



Netherlands Commission for
Environmental Assessment
Dutch Sustainability Unit

FMO – Netherlands Development Finance Company
Stakeholder Consultation mailbox

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Subject: DSU Advice on Stakeholder Consultation
Hydropower Plants

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Dear Sir/Madam,

The FMO, on its website www.fmo.nl, has invited interested stakeholders around the world to share their comments on the proposed new FMO Sustainability Policies. These include a “Position Statement on Hydropower Plants”, which is associated with the FMO “Sustainability Policy Universe” and “Implementing FMO Sustainability Policy”.

At this time, the DG of international co-operation (DGIS) of the Ministry for Foreign Affairs is also considering its position on hydropower. DGIS has asked the Dutch Sustainability Unit (DSU) of the Netherlands Commission for Environmental Assessment to provide an advice on this position. This advice is currently being prepared and may perhaps be useful in the formulation of FMO’s Sustainability Policy. For this reason, ahead of the completion of the advice and at the request of DGIS, hereafter the DSU summarises some possibly relevant conclusions, to further inform debate on the FMO position statement.

In its advice to DGIS the DSU concludes that the interest in large hydropower plants continues and donors and IFIs are regularly presented with proposals. These are often presented as sustainable solutions to energy demands, with a positive contribution to avoiding climate change. At the same time, the DSU notes regular reports of social and environmental problems arising as a result of large hydropower plants and an unsettled debate about whether large hydropower plants in fact contribute to sustainable development. This in the context of competing demands on water and the availability of emerging alternative renewable energy technologies such as wind, solar and geothermal, and energy efficiency.

Given this situation the DSU will be advising DGIS to:

- 1) invest where possible in the strengthening of upstream strategic planning, and



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- 2) carefully consider the governance context of proposed large hydropower plants before supporting that initiative.

Below, the DSU further details the relevant parts of this advice, with special attention to the FMO context.

1) Upstream strategic planning

Ideally, any proposal for a large hydropower plant fits into a carefully considered planning framework. In reality, this is seldom the case. There is often a “lock-in” on a preselected solution. Decision-making often has not benefitted from an informed comparison of a wider range of options for electricity generation, in view of opportunities or impacts for other fields of planning such as water management and food security. There is increasing evidence that (i) the benefits of large hydropower plants, including reduction of CO₂ emission, are often less significant than anticipated, (ii) co-benefits of hydropower plants for purposes such as irrigation often do not materialise fully, and (iii) energy demand in many cases can be served in more sustainable ways. In addition, there is much to be gained by considering hydropower options in relation to other goals that the affected water body serves, particularly food security goals. In many contexts, there would be great benefit if all concerned developing actors and authorities would line-up and jointly commission strategic assessments to identify and compare the sustainability of options to serve both energy demand and other objectives.

The DSU suggests that the FMO, in its position statement, could consider how it will take into consideration the quality of upstream decisions on hydropower proposals and the assessments that justify them. This would be in line with FMO’s policy as laid down in the note “Implementing FMO’s sustainability Policy” to “confront this challenge by addressing sustainability from FMO’s very early engagement with potential clients (..)”. This early involvement puts FMO in a favourable position to help its clients engage in strategic planning.

2) Governance context

Even when all procedures *ex ante* have been duly followed, still the implementation may fail *ex post* in situations where the context is unfavourable. This is often referred to as contextual risk or governance risk. The DSU notes that a significant number of social and environmental problems that arise during hydropower plants implementation can be considered governance-related. This would warrant a consideration of the governance context and quality before financing decisions are made. The DSU also notes that these problems may also arise in situations where IFC performance standards were applied and sound social and environmental management plans existed.

In the note “Implementing FMO’s Sustainability Policy”, contextual risk is identified as one of FMO’s four key challenges or dilemmas. This includes “weak rule of law and public governance”. FMO states that it will “confront this challenge (...) also by careful client selection and monitoring”. The DSU underlines the importance of FMO’s engagement in “careful client



selection' aiming at the reduction of the risk that a hydropower plant will not create its benefits, or only at costs that FMO may find unacceptable. The DSU also recommends the FMO to inform its stakeholders how it assesses contextual risk when carefully selecting its clients. Such transparency would enable a useful debate about the related dilemmas.

Leadership

The DSU, finally, also confirms that FMO's ambition to move to stage 3 of its sustainability policy is a major opportunity for FMO to help lead transformations to sustainable development. In the light of the remarks above, the DSU thinks that this also applies to transformations away from hydropower in situations where hydropower creates too much risk and more sustainable alternatives are available. FMO, as a public-privately owned development bank, is well positioned for such a leadership role. The Netherlands Commission for Environmental Assessment would be very happy to support such role where needed, for example through an independent review of the assessments that underlie the sustainable transformations FMO is seeking.

Yours faithfully,



Rob Verheem
Director International

