse gases. Extending special terms for renewable projects is sensible because they are materially different from conventional energy projects and because most OECD governments have made commitments to reduce emissions of greenhouse gases.

As with any energy infrastructure project, however, a renewable energy project can have negative social and environmental impacts. This is particularly true of hydropower projects because their size often indicates the potential or even likelihood of large and irreversible impacts. In many cases impacts can be reduced or eliminated through good planning and management practices. Prudence consequently dictates that a review of all hydropower projects be conducted irrespective of their size. To argue whether or not hydropower projects are renewable or not, or if there is a threshold size below which due diligence procedures need not be applied misses the point – because a series of smaller projects in a river basin may have a cumulative impact exceeding that of a single large project.

Large hydropower projects in particular have proved to be among the most contentious in the energy sector, particularly those undertaken in developing countries. In an effort to clarify the role of dams in development, in April 1997 a group of 39 representatives of different interest groups established a 'World Commission of Dams' (WCD) and tasked it to "review the development effectiveness of large dams and develop internationally acceptable criteria, guidelines and standards for large dams". The WCD subsequently identified five 'core values' and seven 'strategic priorities'. It further developed 26 guidelines to "complement the body of knowledge on good practices, and to add value to current national and international guidelines".<sup>1</sup>

Almost all groups agree that the World Commission on Dams core values and strategic priorities offer good guidance for decision-making regarding dams and hydropower development; there is less agreement about the guidelines. The World Bank, for example, while "supporting" the WCD's core values and strategic priorities, notes that "notwithstanding the Commission's significant work, [it] views the 26 guidelines as ideas" – and borrowed only sparingly from them to update its 'operational policies' and 'procedures' on dam safety.<sup>2</sup> Likewise, the International Hydropower Association (IHA) manifested "disagreement on some aspects relating to [the WCD's] detailed recommendations".<sup>3</sup>

UNEP believes that careful case-by-case assessments are necessary to evaluate the merits of dam or hydropower projects, and that there is a growing body of work in what might be called best practices regarding environmental and social due-diligence in this area.<sup>4</sup> Environmental professionals evaluating

projects can only benefit from being able to call on a wider, rather than narrower, body of information in reaching their judgements. It thus seems sensible to make reference in the 'Common approaches' to a number of documents that offer good guidance rather than unduly restrict the list. The report of the World Commission on Dams, the World Bank's 10 environmental and social safeguard policies, and the International Hydropower Association's 'Sustainability guidelines' and 'Compliance protocol' all offer good guidance that is complementary.

Accordingly, the Export Credit Group might consider making official support for hydropower projects contingent to their conformity with all ten World Bank safeguard policies. While these are not specific to dams, satisfying them would in practice widen the scope of social and environmental issues considered in hydropower project review – albeit less so than if the full set of WCD recommendations were to be applied. The Export Credit Group might also reference all WCD 'core values' and 'strategic priorities', which *are* specific to dams and, as noted above, are widely accepted. In the absence of agreement about their attributes, components and implementation implications, the core values and strategic priorities do not constitute strict operational guidelines. Nonetheless, they provide a recognised framework under which hydropower projects and the decision-making process around them can be structured.

Finally, the Export Credit Group could consider referring to the International Hydropower Association's guidelines (and to other sectoral criteria, such as those of the International Commission of Large Dams and the International Energy Agency) as additional sources that inform the review process.

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<sup>1</sup> The Commission commenced its activities in May 1998 and by November 2000 had published 'Dams and development: a new framework for decision making'. The findings of the 'Dams and development' report were structured around five 'core values' and seven 'strategic priorities'. The 'core values' were: equity, sustainability, efficiency, participatory decision-making and accountability. The 'strategic priorities' were: gaining public acceptance; comprehensive options assessment; addressing existing dams; sustaining rivers and livelihoods; recognising entitlements and sharing benefits; ensuring compliance; and sharing rivers for peace, development and security.

The 'Dams and development' report's 26 detailed 'guidelines' placed a strong emphasis on social impacts, participation and monitoring of stakeholders, and binding negotiated agreements with adversely affected communities. Such a focus raised the concerns and reservations of many governments and industry groups, and ultimately prevented the recommendations from becoming unanimously accepted guidelines.

<sup>2</sup> The World Bank's environmental and social 'Safeguard policies' lay down the Bank's guidelines to "prevent and mitigate undue harm to people and their environment in the development process". They are structured around a series of 'operational policies' and 'Bank procedures', and are compiled in the Bank's 'Operational manual'. Although these 'safeguard policies' are primarily intended for use by bank and borrower staff, they are widely relied on by others.

The new operational policy (OP 4.37) on dam safety requires that experienced and competent professionals design and supervise construction, and that the borrower adopts and implements dam safety measures through the project cycle. The policy also applies to existing dams where they influence the performance of a project. In this case, a dam safety assessment should be carried out and necessary additional dam safety measures implemented.

<sup>3</sup> In 2003 the International Hydropower Association produced 'Sustainability guidelines' to "promote greater consideration of environmental, social and economic aspects in the sustainability assessment of new hydro projects and the management and operation of existing power schemes". An associated 'Compliance

protocol' attempts to provide a mechanism for rating various sustainability aspects of individual hydropower schemes.

A spin-off of this work is the International Hydropower Association's 'Sustainable hydropower website', which showcases examples of successful approaches in various economic, environmental and social aspects of dam development and operation. The website, which is not yet fully operational, is intended to become a "learning and demonstration forum" for the industry by "identifying and explaining the important aspects of sustainable practice in the hydropower industry".

4

In November 2001 UNEP established a 'Dams and development project', in response to a request of the 'Third forum meeting' of the WCD. This called for "a neutral entity that could provide guidance and support for national follow-up processes, further disseminate the WCD report and knowledge base materials, and provide information on activities undertaken in response to the report". Accordingly, the project's main goal is to help countries analyse the WCD recommendations, and determine responses and actions relevant to their national contexts.

During its first phase, the project analysed reactions to the WCD final report – to find that concerns regarding the WCD policy principles and guidelines focus on a limited number of issues, while many of its recommendations have not been specifically questioned. In addition, the project reviewed related criteria and guidelines built around the WCD strategic priorities, the inventory of which is available at <http://www.unep-dams.org/>.

In February 2005 the project entered into its second phase. Its focus shifted to promoting improved decision-making, planning and management of dams. National, regional and global dialogues, a cornerstone of the project's first phase, continue to be promoted -- now as an avenue for developing recommendations on policy and procedure reforms in a local context. In addition, the project has been tasked with the production of non-prescriptive practical tools to help decision makers achieve the above goals.