

Working together for a benchmark report

Working with Chinese state-owned hydropower companies, International Rivers created a report that measures the environmental and social accountability of these companies. Report by Stephanie Jensen-Cormier, China Program Director at International Rivers



Building for Cambodian workers, Stung Russei Chrum, March 1, 2015

For the past seven years, International Rivers has been engaged in an ongoing dialogue with Chinese state-owned hydropower enterprises. This unlikely relationship between an environmental advocacy organization and hydropower monoliths is built on openness and transparency, and has helped the companies to make decisions on difficult projects. International Rivers has supplied information to the companies that has helped them decide to cancel or mitigate dams they've pronounced "unstable" and "uncontrollable," and which would have harmed the environment and communities that are dependent upon the river for their survival.

Over the years, International Rivers has refined a formula for effective engagement with state-owned enterprises. The results from our most recent effort to step up our discussion with the companies provide valuable insights into what matters to Chinese companies, and provides lessons to those who work with Chinese partners.

This past summer, International Rivers released the first-ever report that benchmarks and ranks the policies and some of the overseas projects

for seven Chinese state-owned hydropower companies. The Benchmarking Report evaluates 26 indicators across three categories: Environmental Management, Communities and Labor Relations, and Risk Management. It provides scientific and evidence-based research and analysis on these three themes, feeding the companies' hunger to improve the quality of their work and addressing concerns about maintaining a positive image abroad.

The level of engagement from the companies was remarkable. Six out of the seven companies were active throughout the process of collecting data from the headquarters and/or arranging site visits to meet with managers and workers at the project sites. Sinohydro, Three Gorges and Gezhouba were particularly engaged throughout the research and compilation phases of the report. The only company that was not responsive during the research phase was Huaneng, which is working through its subsidiary company Hydro Lancang to build the Lower Sessan 2 Dam in Cambodia as its first overseas hydropower project. When the report came out and showed that the Lower Sessan 2 Dam was the second-

worst-performing project, Hydro Lancang's top level executives invested time and money to fly to Beijing in order to initiate a dialogue with International Rivers.

Lessons learned

The key lessons learned from the Benchmarking Report are:

- Generally, companies that build projects as contractors perform better than companies that invest in and own their projects. Among the various Chinese companies, Sinohydro International, which develops EPC projects, had the strongest record in policies and projects. Huaneng and Datang had the weakest rankings for projects.
- Not surprisingly, companies performed strongest at the project site if they were forced to do so by the laws of the host country. The Report's findings suggest that local governments play an important role in lifting the environmental performance of their projects.
- At the policy level, all the companies received their highest scores for dam safety measures. In practice, companies performed better when

implementing environmental standards than standards relating to host communities, workers and general risk management.

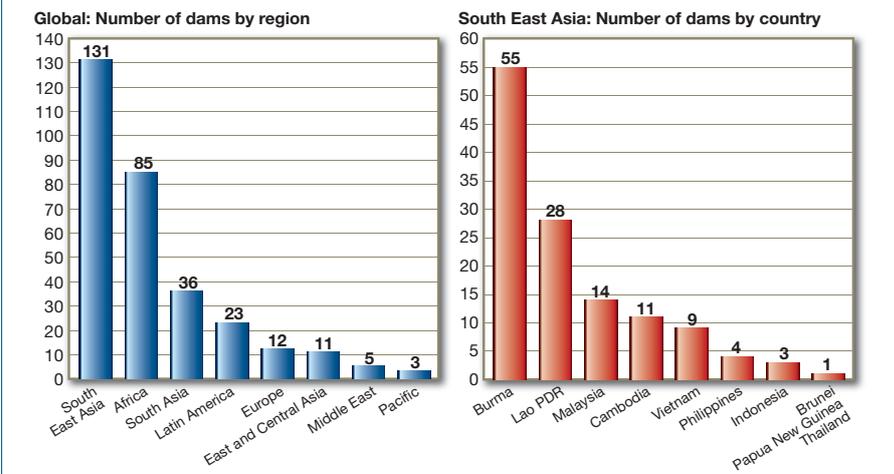
- There are still significant gaps between policy commitments and performance on the ground. Most companies talk the talk, but don't necessarily walk the walk. The cost is borne by those who can least afford it – rural communities and fragile ecosystems.
- With a huge appetite for investing overseas, Chinese companies are interested in finding out how they can improve their reputation and image abroad. The Ministry of Commerce wants to encourage Chinese companies to behave better by highlighting positive examples. Based on our research and analysis, some Chinese companies are taking environmental and social policy and implementation issues seriously in preparing detailed company guidelines and trainings, while others are still at the stage of making empty promises.

Tips for effective engagement with Chinese partners:

International Rivers is engaging with Chinese companies to advocate for improved policies and practices and to encourage companies to compete for a strong environmental track record. Our engagement so far has provided useful lessons in how to most effectively develop a relationship with state-owned enterprises and how best to influence them.

- Building a relationship of trust with Chinese actors takes time. For International Rivers, this process started years ago. As newer state-owned companies emerge, International Rivers is able to effectively initiate interactions because it already has a strong track record with more established players.
- Companies respond to evidence-based research and analysis that shows the impacts of their projects on the ground.
- Companies respond well when they are given plenty of time to respond to research and findings. Our benchmarking research was conducted over an 18-month period, during which International Rivers discussed the questionnaire with the management of all seven companies. The companies took the process

Number of Dams Built by China Overseas



seriously. In numerous meetings, managers went through policy documents, clarified field observations, and investigated grievances that had been uncovered during field work. In the end, we gave the companies two months to respond to a draft report.

- The companies must be aware of the intentions of the other party so that management is not caught off-guard. For the purpose of data verification, we first shared the Benchmarking Report with the participating companies. We then disseminated the findings at meetings with Chinese government officials, with other companies and civil society actors, and at the World Hydropower Congress in Beijing. The Report eventually received a lot of media attention from publications both inside and outside of China.
- Companies are interested to learn how they compare with their competitors. Chinese companies have indicated that they are interested in seeing how they stack up compared with other international hydropower companies.
- The Ministry of Commerce is developing a way to encourage Chinese companies to implement better projects even when the legal requirements in host countries are quite low.
- Companies often have their own environmental, social and corporate responsibility guidelines and follow guidelines from the Ministries

of Commerce and Foreign Affairs and other government institutions. It is important to acknowledge and understand how the companies incorporate these into their work, rather than guidelines that are more common internationally. In some cases, the Chinese company guidelines are similar to World Bank, United Nations or human rights and business practices.

Actors in the global hydropower industry know that Chinese companies and banks have branched out beyond their borders to become the biggest builders and financiers of hydropower projects in the world. Chinese hydropower companies are currently involved in some 330 dams in 74 different countries. Cultural and linguistic barriers can cause issues when working with Chinese partners. Chinese companies also often operate in high-risk areas while trying to forge a positive international reputation.

Over the years, International Rivers has established a continuous dialogue with Chinese companies which has had a real impact on their policies and projects. Fostering an open relationship with the companies has been beneficial to ensuring that their decisions minimize environmental and social harm. We also provide an incentive for companies to compete on their environmental and social track records rather than simply on financial grounds. Companies that talk to NGOs more frequently understand the local situations more clearly and avoid involvement in unstable projects.

We plan to periodically repeat our Benchmarking Project, to understand how dam builders' policies and practices evolve over time. In the future, we plan to expand the project to non-Chinese dam builders. ■



Reference

International Rivers' Benchmarking Report on the policies and practices of international hydropower companies is available in English and Chinese at www.hydro-scorecard.org.