

The World Bank and CDM large hydros Status Note for COP10 Buenos Aires, Argentina

December 2004
International Rivers Network
& CDM Watch

Introduction

In the six months since our last CDM large hydro status note, the World Bank has continued to unveil new CDM large hydro projects of questionable additionality – including the largest hydro project in its carbon portfolio to date. None of these projects have demonstrated compliance with the recommendations of the World Commission on Dams (WCD). The World Bank continues to cling to the fiction that all of the projects are “small-hydro.”

On a positive note, the registration of the first World Bank large hydro project was blocked by five members of the CDM Executive Board on December 4, 2004, partly because they agreed with our criticisms that the validator had not addressed our arguments that the project is non-additional. Regardless, as the CDM market moves increasingly towards large volume non-CO₂ projects, the Bank is left as the only major project proponent using carbon finance for large hydro projects.

The Bank, dams and carbon credits

The World Bank is developing large hydro projects through a number of its carbon funds. The largest – the Prototype Carbon Fund – has seven large hydro projects for which detailed documentation is available.¹ These seven projects are expected to generate more than 6.5 million carbon credits by 2012. This is nearly three times the 2.3 million credits to be generated from the eight renewable energy PCF projects.² The other World Bank carbon funds are currently developing an additional five large hydro projects which are expected to generate about 4.5 million credits by 2012.

In the six months since our last status note three new large hydros have come to light; Xiaogushan, a 98 MW dam in China and the 29.76 MW Abanico project in Ecuador, both being developed through the PCF; and the 15.4 MW Poechos project in Peru, which has just signed an Emission Reduction Purchase Agreement

¹ We only include projects for which a PDD is available with firm estimates of emissions reductions.

² Note that not all projects may be included in the final portfolio so these numbers may change.

with the World Bank-managed Netherlands CDM Facility.³

Xiaogushan is the biggest hydro project in the World Bank's carbon finance portfolio. It is projected to generate 1.7 million credits by 2012.⁴ The total credits being generated by all 12 current World Bank CDM large hydro projects is over 11 million in the first Kyoto commitment period, more than the combined credits that will be generated by the BioCarbon Fund (BCF) and Community Development Carbon Fund (CDCF) in that time.⁵

Additionality concerns

At least two of the three projects that have emerged in the last six months are again non-additional. The November 2003 Asian Development Bank loan document for Xiaogushan dam notes that it is "*the least-cost alternative for generation expansion in Gansu Province*,"⁶ and that pre-construction work began in mid-2003. The Poechos project was completed in January 2004. Carbon credits can hardly be considered vital to construction of either project.

The La Esperanza project is also of questionable additionality. The many concerns raised by IRN in its submission during the 30-day public comment period for La Esperanza were not adequately

dealt with by Norwegian consultancy Det Norske Veritas, as noted by two of the Executive Board members who requested a review of the project. As IRN noted, the arguments for additionality in La Esperanza's documentation are "*unconvincing, lack documentary evidence, and could certainly not be described as 'conservative'*."⁷

For example, the project documentation claims that a hydro project like La Esperanza is "*non-existent and difficult to establish*" in Honduras and that "*Privately financed, built and operated small hydro plants are not common practice in Honduras*." However, six similar private-sector hydros have recently been completed or entered construction in the country. There are 16 small and medium hydro plants included in the Honduran Generation Expansion Plan 2004-08.⁸

The validation report notes another claimed barrier to implementation: "*The regulatory barrier is due to the assembly of various required permits, which costs a lot of time*." Yet how can the CDM be said to overcome this barrier? By seeking CDM registration the developer now has to get a new set of permits which would only increase the developer's bureaucratic hassles. Hopefully the CDM Board will overturn this project: La Esperanza's registration would mean about 300,000 fake credits entering the carbon market over the next 10 years.

WCD inconsistency

The refusal of the Bank to show how its large hydro projects are consistent with the recommendations of the WCD was

³ <http://carbonfinance.org>.

⁴ Response from World Bank Carbon Finance Helpdesk to CDM Watch, 28.05.04.

⁵ The CDCF will generate 7 million credits over its lifetime with about 60-70% of them available by 2012. Information contained in a response from the World Bank Carbon Finance Helpdesk, 4.11.04. Note that one of the CDCF projects is a large hydro project. The BioCarbon Fund will generate less than 4 million credits by 2012; presentation by Fund Manager Ken Newcombe, Paris, May 15, 2003.

⁶ Report and recommendation of the President to the Board of Directors on a proposed loan to the PRC for the Gansu clean energy development project, November 2003; RRP: PRC 34476.

⁷ IRN Submission on La Esperanza.

⁸ <http://www.enee.hn/generacion.htm>

through its CDCF – La Esperanza – does not make any attempt to show how it has followed the WCD. The CDCF is a fund that pays higher than normal prices for allegedly higher quality credits that deliver “*Development + Carbon*” emission reductions.⁹ Yet the project documentation does not even mention the WCD.

What makes this even more absurd is that two of the governments involved in the CDCF are Germany and the Netherlands.¹⁰ Both have said that they will require hydro CDM projects in their own portfolios to comply with the WCD.¹¹ Why, then, are they paying a premium price for carbon credits from a hydro project that doesn’t even meet their own CDM sustainable development criteria?

What is “small”?

The PCF makes the misleading claim that its project portfolio is dominated by “*wind, biomass, small hydro . . .*” In fact only 3 of its 10 hydro projects are “small” using the generally accepted definition of projects with an installed capacity of 10 MW or less.

This 10 MW standard, according to the International Association for Small Hydro, is “*becoming generally accepted.*” Ten MW is used by the European Small Hydropower Association, and the International Energy Agency’s Small-Scale Hydro

Task Force, and Renewable Energy Working Party. Indeed, at COP6 in The Hague in 2000 the EU produced a “positive list” of CDM projects that set a 10 MW limit for eligible hydro projects.

When asked for a definition of small hydro by the International Rivers Network (IRN) in May 2004, the PCF responded that “*Small hydro would be 15 MW or less. We follow the Marrakech Accords definition of small-scale projects.*”¹² Yet even using this 15 MW standard, five of the PCF’s hydro projects should be defined as “large” (see Table 1).

In August 2004 IRN and CDM Watch wrote to the World Bank “*concerning your erroneous and misleading use of the term “small hydro” to describe all hydroelectric projects in the Prototype Carbon Fund’s Clean Development Mechanism portfolio.*” We urged them to correct this miscategorization in its websites and publications. We have received no response.

The small-scale provisions of the Marrakech Accords allow projects with an installed capacity up to 15 MW to use simplified modalities and procedures. But this does not mean that a hydro project meeting this criterion is a “small” hydro project in the sense that the term is commonly used. It means only that it is a “small-scale” project under the Marrakech Accords. The Bank’s answer to IRN also does not address the fact that on its website it describes projects above 15 MW as “small hydro” projects.

⁹ <http://carbonfinance.org/cdcf/router.cfm?Page=About>.

¹⁰ Germany is indirectly involved through KfW.

¹¹ The Netherlands requires intermediaries developing CDM projects to “*apply those [WCD] criteria.*” Germany requires “*compliance with standards as they have been defined for the use of hydropower by the World Commission on Dams (WCD)*” Note that technically they had to provide “approval of voluntary participation.”

¹² Email from World Bank Carbon Finance helpdesk to Patrick McCully, Campaigns Director, IRN, 6.5.04.

Conclusion

Like all energy sector projects, large hydro projects are becoming less prominent in the CDM due to the rise of non-CO₂ projects such as those that avoid HFC-23 and methane emissions. Yet within the World Bank's CDM portfolios large hydro projects remain significant. The Bank appears determined to use the CDM as a testing ground for using carbon finance to develop large hydro projects worldwide, while marginalizing the WCD. This can only be to the detriment of emerging renewable technologies.

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World Bank Carbon Finance large hydro projects

Project name	Capacity (MW)	Location	Fund	ERs (to 2012)
Chacabuquito	26	Chile	PCF	1,436,000
El Canadá	43	Guatemala	PCF	1,297,620
El Gallo	30	Mexico	PCF	563,872
Benito Juarez	15	Mexico	PCF	285,384
Chilatán	15	Mexico	PCF	362,556
Xiaogushan	98	China	PCF	1,750,000
Abanico	29.76	Ecuador	PCF	895,867
La Esperanza	11.5	Honduras	CDCF ¹³	342,650
Sibimbe	15	Ecuador	CFU ¹⁴	547,016
Rio Amoyá	78	Colombia	NCDF ¹⁵	1,875,000
Hornitos	55	Chile	NCDF	1,500,000
Poechos	15.4	Peru	NCDF	~300,000
Total=12 projects				~11,155,965

¹³ Community Development Carbon Fund

¹⁴ Carbon Finance Unit.

¹⁵ Netherlands Clean Development Facility, managed by the World Bank.