

World Headquarters

Rue Mauverney 28

CH-1196 Gland

Switzerland

Tel.: +41(0)22 999 00 00/01

Fax: +41(0)22 999 00 02

E-mail: mail@hq.iucn.org

www: <http://iucn.org/>



Ms. Janet West
Head, Export Credits Division
Trade Directorate,
Organisation for Economic Cooperation
and Development
2 rue André-Pascal
Paris 75016
France
Fax: 0033 1 44 30 6158

21 June 2005

Dear Ms. West,

Re: Agreement on Special Financial Terms and Conditions for Renewable Energies and Water Projects: The case of hydropower

In responding to your suggestion for IUCN to present its views, I would firstly like to congratulate OECD and the ECA's in taking concrete follow up action to the World Summit on Sustainable Development (WSSD) on renewable energy. IUCN has a common interest with the OECD initiative in helping to stem the ever increasing threat posed by climate change to future generations.

With this common aim, we echo the overarching premise that sustainability is a core consideration in any implementation measure. For hydropower, the challenge is to achieve two linked but also distinct objectives - being renewable and being sustainable in economic, social and environmental dimensions.

Dams are distinguishable from many other infrastructure projects for their extensive footprint beyond the arena of a construction site to an influence on distant ecosystems and communities. ECAs are not of course the only players and many of the decisions that influence sustainability are taken long before a credit or guarantee application is received. At the same time, the regulations under which ECAs operate are well known to planners and developers. As new standards are set, they will inevitably influence the upstream planning framework within which alternative projects are compared. Hence, over time, ECAs also contribute to establishing norms of acceptability for the planning process.

This letter aims to build on the progress made by a range of financing agencies in addressing the dams topic and learning from lessons of past projects. The attached table provides a brief summary of how a number of agencies recognize the need to go beyond general guidance in respect of dams. Clearly the topic raises strong emotions. Our hope is that this letter will help clarify a number of issues to be discussed in Paris and in finding a pragmatic and acceptable formulation for hydropower projects in the text on renewable energies. Your assistance in circulating this letter to participants of the meeting of practitioners on 23-24 June is greatly appreciated.

It is evident that the demands for services, pressure on natural resources, and complexity of projects will all intensify in the coming years. The context within which we all do business is changing. Through IUCN's field projects and interactions with our government and NGO members, we see this at first hand. Five years after the World Commission on Dams (WCD) report was launched, we are still witnessing great uncertainties in the public and private financing community over whether or not to support large dam projects. Such uncertainty inevitably has a

destabilizing effect - holding up projects that are necessary and holding up the implementation of alternatives for those that are not justifiable. The planning of biodiversity conservation measures also gets drawn into this climate of uncertainty. The problem as we see it lies in questions of predictability, transparency, and responsibility – key areas recognized in the OECD Common Approaches initiative.

Ample evidence supports the view that the general level of guidance provided in the safeguard policies of the multi-lateral development banks is, on its own, not enough and that industry specific guidance is required for hydropower projects. The multilateral development banks themselves have gone some way in recognizing this and developed informal guidance documents to review and promote international good practice. Industry also recognizes the shortfall in specific guidance and is working towards filling the compliance gap. It is early days yet, and more buy in from other stakeholders will be required, but it is a laudable initiative that goes some way to addressing the issues raised in the WCD report.

In building on the progress made in the Common Approaches, ECAs now have an opportunity to further reduce environmental and social risk by explicitly referring to good practice. Prominent examples include the strategic priorities of WCD; specific guidance material prepared by the World Bank for instance on stakeholder involvement in options assessment, benefit sharing, and environmental flows; the International Hydropower Association's Compliance Protocol; and IUCN's technical guidance and field experiences. A basis for good practice can be found in the mission statement of UNEP's Dams and Development Project (DDP), namely to build 'on the core values and strategic priorities of the WCD'. This basis has been adopted by industry, governments and civil society groups, as well as the World Bank and IUCN.

Limiting ECA guidance to the benchmarking of World Bank safeguard policies does not of course preclude adoption of good practice. There are recent examples where Bank staff are actively incorporating new ideas such as benefit-sharing and payment for environmental services. While we are encouraged by these initiatives, these on their own are not sufficient to encourage developers to adequately incorporate lessons of the past. This is increasingly recognized and specific reference to good practice for dam projects are promoted by the European Investment Bank and the EU Linking Directive to the Kyoto Protocol as well as a number of ECAs (see attached table). Practical incorporation of such practice into new projects is a considered approach to reducing social and environmental risks and also, as a result, reputational risk.

Let me now turn to a specific example to demonstrate the need for explicit reference to good international practice. The topic of environmental flows, promoted by WCD, has emerged in recent years as a key issue for dam planning and livelihood protection. Dams are the single most significant influence on a river's flow regime. In particular hydropower dams have a major impact on downstream rivers, aquatic ecosystems and the livelihoods and societies that depend on them. Both IUCN and the World Bank have produced complementary technical guidance on environmental flows, but there is not yet an explicit requirement in World Bank policy to follow such guidance. Providing a reference to the WCD strategic priorities, would encourage a developer to address this issue and facilitate identification of mitigation measures to address environmental flows. Similarly, examples can be given to illustrate implementation of the other strategic priorities.

Our view is that the existing provisions of the Common Approaches, comprised of a benchmarking against three of the World Bank's safeguard policies and its EIA standard, does not on its own engender confidence that the environmental and social impacts of dam projects will be adequately prevented or mitigated in the future. Further specific reference to good practice is needed to encourage developers to take a new approach.

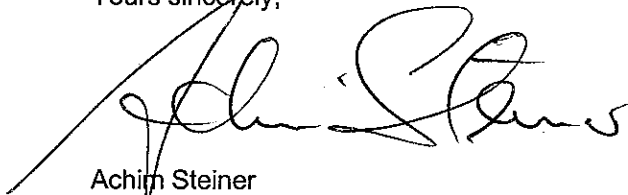
Introducing additional safeguard provisions naturally raises concerns that the 'bar' of compliance is being raised to an unattainable level. This is not the intention. Nor is it the intention to provide a straight jacket on development. Rather the intent is to achieve outcomes that avoid the mistakes of the past, provide a sound framework within which a proposal to ECAs can be tested for sustainability and allow good projects to proceed with a confidence that hitherto was lacking. In other words to enhance predictability.

To do this would place an obligation on the developer to explicitly test a proposal against established areas of good practice and demonstrate either (i) how they have been addressed in the specific project proposal or (ii) why they are not considered relevant in a particular case. In this way, development is fostered and the chances of preventing or mitigating environmental and social impacts, in line with the aim of the Common Approaches, are significantly enhanced.

This is a unique opportunity for the harmonization process. References to the WCD strategic priorities offer a flexible and practical approach that can be interpreted and adapted to individual country contexts. It is also an approach that for the past four years has formed the basis of multi-stakeholder dialogue in UNEP-DDP, bridging polarized positions of individual stakeholder groups.

IUCN is prepared to support the deliberations of the ECA group. If ECA practitioners agree, IUCN is willing to provide and assist further input into the process. Our membership includes both governments and NGOs, providing us an opportunity to facilitate inputs from a wide range of interest groups. If requested, IUCN will also be able to provide technical and legal input from our expert networks to support ECAs in considering various options and develop mechanisms to assess compliance.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Achim Steiner', written over a light blue horizontal line.

Achim Steiner
Director General

Enc: Dams-specific references of national and international agencies

Dam-specific references of national and international agencies

Organisation	Reference to dams / WCD
France - Export Credit Agency – Coface	<p>In July 2003, Coface introduced sector specific guidance for hydroelectric power stations and large dams. The best practice criteria are 'based on the work of the International Commission On Large Dams (ICOLD), the International Energy Agency (IEA), the World Commission on Dams (WCD) and Operational Directives 4.00, 4.01 and 4.30 of the World Bank'. The guidelines include reference to benefit-sharing and environmental flows. http://www.coface.com/docs/barragesqb.pdf</p>
Germany – Export Credit Agency – Hermes	<p>Hermes published guidelines entitled 'Consideration of ecological, social and developmental aspects' in April 2001. Section C2 on transactions and project related questions states that: <i>'The questions to be answered by the applicant will be posed on a case-by-case and project-related basis and will be updated according to the latest experience and in the light of current knowledge, e.g. the report of the World Commission on Dams (WCD). The answers of the applicant will be analysed and will be taken as a basis for the decision.'</i></p> <p>See Annex on Environmental Guidelines in 2000 Annual Report: http://www.agaportal.de/pdf/eng/annualreport/aga_jb_2000e.pdf</p>
Japan Bank for International Cooperation – JBIC	<p>New Environmental Guidelines of the Japan Bank for International Cooperation also drew on the WCD Report and include a number of the elements of the WCD strategic priorities including the importance of environmental and social considerations in assessing alternatives, priority to the prevention rather than mitigation of impacts, early disclosure of information, recognition of the rights of indigenous peoples, agreement with affected people on mitigation measures and an emphasis on improving livelihoods. The Guidelines are supplemented by a checklist for hydropower projects. http://www.jbic.go.jp/english/environ/guide/finance/index.php</p>
Switzerland Export Credit Agency – ERG	<p>In its 2004 Guidelines for assessing environmental and social issues, the Swiss export credit agency ERG has explicitly referenced the WCD recommendations. The section on processes for Category A projects requires an EIA Report to outline how the seven strategic priorities will be addressed in the context of a proposed project.</p> <p><i>'In the case of hydroelectric power stations it should also be demonstrated to what extent the recommendations made by the World Commission on Dams will be met. This can take place either by an independent committee of experts or it can be part of the evaluation of the EIA by an independent consultant'</i></p> <p>http://www.swiss-erg.com/downloads/merkblatt/e/Leitlinienumwelt04e.pdf</p>
USA – Export Credit Agency - Ex- Im Bank	<p>The Environmental Procedures and Guidelines of the US Ex-Im Bank were revised in July 2004. Annex A Table 9: Hydropower and Water Resources Management (Dams and Reservoirs) makes reference to the World Bank guidelines and WCD recommendations.</p> <p><i>'Ex-Im Bank will evaluate hydropower and water resource projects against the relevant host-country and the applicable international guidelines such as those of the World Bank Group. Project participants also are encouraged to address, to the extent practical, relevant principles contained in the Final Report of the World Commission on Dams.'</i></p> <p>http://www.exim.gov/products/policies/environment/envtbl9.html</p>
USA – Overseas Private Investment Corporation (OPIC)	<p>In June 2003, the Overseas Private Investment Corporation of the United States (OPIC) released a consultation draft revision to its Environmental Handbook to accommodate new policies on large dams and forestry. These were released in the revised Environmental Handbook in February 2004. In his preface, OPIC President states:</p> <p><i>With respect to large dams, OPIC is articulating its policies to reflect the findings of the most comprehensive report issued to date by key stakeholders involved in the global debate over the appropriate role of large dams: the World Commission on Dams (WCD).</i></p>

	<p>Although not all stakeholders subscribe to all of the conclusions of the WCD report, many of the report's recommendations are of value to the investment community, and therefore to OPIC as a development finance agency. OPIC's restated policy should be of value to investors and other organizations that use the WCD report as a primary reference and framework for evaluating prospective hydroelectric and irrigation projects.</p> <p>http://www.opic.gov/Publications/envbook_2004.htm#Preface</p>
HSBC Group	<p>HSBC's sector guidelines expand on our Environmental Risk Standard, issued in 2002, and on our adoption in 2003 of the Equator Principles, a set of voluntary guidelines that apply to project finance. In adopting the Principles, the Group has undertaken to ensure all new, applicable project finance proposals fall within its requirements. In addition, in respect of facilities involving dams, the Group will follow the World Commission on Dams (WCD) Framework for Decision-making ('WCD Framework').</p> <p>In particular, we will not provide facilities and other forms of financial assistance, including any involvement in debt and equity capital markets activities and advisory roles, to:</p> <ul style="list-style-type: none"> • Dams that do not conform to the WCD Framework. • Projects located in, or substantially impacting on: <ul style="list-style-type: none"> – critical natural habitats, where the project significantly degrades or converts them; – sites on the Register of Wetlands of International Importance of the Ramsar Convention on Wetlands ('Ramsar List'); and – UNESCO World Heritage Sites. <p>http://a248.e.akamai.net/7/248/3622/dcb5640e22fa57/www.img.ghq.hsbc.com/public/groupsite/assets/about/csr/freshwater_infrastructure_guideline.pdf</p>
Swiss Re (Re-insurance)	<p>'The World Bank, the OECD and export credit agencies have developed an effective set of instruments to overcome such problems. The WCD's five objectives and seven strategic priorities have sketched out a viable way towards sustainable water utilization projects. It is Swiss re's conviction that in the future, large projects should be handled in accordance with these principles and priorities'. (p12)</p> <p>http://www.swissre.ch/INTERNET/pwswpspr.nsf/alldocbyidkeylu/SLAR-5QUM86?OpenDocument</p>
European Investment Bank (EIB)	<p>The EIB is guided by the findings and recommendations of recognised international good practice for particular sectors. The Bank follows closely relevant international debates, such as those on the findings and recommendations of the "World Commission on Dams" (2000).</p> <p>Environment Statement 2004 http://www.eib.org/Attachments/strategies/environmental_statement_en.pdf</p>
EU Linking Directive	<p>Directive 2004/101/EC of the European Parliament and of the Council of 27 October 2004 amending Directive 2003/87/EC establishing a scheme for greenhouse gas emission allowance trading within the Community, in respect of the Kyoto Protocol's project mechanisms. Article 11b(6) (revised) 'In the case of hydro-electric power production project activities with a generating capacity exceeding 20 MW, Member States shall ensure, when approving such project activities, that relevant international criteria and guidelines, including those contained in the World Commission on Dams year 2000 Final Report, will be respected during the development of such project activities.'</p> <p>http://europa.eu.int/eur-lex/lex/LexUriServ/site/en/oj/2004/l_338/l_33820041113en00180023.pdf</p>
World Bank	<p>In February 2003, the World Bank introduced an updated Water Resources Sector Strategy . Annex 1 of the Strategy outlines the World Bank's response to the World Commission on Dams as approved by the Board of Directors in December 2001. In summary it states that</p> <p><i>'In common with virtually all those consulted, the World Bank shares the WCD core values and concurs with the need to promote the seven strategic priorities.</i></p>

	<p><i>The focus of much controversy regarding the WCD Report has centred on the 26 "guidelines," which have been interpreted by some proponents and critics of the Report as a proposed new set of binding standards. The World Bank's conclusion on the guidelines is best summarized by the Chair of the WCD, who has explained that "our guidelines offer guidance-not a regulatory framework. They are not laws to be obeyed rigidly....They are guidelines with a small 'g'." Individual governments and private sector developers may wish to test the application of some of the WCD guidelines in the context of specific projects. In such cases, the World Bank will work with the government and developer on applying the relevant guidelines in a practical, efficient and timely manner.'</i></p> <p>The response then presents the World Bank's explanation of the differences between its policies and the detailed recommendations of WCD.</p> <p>http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2004/06/01/000090341_20040601150257/Rendered/PDF/28114.pdf</p>
Asian Development Bank (ADB)	<p>No formal position has been taken by ADB's Board on WCD. The informal position of Staff is that existing framework of policies is adequate to accommodate WCD recommendations where considered appropriate. Project departments consider individually the extent to which WCD recommendations are considered.</p> <p>Energy 2000 - a review of 1995 Energy Policy but not an approved Board document or policy - states: <i>"For new hydropower projects, the approach recommended by the World Commission on Dams will be pursued"</i>. (para 80 (iv)) http://www.adb.org/Documents/Policies/Energy/energy-review.pdf</p> <p>An informal staff paper (2002) on the ADB website provides assessment of the extent ADB reflected the WCD guidelines. See http://www.adb.org/NGOs/adb_responses.asp</p>
UNEP Dams and Development Project	<p>DDP's Mission statement is: <i>'Promote improved decision making, planning and management of dams and their alternatives building on the World Commission on Dams core values and strategic priorities and other relevant reference materials through promoting multistakeholder dialogue at national, regional and global levels and producing non prescriptive tools to help decision makers'</i>.</p> <p>http://www.unep-dams.org</p>