

## International Rivers' response to proposed CBI Hydropower Criteria

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Please find below International Rivers' response to the proposed Climate Bonds Initiative Hydropower Criteria. We harbor a number of fundamental concerns about the process, the draft criteria themselves, as well as whether this exercise can deliver real climate benefits, avoid adverse impacts, and amount to more than an attempt to brand hydropower as climate-friendly. The draft criteria fall far short of acceptable standards and practice, and their adoption would pose a significant threat to rivers and the communities and freshwater species that depend on them.

### Core concerns

- As proposed, the CBI hydropower criteria would risk opening up a funding source that could prove profitable to dam operators and institutional investors with Paris-friendly branding, but offer no meaningful mitigation benefits. Beyond permitting projects with dubious benefits to attract a new line of financing, the greatest risk is channeling scarce climate dollars toward projects that fail to help us confront the challenge of preventing a 2°C scenario, or deal with significant legacy issues from existing infrastructure that continue to damage the environment, impact sustainable use of freshwater resources and impact the people who rely on rivers for their livelihoods.
- The proposed 100 gCO<sub>2</sub>e per kWh threshold is unreasonably high and unduly generous to operators. The background paper itself notes that the industry average is between 24-28 gCO<sub>2</sub>e per kWh, and that even IEA recommends that any new energy projects be below a threshold of 50 gCO<sub>2</sub>e per kWh. CBI is setting such a low bar that it would permit even high-emitting hydro projects to qualify for CBI bond certification. As the mitigation threshold is, practically speaking, the only meaningful obstacle that operators must meet, the lack of emphasis on low-emitting hydropower projects is a clear attempt to maximize CBI's uptake for business-as-usual projects no matter how marginal the mitigation benefit. Compounding this issue, CBI's proposed adoption of the allocation approach to determining hydropower's relative contribution toward reservoir emissions ignores the fact that nearly all dams under consideration will be principally for hydropower, and this is merely an effort to downplay the level of total emissions.
- At the same time, given the global imperative to drastically reduce GHG emissions in the near term to arrest the worst impacts of climate change, the reliance on estimating lifecycle emissions over a span of 100 years is inappropriate. Not only is power never produced over a 100 year span, it also fails to consider that the majority of emissions are released within the first 10 to 20 years of operation. Certified projects could, as a result, contribute to a spike in GHG emissions, thus making them incompatible with efforts to meet pressing global mitigation targets.
- The reliance on IHA's own ESG risk tool is wholly insufficient to screen out bad projects. In a bid to maximize uptake by the industry, IHA weakened those elements contained within HSAP that provided space for the voices of affected communities, and shifted from assessing projects against best practice to providing passing grades for projects that fall below basic standards and safeguards. The background paper also mischaracterizes and inflates the level

of support for the ESG tool, which was prepared by industry and lacked even moderately critical voices to check the significant dilutions. The ESG risk tool largely amounts to a box ticking exercise conducted by assessors accredited by the IHA itself, and lacks any meaningful oversight. Our specific critiques of the proposed usage of IHA's ESG tool are described in further detail below.

- The proposed adaptation and resilience criteria suffers similarly from its reliance on the ESG tool, which essentially amounts to whether a project includes any attempt to ascertain climate impacts on project. It is devoid of any clear requirements or thresholds that must be met to be deemed resilient. As an imperative, climate resilience should be firmly embedded in the preparation of any infrastructure project, particularly so for projects seeking climate certification or branding and in such a climate-sensitive sector. Given the complexity in properly conducting climate change adaptation assessments in the hydropower sector, the proposed criteria is wholly insufficient.
- We maintain significant concerns over whether sufficient structures exist in an overall “light touch” approach to certifying bonds to ensure that FPIC processes can be conducted credibly. This is particularly true given the stated emphasis on refinancing or modifying existing installations. How can indigenous communities be asked to grant prior consent retroactively to projects already in operation? Unless these practical considerations can be properly addressed, CBI should exclude from consideration any projects directly or indirectly impacting indigenous peoples.
- We disagree with the assertion that the criteria were developed through an “inclusive process” when its primary contributors were hydropower developers, the industry association, institutional investors, development banks invested in promoting so-called “sustainable hydropower,” and a handful of international conservation groups. The process has suffered from a significant lack of effort to include voices from countries where adverse environmental and social impacts of hydro expansion are being felt most acutely. The NGO representatives of the working group, while possessing expertise in their respective fields, cannot replace or represent the growing and diverse set of voices seeking to protect their rivers and communities from the proliferation of existing and planned dams. This lack of diversity in voices is compounded by a flawed consultation process, or rather comment period, which is online-only, English only, and just 45 days long while many people are on holiday. Advancing the criteria any further on this basis would violate the most basic good practices for consultation.

International Rivers sees a critical role that climate financing can play to help ensure positive outcomes for rivers. These could include protecting threatened freshwater resources, restoring flows that facilitate reconnection of fragmented ecosystems to the benefit of freshwater ecosystems, restoring cultural and environmental flows determined in consultation with affected peoples, and promoting river restoration efforts such as the decommissioning of existing dams. This is of utmost importance because our freshwater resources are vital to sustain in an era of climate change. Unfortunately, the draft criteria risks opening up a lucrative financing stream that sanctions business-as-usual energy practices that further threaten our rivers. Given our fundamental concerns over the proposal as presented, International Rivers strongly opposes the adoption of the proposed hydropower criteria.

## **Response to the proposed use of IHA's ESG tool for CBI hydropower criteria**

The ESG Gap Analysis Tool (ESG Tool) is designed to simplify the processes and assessments required in using the Hydropower Sustainability Assessment Protocol. The Protocol has been deemed by some proponents of hydropower, including IHA member companies, as being too complex, costly, and time consuming. The IHA listened, and developed a simplified, and we would argue, significantly weakened version to allow a more rapid assessment of environmental, social and governance aspects.

The ESG tool uses a simplified set of criteria and scoring to inform an analysis of gaps in performance of projects – looking particularly at environmental, social and governance aspects of a project. But in simplifying, the ESG has serious gaps in what was negotiated for consideration of sustainability in hydropower assessments. This includes some of the critical cross-cutting aspects such as consideration of women's issues and gender; considering the human rights of dam-affected peoples; and considering the Free Prior and Informed Consent of indigenous peoples.

The ESG tool focuses on so-called "good practice" assessment scoring criteria as determined by the Hydropower Sustainability Assessment Protocol. However, the HSAP scoring was developed to also measure no or poor performance against good practice; and also scales toward best practice. These have been abolished in the gap assessment tool. And in abolishing best practice in particular, the ESG moves away from consistency to other standards and safeguards such as those determined by the IFC and other development banks. The sort of things that are now conveniently removed by this approach are a commitment to consent of indigenous peoples for the project: the "3" score just looks at measuring whether there is general support for plans that affect indigenous peoples. A much weaker, and lower standard, that is starkly different to assessing whether a project has obtained and maintained the Free Prior and Informed Consent of indigenous peoples (5 score).

The CBI background paper erroneously conflates the stakeholder forum involved in developing and negotiating the HSAP, with the ESG governance. The HSAP was developed by a Forum, which disbanded at the end of its process in 2011. The governance of the HSAP since then has been under the auspices of the International Hydropower Association (IHA). The IHA also controls the accreditation of assessors. These assessors are in the main drawn from the hydropower industry. It is a self-referential and self-interested system, with few critical voices or "outsiders" to the industry encouraged or facilitated to be part of the process. Assessors have a business interest in remaining on the side of industry to gain more work. The ESG was developed through the HSAP Governance Chambers - a completely different group to the HSAF. The IHA remains a dominant voice in these processes, as it protects its brand and members, most insidiously through their control of the HSAP governance and management. (Background paper p.52). It should be noted that there is considerable overlap with these industry-friendly governance processes for the HSAP to the technical working group for hydropower of the CBI.

The background paper that informs the draft criteria for hydropower assumes the ESG application will be equally robust as an HSAP assessment, which is not the case given it is simplified, and does not assess best practice, nor does it assess through a participatory process the interests of project affected peoples. In the TWG's own words, it is streamlined and designed to minimize costs; but it is wrong to deem that the assessment will be equally robust and comparable.

With its simplified scoring of the ESG tool, there is now no longer an assessment of the free prior and informed consent of indigenous peoples, or whether the peoples directly impacted by the project such as those facing involuntary resettlement have given their consent to the project or plans for their resettlement. As such the assessor, and therefore the CBI, will not have a means to understand anything meaningful about the project and the FPIC of indigenous peoples.

In addition to simplifying the scoring, the Gap analysis tool has also deliberately left out other areas that are deemed difficult to measure and, not coincidentally, those which involve the views and perspectives of project affected stakeholders. The full HSAP has six criteria for scoring each topic – Assessment, Management, Stakeholder Engagement, Stakeholder Support, Conformance/Compliance, and Outcomes. Importantly, the ESG has decided that it will no longer assess (and therefore what the CBI would not assess if it used this tool for its screening) stakeholder viewpoints – especially of those who bear the risk of these projects impacting their rivers, homes, livelihoods and their sustainable futures. It would also not understand, or assess, climate impacts and mitigation, resilience or adaptation options that these stakeholders deem as possible or high priority.

Stakeholder engagement and stakeholder support are both critical criteria for assessing the social aspects of sustainability in projects. These criteria were specifically developed in the HSAP to ensure that the “voice” and interests of those affected by the projects would be considered in an assessment. They were designed to measure both the quality of the processes of engagement, as well as measuring the level of support for the project from these stakeholder groups.

Now in the ESG tool these are largely not scored at all. For example, they are excluded in measuring the gaps in considering topics of Resettlement, Projected Affected Communities and Livelihoods, Environmental and Social Impact Assessment and Management, Indigenous Peoples, Cultural Heritage, and so on. In effect this means that the ESG (and therefore the CBI if it were to use this tool) would make assessments without considering the views and interests of these population groups. This is dangerous as it would mask considerable political risk in projects; and would mean that the stated ambition of only measuring ‘high performing projects’ would have no means of verification from the point of view of those who will bear the risk from the projects. This would include missing critical views on understanding the climate risks for local populations and their livelihoods connected to riparian ecosystems impacted by the project.

The implications of this are profound. In the CBI criteria there is a key footnote that recognizes that assessing climate resilience must include consideration of *“the facility's impact on the*

*resilience of affected populations and ecosystems”* (CBI Criteria p. 3). And yet the ESG tool deliberately identifies that the engagement and support of affected peoples will not be assessed.

**Pass-Fail Threshold:** A pass-fail for certification is incompatible with the approach of allowing gaps as proposed in the Criteria, which would permit certificates to be issued if an ESAP is prepared. Permitting gaps in such a high-impact sector would present considerable risk and undermine faith and belief in the standard. The draft notes that certification would be withdrawn if the gaps are not closed in the timeframe. As already noted, this process would exclude meaningful participation of affected peoples’ views and perspectives. It is also likely that by that stage of non-compliance with the action plan, there will be considerable damage to people or ecosystems – possibly having negative impacts on climate resilience of ecosystems and peoples.

**Cumulative Impacts:** Project assessments are problematic in that they do not assess the cumulative impacts of a project within a basin. The HSAP is clear on this, the ESG less so. Clarification Note 4 allows for option for an assessor to consider multiple projects in one ESG assessment. While this could allow for consideration of cumulative impacts, it could also present considerable risk as it can mask localized impacts on ecosystems and peoples, and assume cooperation in operations between facilities.