

# HSAF Meeting 2 – 11-13 July 2008, Santa Rosa, California, USA

## Final Meeting Minutes

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- Present:** Meeting Chair - André Abadie,  
Forum Coordinator - Helen Locher  
Forum Members - Refaat Abdel-Malek (IHA), Daryl Fields (World Bank), David Harrison (TNC), Joerg Hartmann (WWF), Gudni Johanneson (Iceland), Donal O'Leary (Transparency International), Israel Phiri (Zambia), Andrew Scanlon (Hydro Tasmania), Cathleen Seeger (Germany), Zhou Shichun (China), Michael Simon (Oxfam), David Wright (Norway), Yu Xhuezhong (China)  
Additional Meeting Participants – Jean-Michel Devernay (EdF), Michael Fink (IHA), Jon Ulrik Haaheim (Statkraft), Janak Karmacharya (Clean Energy Development Bank), Michael Mainwaring (MWH), Elenestina Mwelwa (Zesco), Marcela Roza (Transparency International), Bornwell Sinkala (Zesco)
- Apologies:** Forum Member - Sharon Maharg (Equator Banks)  
Additional Meeting Participant - Courtney Lowrance (Equator Banks)

### **DAY 1 (11 July 08)**

#### **ADMINISTRATIVE MATTERS AND EXPERT PRESENTATIONS / DISCUSSIONS**

The purpose of this day was in two parts:

- Agenda items 1 through 6 were open only to Forum members, and aimed to discuss and reach agreements among Forum members on relevant administrative matters.
- Agenda items 7 through 9 were open to invited external meeting participants to give expert presentations and stimulate discussions on key issues relevant to technical, economic and governance aspects of Protocol Sections A and B. This part of the meeting was not aimed at reaching agreements, but to build a level of common understanding amongst Forum members on these issues.

#### **Agenda Item 1 – Opening and Agreement on Agenda**

The Forum members agreed on the meeting agenda provided as Mtg2 Paper 1.

#### **Agenda Item 2 – Review of Actions from Previous Meeting**

The minutes of meeting 1, provided as Mtg2 Paper 2a, were accepted pending the removal of the words “widely shared” in sentence 2 under item 4 on page 2 of the minutes.

The Forum Coordinator spoke to Mtg2 Paper 2b, the actions from Forum Meeting 1. A number of the actions were Meeting 2 agenda items, or were self-explanatory from the status report in Mtg2 Paper 2b, and so were not discussed at this point.

The only Meeting 1 actions discussed were Actions 8a, 8b and 8c which related to past and potential Protocol trials and obtaining feedback from those with experience with the Protocol. Discussion points included but were not limited to:

- previous experiences with the Protocol may not be that helpful to the Forum’s deliberations, because not all trials were closed off properly or had written reports;
- IHA’s Protocol training program provides an opportunity to get feedback on the present Protocol;

## HSAF Meeting 2 – 11-13 July 2008, Santa Rosa, California, USA

### Final Meeting Minutes

---

- information needs to be filtered from these experiences that contain messages on the tool itself;
- the Forum needs to capture and report on its own assessments undertaken during the Forum process;
- IHA Reference Group members responded to a survey asking about improvements they would like to see to the Protocol; and
- Action items 8a, 8b and 8c are critical to the Forum work plan and should be considered open actions to be built upon throughout the Forum process.

**Mtg 2 Action 1:** *The Coordinator will contact the parties who have conducted previous Protocol trials, as captured in Mtg2 Paper 13a, to determine their willingness to make available results of these trials.*

**Mtg 2 Action 2:** *The Coordinator will request if the results of a recent survey of the IHA Reference Group members can be distributed to Forum members.*

The Forum membership list was tabled as Mtg2 Paper 2c. The Forum members were advised that Sharon Maharg would no longer be able to participate as a Forum member, and so a change will be made to this list. Courtney Lowrance will be the Equator Banks representative on the Forum, with the alternate being Gwen Terras of Société Générale.

The ISEAL Code of Good Practice was tabled as Mtg2 Paper 2d. Attention was called to a number of points in this Code that were of interest for consideration by the Forum. This paper received considerable discussion. Discussion points included how legitimacy of the Forum process is achieved and ensured; what are some of the present gaps in the Forum process with respect to the ISEAL Code; and at what stage the Forum would commence applying the ISEAL Code if it chooses to do so.

**Mtg2 Agreement 1:** *The Forum members recognise that the operation of the Forum is a pre-standard setting phase. The Forum will take guidance from and look for opportunities to be consistent with the ISEAL Code of Good Practice for Setting Social and Environmental Standards. The Forum will consider compliance with the ISEAL code as it moves from Phase 2 to Phase 3 of its work program.*

### Agenda Item 3 – Consensus Building

Action 4 from Meeting 1 was to develop a proposition on conflict resolution mechanisms for the Forum working and decision making process. Mtg2 Paper 3 provides an outline of Principles for Consensus Building. This paper sets the issue of conflict resolution within the context of the Forum's aim to operate with goodwill, transparency and by consensus.

**Mtg2 Agreement 2:** *The Forum members agree to adopt the Principles for Consensus Building as set out in Mtg2 Paper 3.*

### Agenda Item 4 – Communications and Operating Procedures

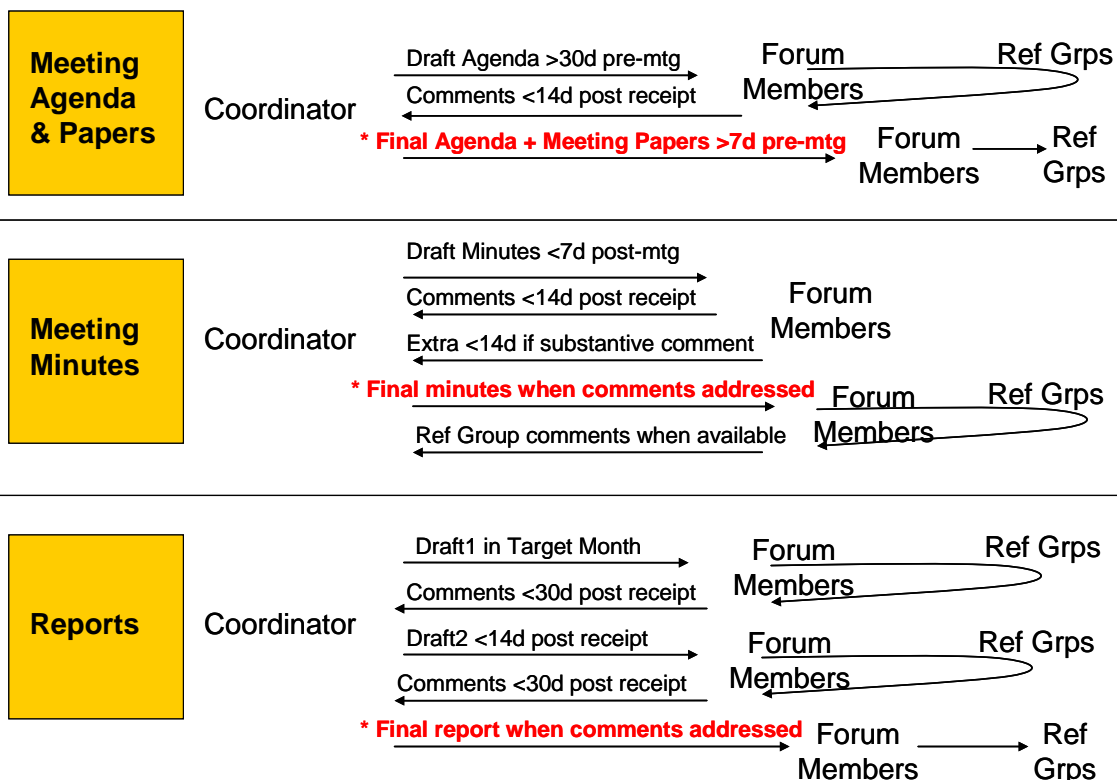
Action 2 from Meeting 1 was to draft a communications strategy on external communication about the Forum. Mtg2 Paper 4 provides a Communications and Operating Procedures document, which goes beyond the action because it also details internal communications. This was circulated to Forum members as a draft by email on 11 June 2008, and received considerable discussion in the meeting.

Main discussion areas were the status and expectations for reference groups; timing and mechanisms by which Forum materials will be circulated to get reference group comment; implications for the Forum work plan; and mechanisms additional to reference groups to bring viewpoints into the Forum.

# HSAF Meeting 2 – 11-13 July 2008, Santa Rosa, California, USA

## Final Meeting Minutes

The Forum Coordinator presented a diagram illustrating the timetable for circulation of draft and final meeting agendas, minutes and reports amongst Forum members and reference groups:



\*will be publicly available

At present there are only two well-established sector-based reference groups linked to the Forum, the IHA and the Equator Bank reference groups. These both draw on existing groups: a sub-set of the IHA Board of about 20 members, and the Equator Banks Best Practices working group of about 12 members.

The NGOs do not at present have a formal reference group broader than the four NGO Forum members. They are in the process of drafting a briefing paper for the NGO community and setting up a mailing list. The difficulties with defining this sector and coordinating them were discussed. The NGO Forum members see setting up a reference process around the geographical locations of Forum meetings as one of the best opportunities to get broader NGO input into the Forum process.

A number of Forum members (e.g. from Oxfam, Iceland, China) indicated that they have their own more locally-defined reference groups, either within their respective organization or country, and that not all of the individuals involved would want to be part of a sector-based reference group.

There are also a number of individuals or organizations who are interested parties to the process but would not want to be a part of a reference group. This was particularly highlighted as relevant to the NGO and government sectors. The Forum Coordinator is in the process of setting up a mailing list which can be utilized by all Forum members to advise interested parties of progress with the Forum.

## HSAF Meeting 2 – 11-13 July 2008, Santa Rosa, California, USA

### Final Meeting Minutes

---

The limitation of individual Forum members to represent their sector was recognized, as was the resource requirement to coordinate a sector-based reference group. It was clarified that formation of reference groups is the business of the Forum members, and there is no expectation that this will occur. It is recognized that there are a range of strategies that can be employed throughout the Forum process to achieve the intent of bringing in views beyond the Forum members. The possibility of mapping existing networks to see what we presently have and what we lack was raised.

**Mtg 2 Action 3:** *The Coordinator will update the draft Communications and Operating Procedures document (dated 11 June 2008) to reflect the discussions of the Forum, and re-circulate as a draft to Forum members.*

#### Agenda Item 5 – Proposals

The Forum Coordinator explained that this is intended to be a standard meeting agenda item, to encourage Forum members to bring forward proposals of any nature and at any stage of formulation that they feel would advance the processes of the Forum. The Coordinator indicated a willingness to support any Forum members in developing their ideas into concrete proposals.

There were no written proposals tabled under this agenda item.

A proposal from Refaat Abdel-Malek that had been circulated by email several weeks prior to the Forum was to consider involving The Energy and Resources Institute (TERI) in India in some manner in the Forum. The Forum Coordinator advised that she has had correspondence from TERI, and that TERI is considering doing a joint trial of the Protocol with EdF. The Forum Coordinator will keep TERI informed about the Forum activities, and be mindful of this connection when considering engagement of India into the Forum process.

Another opportunity that is not yet at a point where it can be developed into a proposal arises from contact from Jeremy Bird, CEO of the Mekong River Commission. He is seeking to discuss potential areas of collaboration on the IHA Protocol with the ADB/MRC/WWF initiative on Environmental Considerations for Sustainable Hydropower Development (ECSHD). The Forum Coordinator will meet with Jeremy Bird in Stockholm in mid-August to explore opportunities.

#### Agenda Item 6 – Other Administrative Matters

Mtg2 Paper 6 was tabled, which sets out the procedures with respect to externally invited participants to Forum meetings. This was accepted by the meeting.

**Mtg2 Agreement 3:** *The Forum members agreed to the administrative procedures for externally invited Forum meeting participants as set out in Mtg2 Paper 6.*

#### Agenda Item 7 – Operational Considerations for Hydropower Projects

Jon Ulrik Haaheim from Statkraft provided a presentation on operational considerations for hydropower projects. The powerpoint presentation will be on the Forum website. Discussion points included but were not limited to:

- development of hydro in the context of the whole energy system;
- integration issues relating to hydro and other energy sources;
- license requirements versus voluntary measures for social and environmental benefits;
- implications of different market and regulatory environments;
- issues with mixed ownership in a cascade; and
- integrating system operations.

### **Agenda Item 8 – Economics of Hydropower Projects**

Jean-Michel Devernay from Electricité de France presented on the economics of hydropower. The powerpoint presentation will be on the Forum website. Discussion points included but were not limited to:

- the high risks posed by unpredictable development costs;
- implications of an Energy Master Plan in reducing the financial burden;
- the need to quantify all costs and benefits into the economic evaluation, but there are issues with practicality and cost;
- the timing relationship between economic evaluation and financial arrangements;
- costs of environmental services; and
- benefit sharing.

Courtney Lowrance had prepared a presentation on access to capital for hydropower projects. As she was unable to attend the meeting, André Abadie presented her slides. Discussion points included but were not limited to:

- the banks' approach to assess the client as well as the project;
- the narrowness of some of the commercial bank approaches to management of risk;
- making the power purchase agreement public, as well as the process of getting to the PPA;
- ownership of hydropower and the water resource;
- the need for predictability of assessment requirements for projects; and
- monitoring of project commitments once the loan is disbursed.

A conclusion of this presentation was that the IFC performance standards and World Bank safeguards are used by most financial institutions to assess and manage risk, and the Protocol needs to assess compliance with these standards and safeguards. The Forum Coordinator advised that IHA had conducted a comparative assessment of the Protocol with the WCD Strategic Priorities, and that this could be made available to Forum members. Attention was also called to the King report done for the Mekong River Commission which also made a comparative analysis of assessment approaches including the IHA Protocol.

***Mtg 2 Action 4:*** *The Coordinator will distribute available documents which compare the Protocol to other existing tools and frameworks.*

### **Agenda Item 9 – Transparency, Corruption and Governance of Hydropower Projects**

Donal O'Leary and Marcela Roza from Transparency International, and Janak Karmacharya from the Clean Energy Development Bank in Nepal provided presentations on transparency, corruption and governance issues in the hydropower sector. The talks centred around experience in the hydropower sector, tools available to address these issues, and work being done by Transparency International. The powerpoint presentation will be on the Forum website. Transparency International provided all Forum members with copies of the recently released Global Corruption Report, and circulated several hand-outs which will also be on the Forum website.

Discussion points included but were not limited to:

- making the procurement process public;
- the role of an ombudsman;
- tools such as integrity pacts, anti-corruption agreements, project corruption risk assessments, governance improvement plans; and
- good versus best practice in this area.

# HSAF Meeting 2 – 11-13 July 2008, Santa Rosa, California, USA

## Final Meeting Minutes

---

---

### **DAY 2 (12 July 08)**

#### **DESK TOP ASSESSMENT USING PROTOCOL SECTIONS A AND B RELATING TO ECONOMICS, TECHNICAL AND GOVERNANCE ASPECTS**

The purpose of this day was to provide a practical exercise to Forum members in application of the Protocol. It was to ensure all Forum members had the experience of acting in the role of auditor, using the Kafue Gorge Lower project as the focal point of the exercise. The agenda items were not aimed at reaching agreements, but rather to stimulate and capture discussions on specific aspects that would assist in formulating Forum members' views on the points of agreement to be reached on Day 3. This day was open for participation of all invited meeting participants as well as Forum members.

#### **Agenda Item 10 – Auditing Concepts**

Andrew Scanlon, lead author of the Protocol, provided a presentation on auditing concepts, which was supplemented by Mtg2 Paper 10. The powerpoint presentation will be on the Forum website.

#### **Agenda Item 11 – Overview of Kafue Gorge Lower Project**

Israel Phiri provided an overview presentation on the Kafue Gorge Lower project. This included the water, energy, environmental and economic context for this project within Zambia and the broader region; the project stages, timing and significant reports; and the relationship to the community. The powerpoint presentation will be on the Forum website.

#### **Agenda Item 12 – Desk-Top Assessment of the Kafue Gorge Lower Project, Zambia**

The Panel for this desk-top exercise included Israel Phiri from the Ministry of Energy and Water Development, Zambia, and Elenestina Mwelwa and Bornwell Sinkala from Zesco. Forum members took it in turns to ask questions about the project relating to each of the following aspects, and to ascertain what evidence was available to support the assessment. The notes below only capture the focal areas of the discussion relevant to that aspect.

A particular issue that became apparent throughout the assessment exercise was that, although historical pre-feasibility and feasibility studies had been undertaken, because the site specific feasibility studies are just being started the conclusions and available evidence to support measurement for a number of the aspects is limited.

A1: Demonstrated Need. Discussion centred around the perspective on this question, and the relevant energy market. The capacity of interconnectors was raised as relevant. Questions were raised about the degree to which alternative options had been explored, including demand-side management, other renewables, and other hydropower projects.

A2: Government and Proponent Policies. The discussion included energy sector policies, pricing, the institutional frameworks, water legislation, water for the environment, water licensing, resettlement, citizenship empowerment. Questions related to the existence of policies as well as their strength and comprehensiveness. Attention was called to the distinction between proponent policies and finance-sector policies.

A3: Political Risk and Regulatory Approval. The discussion addressed how and why countries get rated as high political risk, and what impact this has on the country, particularly with respect to the level and type of investment. The questioning explored the regulatory approval process, what are the

## HSAF Meeting 2 – 11-13 July 2008, Santa Rosa, California, USA

### Final Meeting Minutes

---

approvals required (e.g. project, water licence, environmental), and what evidence would show likelihood of approval.

A4: Site Selection and Design Optimization. Discussion focussed on whether it was least cost or largest storage that governed site selection, and if social and environmental considerations were brought into this. The relationship between system optimization analyses and site selection were explored.

A5: Design, Operational and Construction Risks. Discussion focussed on what are the specific risks, what sort of resources and competencies are required to address these, and what can be found in-house versus being contracted from outside. The criteria for suppliers and how these are developed were also discussed.

A6: Project Finance. Questions centred around clarifying the status of financing negotiations, parties involved and the role of International Finance Corporation.

A7: Short- and Long-Term Economic Viability. Discussion centred around cost, ownership structure, who takes the risk, and the potential for combining into the assessment / partnering arrangements the industries who will most benefit from the project.

A8: Markets, Innovation and Research. Discussion was about projections in national and regional demand for energy, balance of base versus peak load demand and how this will change with time, the state of energy masterplanning, and if the implications of development of other major infrastructure projects has been assessed.

A9: Additional Benefits and Capacity Building. The nature of the additional benefits was discussed, with respect to benefits for the power system, telecommunications in relation to interconnectors, efficiency of water use, social benefits for those resettled as well as those in the receiving community, rural electrification, downstream benefits, catchment management. Responsibilities with respect to benefits was raised as important. Project packaging was discussed. Comment was made on the difficulties in separating between social and economic aspects, and it was noted that other benefits are picked up elsewhere in Section A (e.g. A14). Andrew Scanlon advised that the intention was to separate multiple project benefits from directly affected peoples; overlap is definitely there, but the Protocol aimed to elevate focus on directly affected stakeholders through A14.

A10: Short- and Long-Term Reliability. The discussion first focussed on performance of the present power system assets, if the rationale for the power purchase agreement related to reliability, incentives to maintain assets, and if assets would remain in public or private hands in the long-term. The discussion moved to a focus on the reliability of the hydrological resource, how far back hydrological records are available, the forward modelling that has been done, the government share in taking hydrological risk, the effects of irrigation developments and water allocations. The flexibility of the hydrological model was discussed, including whether it could potentially enable management of flood flows, and optimising operating rules for upstream and downstream reservoirs. Geological risk was also discussed here – who takes what share, and what are the guiding principles for determining that risk.

A11: Planned Operational Efficiency. The expected operational efficiency of the project versus what is expected by the market was discussed, as were the existence of efficiency constraints. Integration with other power stations presently operated independently was discussed; how one would optimise the entire system; what simulations of the entire system have been developed; and how well the benefits of system integration can be demonstrated.

At this point in the meeting there was a general reflection on Section A. The discussion was broad-ranging. Important discussion points included but were not limited to:

## HSAF Meeting 2 – 11-13 July 2008, Santa Rosa, California, USA

### Final Meeting Minutes

---

- at what stage in the project life cycle the assessments are likely to be done;
- different jurisdictions have different sequencing for projects;
- what is the scope of the assessment of Section A (e.g. in the case of Kafue Gorge Lower, Zambia? the Kafue / Zambezi river basins? the South African Power Pool?);
- what is the proponent's relationship and responsibilities with respect to Section A;
- whether Section A should be merged back into the Sustainability Guidelines;
- the need for Section A to address options assessment and strategic assessment;
- whether Section A should include scoring as a tool for government and regional planners;
- an assessment of the consultative process involved in Section A activities to be reflected in Section A content; and
- how much of the section A issues need to be picked up in Section B and the need to strengthen Section B with respect to these issues.

Forum members continued their questioning with the Section B aspects relating to technical, economic and governance issues. In the case of the Section B aspects, where measurement is undertaken, there was much more focus on the nature of the objective evidence that could be used to justify a particular score.

*B1: Political Risk and Regulatory Approval.* Questions were about the key project risks and the relative level of these, the basis for which the level of risk for different areas is evaluated, and how they are being managed. Political risk and sovereign risk and their relationship with the climate for investment were discussed. Types of objective evidence were explored. Indices such as the rankings in the Global Corruption Report, Standard & Poors ratings, indices of the World Economic Forum, and ratings of the Multilateral Investment Guarantee Agency (MIGA), part of the World Bank, were all mentioned. Another indicator mentioned is examining which finance agencies and export credit agencies are working in a country and providing cover for risks. It was pointed out that before talking about insuring risk it is important to understand the structure of the project, and it is not obvious how you cover this in an audit as it needs a full risk assessment. It was asked if transparency could be built in to assessing likelihood of regulatory approval, as this is a classic place for corruption. Making licences public was discussed. The logic behind grouping political risk within the same aspect as regulatory approval was questioned. Andrew Scanlon advised that this was not necessarily based on logic but rather on the effort to limit the number of aspects to 20 for each section. It was suggested that these two parts of B1 should be split, with process and performance components for each.

*B2: Economic Viability.* It was discussed that economic models need to be iterative with updated information being fed into them. The presence of a cost-benefit analysis should not be taken as sufficient evidence if it has yet to be confirmed in the feasibility study. An area of discussion was using traditional factors in a cost-benefit analysis versus increasing focus on social and environmental aspects that are difficult to put a dollar cost on. It was felt that the feasibility study would help determine how best to take these into account, and that this should be a public document. Gaps in the B2 scoring were identified with respect to the process, adequacy and quality of the cost-benefit analysis. It was also pointed out that the auditing / monitoring mentioned under the process criteria is not a component of the performance column. It was discussed whether the project could score a high score if it has done a cost-benefit analysis that is not up to date, but there is a very good quality tool that has been developed that can be continued to be used.

*B3: Additional Economic Benefits.* The processes for stakeholder identification, selection and classification were discussed. Items that could be included in this aspect were mentioned to be planning, necessary resources, grievance mechanisms. The need for an additional opportunity analysis was raised, to examine what potential benefits could be delivered. The principle behind this

## HSAF Meeting 2 – 11-13 July 2008, Santa Rosa, California, USA

### Final Meeting Minutes

---

aspect was questioned; is the objective to enhance potential benefits as far as possible? The feasibility study information was considered necessary to rate this aspect, e.g. to know explicitly how much employment will be given to people in the area.

*B4: Planned Operational Efficiency and Reliability.* Documents cited as relevant for evidence include company programs to reduce technical losses and performance audits; documented assessments of the hydrological resource; and assessments of network availability to meet the load. Whether examination of system-wide operation would give a very high score to the operator was raised, with the follow up about the high burden this would place on the developer. Andrew Scanlon clarified that this aspect as drafted was intended to examine the proponent's understanding of these things and their ability to influence them. The effect of conjunctive operation to enhance performance for a single power station was discussed. Vulnerability to long-term drought, and mechanisms for monitoring, forecasting and operational response were raised in discussion. Incorporation of Integrated River Basin Management (IRBM) into this aspect was considered. Andrew Scanlon again clarified that this assessment was designed to be around the sphere of influence of the proponent, which is why words such as "practicable efficiency in management of the hydrological resource" are utilized, intending to reflect the range of ability of the proponent to manage the water. He noted that for some multipurpose schemes, hydropower might be an add-on. Clarity on who is being evaluated was flagged as essential to the discussion: the operator and his project or the context? With respect to scoring, interest was raised in seeing reference to real time monitoring linked to operation to be a requirement to support a high score.

*B5: Project Management Plan.* A gap noted is the process of development of the project management plan. The absence of any reference to social and environmental considerations was mentioned. Andrew Scanlon advised that this aspect was designed to be very focussed. There was some concern raised that there needs to be consistency in where participatory planning is present in the Protocol. It was noted that B5, B8 and B13 are all about project management plans and there is a need for coordination. Integrated scheduling is required along with clear responsibility defined for integration. From a financiers' perspective this aspect is considered one of the most critical, and must address the breadth, processes for development and implementation, and responsibilities of project planning. Other important considerations identified were the ability of the plans to be adapted, and how well they are monitored. Timing was raised as a problem – sometimes there are plans, sometimes there are plans for plans; different jurisdictions have different sequencing, and projects are also in varying stages of completeness. The Protocol assessment process will always be faced with an inability to completely score. There may be cases in which this aspect either can not be scored or is not relevant (e.g. for a very small project). Thought could be given to recognizing a proponent's understanding of and planning for the task ahead, and maybe give a conditional or provisional score.

*B6: Site Selection and Design Optimization.* It was pointed out that good design is largely dependent on the quality of the database. The aspect does not specifically mention data requirements, but rather implies this with the term "thorough understanding". A question raised was how the project is maximizing benefit for local people in the site selection and design, and has this been independently assessed. It was suggested that the aspect could explicitly mention design from the perspective of optimal outcomes, e.g. optimal environmental flow design. The scope of the site selection component of this question was raised, with the conclusion that it is going to have a very narrow or very broad scope depending on the application.

### **Agenda Item 13 – History and Evolution of the Protocol**

Timing permitted this agenda item to be moved forward from Day 3 to Day 2. Andrew Scanlon provided an overview of the development and evolution of the Protocol. Accompanying this

## **HSAF Meeting 2 – 11-13 July 2008, Santa Rosa, California, USA**

### **Final Meeting Minutes**

---

presentation was Mtg2 Paper 13 showing the extent of Protocol trials which have been conducted to date. The powerpoint presentation will be on the Forum website. Discussion points included but were not limited to:

- the disconnectedness of the Protocol with the Sustainability Guidelines;
- cost of assessing a project which could potentially be a disincentive;
- whether projects should be passed that fail in critical areas;
- the value of a scoring gradation in which developers/operators can see what needs to be done to address each aspect, versus what is “gold-plated”;
- the fact that one is not assessing the success of regulatory functions;
- how process and performance measures, and objective evidence, are addressed within the Protocol; and
- the need to have better guidance in the Protocol on definitions of evidence, on the variety of sources to contact in an assessment, and on documents to review.

Andrew Scanlon clarified that for an assessment it is essential to plan the process, prepare ahead of time and to visit the site. It is best to have two in an audit team at a minimum; to have multiple representatives of the company involved; and to meet and interview external stakeholders. 3-5 days would be considered essential for a full assessment, with additional time for planning and report writing.

#### **Survey Exercise – Key Aspects Sections A and B, Technical, Economic and Governance**

To assist discussions for Day 3, meeting participants were given an informal exercise to rate key technical, economic and governance aspects with respect to their degree of importance to Sections A and B (see Attachment 1). This used the full list of aspects (economic, technical and governance only) identified in the Mtg1 Minutes and listed in Mtg2 Paper 15 page 3, and broken down to discrete units rather than lumping together. This was in recognition that the survey responses that had been collected so far and reported on in Mtg2 Paper 15 only referred to the 6 technical, economic and governance aspects that are presently in the Protocol Section B.

Meeting participants were asked to rate each aspect on the list provided as (1) Essential, (2) Useful, or (3) Unnecessary, both with respect to Section A and Section B. A third column asked if a particular aspect should be lumped together with another aspect. Considerable caution must be taken in interpretation of results, and this was an indicative exercise only. Interpretation is complicated in that if a respondent thought an aspect should be lumped with another, he or she did not always rate that aspect, i.e. an absence of rating does not mean an absence of importance of an aspect. Given this, results were analysed with respect to how many respondents felt an aspect was essential. Presented here are the top 12 aspects for each section in order of number of respondents who felt an aspect was essential.

## HSAF Meeting 2 – 11-13 July 2008, Santa Rosa, California, USA

### Final Meeting Minutes

Key Aspect - Section A	Essential	Key Aspect - Section B	Essential
Economic viability / sound economic value	14	Governance	14
Demonstrated need for project	14	Economic viability / sound economic value	14
Government policies	12	Site selection	13
Strategic impact assessment	12	Financial viability	13
Governance	9	Project management plan	12
Financial viability	8	Design optimization	12
Linkages with comprehensive planning	8	Regulatory approval	12
Political risk	8	Demonstrated need for project	11
Site selection	8	Construction risks	10
Corruption	7	Compliance	10
Accountability	7	Political risk	10
Transparency	7	Community safety	10

### DAY 3 (13 July 08)

#### WORKSHOP EVALUATING SAP SECTIONS A AND B ECONOMICS, TECHNICAL AND GOVERNANCE ASPECTS

The purpose of this day was to reach agreements amongst Forum members on:

- the purpose and intent of Sections A and B;
- the key technical, economic and governance aspects to include in Sections A and B; and
- the approach to be taken in the Protocol to assess these aspects.

This day of the Forum meeting was open to Forum members only.

#### Agenda Item 14 – Purpose and Intent of Sections A and B

This meeting agenda item was informed by prior reading of the information that had been compiled in Mtg2 Paper 14, and reference to the survey results from the end of Day 2. The Day 2 survey results were used for an interesting and relevant reflection of Forum members' views, but were not taken as any basis for decision-making.

Andrew Scanlon informed the Forum that the Protocol has always had three sections. B and C have always been project focussed, whereas A is not meant to be project specific but rather a comparative basis for considering new energy options. The intent is that each section stands alone, so there is intentional overlap amongst the aspects. A is intended to be for guidance only, hence there is no measurement.

It was clear that there were different perceptions amongst Forum members about what Section A is for. Andrew Scanlon noted that although Section A had initially been defined as a new energy options analysis, it has evolved into advice for government.

Typical users for Section A are considered to be very broad-ranging, including: regional utilities; planning commissions; government ministries and departments; people responsible for energy and water strategy, policy and planning; developers; financiers; and interested stakeholders. The Protocol can be used to check that the framework for a project is set, to stimulate governments to be proactive, to check that things that need to be done up front are done, and to form a conclusion on whether there is a sound basis for a project to move forward. Project proponents can use Section A to scope the degree of challenge for their project, and ascertain the level to which they will need to compensate for gaps in the strategic framework.

The view was expressed that after undertaking an assessment using Section A, one can ascertain whether there is full confidence to proceed with a given hydropower project. One would most

## HSAF Meeting 2 – 11-13 July 2008, Santa Rosa, California, USA

### Final Meeting Minutes

---

appropriately apply a Section B assessment once it is decided to proceed with a hydropower project. A project proponent is not required to do the activities addressed in Section A, but would be expected to understand the risks involved if these activities have not been done.

It was observed that the activities addressed in Section A are in many cases done by governments, potentially assisted by grant money; the activities addressed in Section B are in many cases done by the proponent, potentially assisted by loan money.

**Mtg2 Agreement 4:** *The Protocol is intended for application by a wide range of users.*

**Mtg2 Agreement 5:** *The Protocol will continue to have three sections.*

**Mtg2 Agreement 6:** *Each Protocol section will be able to stand alone.*

**Mtg2 Agreement 7:** *The user will be able to determine for their own purpose which section of the Protocol is to be applied for a particular assessment, recognising that sequencing of project life cycle stages and requirements can be different in different jurisdictions, and overlap can occur with particular hydropower projects.*

**Mtg2 Agreement 8:** *The Protocol does not assess the government or relevant regional institutions.*

**Mtg2 Agreement 9:** *Section A takes into consideration the process by and environment in which a hydropower project comes forward.*

**Mtg2 Agreement 10:** *Section B assesses the proponent's planning and development for a new hydropower project, and will incorporate important aspects of Section A.*

### **Agenda Item 15 – Sections A and B Key Aspects**

This meeting agenda item was informed by prior reading of the information that had been compiled in Mtg2 Paper 15, and the survey results from the end of Day 2.

**Mtg2 Agreement 11:** *The Protocol will include economic, social and environmental aspects in each of the three sections, with recognition of overlap and integration.*

**Mtg2 Agreement 12:** *Key aspects that at this stage are considered important to include in Protocol Section A, with the recognition that these are still to be tested, include:*

- *Demonstrated Need*
- *Options Assessment*
- *Regional and National Policies and Plans*
- *Political Risk*
- *Institutional Capacity*

Discussion points about each of these aspects is set out below.

*Demonstrated Need.* This is presently Aspect A1. It was broadly agreed that this should address the need for water and energy services, without reference to the need for the project itself.

*Options Assessment.* This was proposed as a new Section A aspect. This was considered a critical consideration for Section A, and that it should have a triple bottom line (social, economic, environmental) basis for the assessment. The focus of the assessment would not be on a set of projects, but on whether the options to meet the demonstrated need have been adequately identified and assessed. The need to consider the participation and inclusiveness of the options assessment process was also raised. However, there was a diversity of views on the level at which this options assessment is conducted, and if this proposed new aspect is duplicating the remaining content of Section A. This was not resolved, and was put on hold for further consideration.

## HSAF Meeting 2 – 11-13 July 2008, Santa Rosa, California, USA

### Final Meeting Minutes

---

Regional and National Policies and Plans. This aspect was proposed as a variation to the existing A2 (Government and Proponent Policies). The focus of the assessment would be on the regional and national policies and plans that would be relevant to development of a hydropower project. These could include regional plans, energy masterplans, and basin development plans. Any transboundary issues would be relevant here. Part of the detail of this aspect would require definition of the region relevant to the Protocol assessment.

Political Risk. It was proposed to split the existing A3 (Political Risk and Regulatory Approval) into a Political Risk aspect and an Institutional Capacity aspect. The focus of the assessment of this Political Risk aspect would be on the level of political risk in the region and its implications for major infrastructure project development. Governance, transparency and corruption considerations would be relevant to this aspect.

Institutional Capacity. This aspect is a variation of the Regulatory Approval component of the existing A3. Regulatory approval is considered relevant to Section B. The intent is to assess the capability of the relevant institutions to implement policies and plans. Governance, transparency and corruption considerations would also be relevant to this aspect.

A major point of further discussion was whether there was a need for any further Section A aspects, as they are all project-focussed. This was not resolved, and was put on hold for further consideration.

**Mtg2 Agreement 13:** *Key aspects that at this stage are considered important to include in Protocol Section B, with the recognition that these are still to be tested, include:*

- *Political Risk*
- *Regulatory Approval*
- *Governance*
- *Demonstrated Need*
- *Economic Viability*
- *Financial Viability*
- *Additional Benefits*
- *Benefit Sharing*
- *Asset Reliability and Efficiency*
- *Management of the Hydrological Resource*
- *Project Management Planning*
- *Site Selection and Design Optimization*

Discussion points about each of these aspects is set out below.

Political Risk. This aspect is from a proposed split of the present B1 aspect, Political Risk and Regulatory Approval. Political Risk would have its own process and performance criteria for measurement. It was considered that in the context of Section B, this aspect would be assessing that the proponent understands the level of political risk for the hydropower project development, and has developed and is implementing strategies to address these risks.

Regulatory Approval. This aspect is from the split of the present B1 aspect. Regulatory Approval would also have its own process and performance criteria for measurement.

Governance. This is a proposed new aspect for Section B. It would be looking at governance from a project point of view. Proponent policies would be relevant here, and other corporate governance considerations. Corruption is considered an important governance consideration. Donal O'Leary expressed an interest in talking through ideas about this aspect with other Forum members.

## HSAF Meeting 2 – 11-13 July 2008, Santa Rosa, California, USA

### Final Meeting Minutes

---

Demonstrated Need. This is a proposed new aspect for Section B. It would be duplicating or mirroring the demonstrated need aspect in Section A, but in this case it would be assessing that the proponent has evaluated and understands the demonstrated need for the energy and water services that the project would provide. The degree and manner in which Section B aspects such as this one duplicate Section A aspects was not clearly resolved.

Economic Viability. This is presently aspect B2. The question was raised as to whether this should be moved to Section A, and Section B instead considers financial viability; it was concluded that this aspect should be here. It was highlighted that economic analyses must be undertaken using the latest cost information. These can not rely on broader information that was collected prior to the project, but must be done more specifically in Section B.

Financial Viability. This is a proposed new aspect for Section B.

Additional Benefits. This is proposed to be a variation of the present aspect B3, Additional Economic Benefits. There are many dimensions to the B3 aspect as presently written, and it is proposed to separate these out. It was noted that not all of the benefits listed in B3 are economic, and that more is not always good. It was also noted that not all of those listed in the aspect can necessarily be considered additional benefits, as many of them would be standard social impact assessment requirements.

Benefit Sharing. This is a proposed new aspect separate from and following the Additional Benefits aspect.

Asset Reliability and Efficiency. This aspect is from a proposed split of the present B4 aspect, Planned Operational Reliability and Efficiency. Andrew Scanlon advised that the aim of B4 had related to management for power generation, and that reliability and efficiency were essential points of assessment for a hydropower project. It was proposed to separate out the references to the hydrological resource.

Management of the Hydrological Resource. This is a proposed new aspect picking up on components presently in aspect B4. It was agreed that this aspect needs to be better defined.

Project Management Planning. This is a proposed enhancement to the present aspect B5. It was considered that project management planning is an essential aspect, and that it should have a specific attribute about sequencing and integration with other plans. A pertinent question is whether if significant issues arise with the social/environmental assessment and management planning sides of the project it would halt the design and construction process. At present, aspect B5 refers to design and construction plans; either these references to sequencing and integration could be part of the process expectations, or brought into the essence of the aspect itself by putting the word “integrated” in front of project management planning. This was not resolved. A number of points were raised about elements that could be incorporated on the process side, including consultation, grievance and complaints mechanisms, and allocation of responsibility for an integrated management plan.

Site Selection and Design Optimization. This is presently aspect B6.

There was interest amongst Forum members in holding further discussions on content of particular aspects, particularly given that a number of members would be in Sacramento at the HydroVision conference immediately following the Forum meeting. Andrew Scanlon volunteered to take the lead on holding some further discussions in Sacramento. The Forum Coordinator clarified that by default she would re-draft aspects to reflect agreements arising from the Forum meetings, taking on board any suggestions contributed by Forum members outside of the Forum meeting, and there should be a deadline for further input from Forum members so that there are not parallel efforts occurring.

## HSAF Meeting 2 – 11-13 July 2008, Santa Rosa, California, USA

### Final Meeting Minutes

---

**Mtg2 Action 5:** *Forum members who have expressed an interest in re-drafting some of the identified key Section A and B aspects will provide their ideas and proposals on these aspects to the Forum Coordinator no later than 31 July 2008.*

**Mtg2 Action 6:** *The Forum Coordinator will re-draft the key aspects listed in Mtg2 Agreements 11 and 12, and circulate to Forum members for their consideration and comment.*

#### **Agenda Item 16 – Measurement**

This meeting agenda item was informed by prior reading of the information that had been compiled in Mtg2 Paper 16, drawn from the Forum member survey provided prior to Forum Meeting 1. A major limitation of the information in Mtg2 Paper 16 was that it only referred to Section B aspects, of which there were only six relating to technical, economic and governance issues. Notable from the Mtg2 Paper 16, however, was the wide divergence of views on adequacy of the existing measurement of almost all of the Section B aspects.

The Forum Coordinator pointed out that in the survey comments, issues with measurement included subjectivity, lack of technical guidance, thresholds, lack of alignment with the Sustainability Guidelines, and absence of statements of objective. No one suggested that measurement should not be an inherent part of the Protocol nor proposed a specific alternative approach, although the need to revisit the scoring system was raised. The need for as many examples as possible of evidence that would support a particular score was emphasised, as well as reference to any technical standards. Within the available timeframe it was not possible to adequately discuss the scoring system, so no specific ideas about revisiting the scoring system were brought forward at this time.

Whether Section A was an auditing tool or advisory was discussed. It was considered that a scoring system would elevate the importance of the aspects incorporated into this section.

**Mtg2 Agreement 14:** *All three Protocol sections will be scored.*

**Mtg2 Agreement 15:** *If possible, a statement of intent will be outlined for each aspect.*

**Mtg2 Agreement 16:** *The process and performance components of measurement will be clearly defined for each aspect.*

#### **Agenda Item 17 – Forum Work Plan**

This discussion was based on the draft Forum work plan circulated as Mtg2 Paper 17, and had several specific components.

##### Stakeholder Outreach Meetings

There are no formal stakeholder outreach meetings in the Forum work plan. The NGOs propose having a relatively informal stakeholder outreach meeting in Zambia, and invite all Forum members to participate. There is capacity amongst the Zambia-based NGOs to do the coordination for this meeting. This is understood to be an NGO outreach exercise, and it is at the discretion of the NGOs who they invite, how they set up the meeting, and how they capture information and bring it back into the Forum. The NGOs advised that they do not intend to undertake a similar meeting in China because there are already so many events on either side of the Forum meeting, but that they would consider holding a similar meeting in Brazil.

##### Itaipu Representative to Zambia Meeting

The Forum members were advised that Ricardo Krauskopf Neto from Itaipu, the main contact for organizing the Brazil meeting, would be very interested in attending either the China or Zambia meeting so that he can better understand our needs and know what arrangements to make. It was

## HSAF Meeting 2 – 11-13 July 2008, Santa Rosa, California, USA

### Final Meeting Minutes

---

discussed that the Zambia meeting may be more appropriate because, like the Brazil meeting, it focuses on environmental aspects and has a field-based Protocol assessment. Ricardo could also attend the stakeholder outreach meeting in Zambia, which would be of benefit if one is conducted in Brazil.

**Mtg2 Action 7:** *The Forum Coordinator will invite Ricardo Krauskopf Neto from Itaipu to observe the Zambia Forum meeting and the associated stakeholder outreach meeting.*

#### Forum Meeting 3 - Zambia

The Forum meeting is scheduled for four days (Thursday 4<sup>th</sup> September through Sunday 7<sup>th</sup> September 2008) at the Kafue Gorge Regional Training Centre in Zambia, approximately a 1½ hour drive north of Lusaka. The NGOs will aim to have the stakeholder outreach meeting first thing in the morning on Monday the 8<sup>th</sup>. Israel Phiri is investigating whether he can arrange a fly-over of parts of the Kafue and Zambezi river basins on Wednesday the 3<sup>rd</sup>, hosted by the Zambian Ministry of Energy and Water Development, and he will advise Forum members as soon as possible. Forum members were instructed, if interested in the two side events, to arrive in Lusaka sometime on the 2<sup>nd</sup> of September and depart after late morning on the 8<sup>th</sup>. Israel will arrange hotel reservations.

#### Forum Meeting Schedule

The Forum Coordinator called attention to the closeness of key milestones in the Forum workplan between Meeting 6, presently planned for March 2009 in Turkey, and producing a draft revised Protocol in June 2009. She proposed moving Meeting 6 earlier, preferably late February, so that the interim report on Section C could be written in March rather than April 2009. This would enable more time for circulation and feedback of this report prior to producing the draft revised Protocol. A possible location for Meeting 6 could be in southeast Asia, based on indications from some IHA Reference Group members and the interest in the Mekong River Commission for collaboration.

The Forum Coordinator also proposed delaying Meeting 8 until late in 2009, to allow an extensive period of trialing of the draft revised Protocol. The possibility of this meeting being held in India was raised.

**Mtg2 Action 8:** *The Forum Coordinator will investigate the potential for holding Forum Meeting 6 earlier and Forum Meeting 8 later, and will bring proposals for timing and location back to the Forum.*

#### Key Themes for Forum Meetings

The Forum members discussed the key themes that had been identified in the Forum work plan, for expert presentations and discussions on Day 1 of meetings 2 through 6.

**Mtg2 Agreement 17:** *The key themes to be focused on in meetings 2 through 6, pending their practicability in the meeting agendas, are:*

## HSAF Meeting 2 – 11-13 July 2008, Santa Rosa, California, USA

### Final Meeting Minutes

---

Meeting	Focus	Key Themes
Santa Rosa 11-13 July 08	A & B economic, technical, governance	Operations, economics, corruption
Zambia 4-7 Sep 08	A & B environmental	Environmental flows, strategic assessment, transboundary issues
China 25-27 Oct 08	A & B social	Resettlement, benefit sharing, vulnerable social groups
Brazil 8-11 Dec 08	C environmental	Catchment management, climate change (CDM, GHG, hydrological variability), transboundary issues
Turkey (?) SE Asia (?) 27 Feb 09 or soon after	C social	Stakeholder engagement / Free Prior Informed Consent, community acceptance

## **HSAF Meeting 2 Summary of Agreements**

**Mtg2 Agreement 1:** *The Forum members recognise that the operation of the Forum is a pre-standard setting phase. The Forum will take guidance from and look for opportunities to be consistent with the ISEAL Code of Good Practice for Setting Social and Environmental Standards. The Forum will consider compliance with the ISEAL code as it moves from Phase 2 to Phase 3 of its work program.*

**Mtg2 Agreement 2:** *The Forum members agree to adopt the Principles for Consensus Building as set out in Mtg2 Paper 3.*

**Mtg2 Agreement 3:** *The Forum members agreed to the administrative procedures for externally invited Forum meeting participants as set out in Mtg2 Paper 6.*

**Mtg2 Agreement 4:** *The Protocol is intended for application by a wide range of users.*

**Mtg2 Agreement 5:** *The Protocol will continue to have three sections.*

**Mtg2 Agreement 6:** *Each Protocol section will be able to stand alone.*

**Mtg2 Agreement 7:** *The user will be able to determine for their own purpose which section of the Protocol is to be applied for a particular assessment, recognising that sequencing of project life cycle stages and requirements can be different in different jurisdictions, and overlap can occur with particular hydropower projects.*

**Mtg2 Agreement 8:** *The Protocol does not assess the government or relevant regional institutions.*

**Mtg2 Agreement 9:** *Section A takes into consideration the process by and environment in which a hydropower project comes forward.*

**Mtg2 Agreement 10:** *Section B assesses the proponent's planning and development for a new hydropower project, and will incorporate important aspects of Section A.*

**Mtg2 Agreement 11:** *The Protocol will include economic, social and environmental aspects in each of the three sections, with recognition of overlap and integration.*

**Mtg2 Agreement 12:** *Key aspects that at this stage are considered important to include in Protocol Section A, with the recognition that these are still to be tested, include:*

- *Demonstrated Need*
- *Options Assessment*
- *Regional and National Policies and Plans*
- *Political Risk*
- *Institutional Capacity*

**Mtg2 Agreement 13:** *Key aspects that at this stage are considered important to include in Protocol Section B, with the recognition that these are still to be tested, include:*

- *Political Risk*
- *Regulatory Approval*
- *Governance*
- *Demonstrated Need*
- *Economic Viability*
- *Financial Viability*
- *Additional Benefits*
- *Benefit Sharing*
- *Asset Reliability and Efficiency*
- *Management of the Hydrological Resource*

# HSAF Meeting 2 – 11-13 July 2008, Santa Rosa, California, USA

## Final Meeting Minutes

---

- *Project Management Planning*
- *Site Selection and Design Optimization*

**Mtg2 Agreement 14:** *All three Protocol sections will be scored.*

**Mtg2 Agreement 15:** *If possible, a statement of intent will be included for each aspect.*

**Mtg2 Agreement 16:** *The process and performance components of measurement will be clearly defined for each aspect.*

**Mtg2 Agreement 17:** *The key themes to be focused on in meetings 2 through 6, pending their practicability in the meeting agendas, are:*

Meeting	Focus	Key Themes
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Turkey (?) SE Asia (?) 27 Feb 09 or soon after	C social	Stakeholder engagement / Free Prior Informed Consent, community acceptance

### HSAF Meeting 2 Summary of Actions

**Mtg 2 Action 1:** *The Coordinator will contact the parties who have conducted previous Protocol trials, as captured in Mtg2 Paper 13a, to determine their willingness to make available results of these trials.*

**Mtg 2 Action 2:** *The Coordinator will request if the results of a recent survey of the IHA Reference Group members can be distributed to Forum members.*

**Mtg 2 Action 3:** *The Coordinator will update the draft Communications and Operating Procedures document (dated 11 June 2008) to reflect the discussions of the Forum, and re-circulate as a draft to Forum members.*

**Mtg 2 Action 4:** *The Coordinator will distribute available documents which compare the Protocol to other existing tools and frameworks.*

**Mtg 2 Action 5:** *Forum members who have expressed an interest in re-drafting some of the identified key Section A and B aspects will provide their ideas and proposals on these aspects to the Forum Coordinator no later than 31 July 2008.*

**Mtg 2 Action 6:** *The Forum Coordinator will re-draft the key aspects listed in Mtg2 Agreements 11 and 12, and circulate to Forum members for their consideration and comment.*

**Mtg 2 Action 7:** *The Forum Coordinator will invite Ricardo Krauskopf Neto from Itaipu to observe the Zambia Forum meeting and the associated stakeholder outreach meeting.*

## HSAF Meeting 2 – 11-13 July 2008, Santa Rosa, California, USA

### Final Meeting Minutes

---

**Mtg2 Action 8:** *The Forum Coordinator will investigate the potential for holding Forum Meeting 6 earlier and Forum Meeting 8 later, and will bring proposals for timing and location back to the Forum.*

# HSAF Meeting 2 – 11-13 July 2008, Santa Rosa, California, USA

## Final Meeting Minutes

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### HSAF Meeting 2 Meeting Minutes Attachment 1

#### Survey Provided to Forum Meeting Participants on Meeting Day 2

#### Identification of key aspects – mini-survey on agenda item 15

Purpose: The aim of this exercise is to evaluate which are the key economic, technical, and governance aspects for sections A and B of the Protocol.

Please find below a list of all aspects relating to economic, technical and governance issues that are either contained in the present Protocol or have been proposed in the last meetings. For the exercise, aspects were broken down to as specific an area as possible. All aspects are listed separately, as possibilities of recombining aspects might also be discussed.

1. Please rate the importance of the aspects both for sections A and B in the table below using the following scores:

- Essential 3
- Useful 2
- Unnecessary 1

2. Please indicate best way to combine aspects, if any. To do so, enter the number of the aspect you would combine in the last column.

No	Aspect	Section A rating	Section B rating	Should be combined with aspects...
1	Political risk			
2	Regulatory approval			
3	Economic viability / Sound economic value			
4	Future auditing / monitoring programme			
5	Government policies			
6	Proponent policies			
7	Financial viability			
8	Access to capital			
9	Market risk			
10	Interest rate risk			
11	Foreign exchange risk			
12	Reliability			
13	Operational efficiency			
14	Project management plan			
15	Site selection			
16	Design optimization			
17	Asset safety			
18	Employee safety			
19	Community safety			
20	Design risks			
21	Construction risks			
22	Operational risks			
23	Sustainability performance of suppliers			
24	Understanding of short and long term markets			
25	Innovation and research for long-term business positioning			
26	Demonstrated need for project			
27	Linkages with comprehensive planning			

## HSAF Meeting 2 – 11-13 July 2008, Santa Rosa, California, USA

### Final Meeting Minutes

---

No	Aspect	Section A rating	Section B rating	Should be combined with aspects...
28	Strategic Impact Assessment			
29	Governance			
30	Compliance			
31	Corruption			
32	Accountability			
33	Transparency			
34	Revenue transparency			
35	Communications			
36	Transboundary issues			
37	Conflict analysis			
38	National security			