

HSAP Section I Concept Note

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Background

Section I of the Draft Hydropower Sustainability Assessment Protocol August 2009 (the “Draft Protocol”) as drafted has given rise to several questions and created some confusion. As agreed at Forum Meeting 8, this concept note has been developed by a working group of the Forum to consider some of the issues and options around the section and make a recommendation to the Forum on the way forward.

The introduction to Section I in the Draft Protocol provides:

“Section I assesses the strategic basis for a hydropower project. There is potentially a dual function of Section I, depending on the interests and needs of the user. It can be used to assess the strategic environment from which a hydropower project might emerge, or the fit of a potential hydropower project or system of projects within the strategic environment. Section I is considered valuable to demonstrate the strategic basis for the project, so that it is clear where a particular project fits within a strategic framework for development or sustainability (e.g. is a preferred source of electricity). Section I is seen as critical to getting support from all stakeholders for a project, because project criticisms can often relate back to the strategic basis for the project. Section I will identify consistencies and conflicts with important contextual components such as energy, water, conservation and economic development plans for the relevant country/region. This section of the Protocol can be used prior to and to inform the decision that there is a strategic basis to move forward with project preparation.”

In addition, the overview of Draft Protocol Section I provides:

“Because Section I can be used to assess either the strategic environment from which a hydropower project might emerge, or the fit of a potential hydropower project or system of projects within the strategic environment, some aspects and attribute indicators will only be relevant to governments or developers. These are clearly indicated. If the strategic environment is being assessed in the absence of a defined hydropower project or system of projects, the auditee will be the government, and aspects and attributes indicators that are labeled “For project developers” do not need to be included in the assessment. If there is a project or system of projects being considered and the auditee is a developer, all aspects apply, but the assessment indicators that are labeled “For governments” do not need to be included in the assessment.”

Issues Raised in the HSAF Phase 2 Consultation

The Consultation outcomes report contains the following points relating to the draft Section I:

2t	<ul style="list-style-type: none"> • Aspect 1-8 evaluates if a project delivers environmental benefits but this is not the purpose of a hydropower project
2u	<ul style="list-style-type: none"> • Difficult to evaluate existence of a management system in Section I
2v	<ul style="list-style-type: none"> • Need to further emphasize which parts are to be completed by government vs developers.
2w	<ul style="list-style-type: none"> • Aspects labeled “for Developers” should still be addressed even when there are no specific projects on the table.
2x	<ul style="list-style-type: none"> • Section I needs to be restructured in order to reflect present business practice
2y	<ul style="list-style-type: none"> • Reduce/limit scoring range for Section 1
2z	<ul style="list-style-type: none"> • Section I should only be a simple YES/NO checklist with considerations about management options for identified risks, as at this very early stage information regarding specific projects are not yet available and these type of investigations are often of confidential commercial nature (see scoring section).
2aa	<ul style="list-style-type: none"> • Section I should be split into two parts A and B, with one focused on government responsibilities and the other on industry.
2ab	<ul style="list-style-type: none"> • Include a strategic assessment of business risks and opportunities related to a potential project region/country
2ac	<ul style="list-style-type: none"> • Political risk should address issue of corruption and transparency, and ability to mitigate political risk; institutional capacity should emphasize public sector governance capabilities; and technical issues and risks should include capacity to mitigate risks.

It seems that an overall theme to these points is that the purpose and use of the Section is confusing. This likely arises because of the dual functions that the Draft Protocol attempted to fulfill – the first to assess the governmental environment within which any project would be planned; and the second to assess the fit of a particular project with strategic needs and plans in that governmental environment. Related is the question of just who would use the section, and what or who is being assessed. And is it appropriate to call for an assessment of entities beyond a project proponent over which the proponent does not have control?

Options for Section I

A number of options were raised in the HSAF Phase 2 Consultation and in discussions at Forum Meeting 8. These include:

1. *Eliminate Section I altogether.*
2. *Target the section solely at an assessment of the governmental environment, and design it primarily for use by project developers to assess the risks they will face in planning and proposing a project.*
3. *Target the section solely at an assessment of projects under consideration, and design it to be used to assess the fit of any particular project with the strategic*

needs and plans of that governmental environment, and the risks of proceeding with a project in that context.

4. *Continue to address dual functions, but separate the section into two parts – Section IA targeted at an assessment of the governmental context, and Section IB targeted to the assessment of projects under consideration.*

Option 1: Eliminate Section I altogether.

This option would mean the Protocol has only three sections, which when re-numbered would be Section I Project Preparation, Section II Project Implementation, and Section III Project Operation. This would avoid the conceptual difficulties which have arisen with the Draft Protocol Section I, and create a reduced workload for the Forum.

Option 2: Target the section solely at an assessment of the governmental environment, and design it primarily for use by project developers to assess the risks they will face in planning and proposing a project.

This option would narrow the focus of the assessment to the current governmental and regulatory environment in terms of its effectiveness in providing a basis for strategically considered projects that meet the principles of sustainability. There would not be a clear, single “auditee”, and the use would be more in the nature of an overall assessment. Such a section could potentially be useful for a project proponent to include in their assessment of risk, for government agencies to self-assess in order to see where they stand in terms of offering a positive environment for implementing sustainable hydropower development, and for NGOs/civil society and development banks for highlighting areas that need strengthening. Key topics would be demonstrated need, options assessment, policies and plans, political risks and institutional capacities, and the focus would be around processes and levels of effectiveness.

Option 3: Target the section solely at an assessment of projects under consideration, and design it to be used to assess the fit of any particular project with the strategic needs and plans of that governmental environment, and the risks of proceeding with a project in that context.

In this case there would be a particular project and project proponent that would be the object of the assessment, but the assessment would be at an early stage of a project before its particulars have been fixed and before a decision to proceed with significant project planning efforts has been committed. It could potentially be used by a broad range of users -- developers for self-assessment, financiers for risk assessment, and stakeholders and civil society for evaluating project planning at an early stage of project development.

Option 4: Continue to address dual functions, but separate the section into two parts – Section IA targeted at an assessment of the governmental context, and Section IB targeted to the assessment of projects under consideration.

Under this approach, the subject of the assessment would be clarified. IA would apply solely to governmental environment and would be used by developers and others to

assess risk of proceeding with any hydropower development in the region; IB would assess a particular project being considered in terms of its fit with the strategic needs and plans of the governmental environment.

Need for Section I

The working group continued to put high importance on this early phase assessment, because there is a need to try to optimize hydropower or other water infrastructure development with environmental and social resources. Without some regional context for this optimization it is not really possible to say whether a particular project is “sustainable”. The group was sympathetic to the problem that a particular project proponent may not be able to cause a regional optimization when the analysis and planning has not been undertaken, which is largely a government responsibility. But industry leadership is likely to be crucial in moving governments to take on such planning. Moreover, industry and other stakeholders have a common need for a consistent tool for assessing the risks associated with a potential project at the earliest possible stage.

The group considered the issue of why have Section I at all, given that the same topics are covered again for a project in the planning and preparation stage in Section II. It was concluded that there is a need to consider the broad contextual questions bearing on sustainability at the earliest possible stage, before a decision has been reached to invest in the expensive and difficult issues of specific project planning. The “potential project” under consideration is still “embryonic”, and it is still meaningful to consider the full range of options including no project or a distinctly different project at a different location in the region. The information available will be less detailed than at later stages. There is also a need to reconsider the same sustainability questions at the project preparation stage, with more detailed information. The point is that Section I and Section II should each be a stand alone section covering sustainability topics at their respective stage.

The working group fully supports the agreement at Forum Meeting 8 to retain Section I – Strategic Assessments within a four-section Protocol.

Purpose of the Section I Assessment

Ultimately, the objective is to get better hydropower projects by encouraging better early stage analysis and planning. In the view of the working group, the core purpose of the Section I assessment as stated in the Draft Protocol is supported. The following sentences extracted from the introductory text to Section I in the Draft Protocol are recommended by the working group to be retained as the purpose:

“Section I assesses the strategic basis for a hydropower project. This section of the Protocol can be used prior to and to inform the decision that there is a strategic basis to move forward with project preparation.”

Focus of the Section I Assessment

In the view of the working group, the stated dual function of Section I to assess either the strategic environment from which a project or system or projects might emerge, or the fit of a potential hydropower project or system of projects within the strategic environment, is at the heart of the difficulties raised with this section as drafted in the Draft Protocol. It was felt that simplicity will be the secret to the success of this section, and complications should be minimized as far as possible.

After considerable discussion, including the possibility of dividing the section as in *Option 4*, the group moved toward a preference for *Option 2*. By covering the overriding early stage sustainability topics in the context of a potential project, Section I would provide the basis for a proponent's assessment of risk in proceeding with project planning. It would provide the basis for the conceptualization of a project that is well aligned with regional sustainability considerations. And it would also provide the basis for other stakeholders to make similar assessments. In the process of assessing risks and plans to manage those risks under each of the topics, a preliminary set of questions about the governmental context must be addressed. And the focus of the Section I assessment could then be made clearer: is the particular proposed project, viewed at the earliest possible stage, being considered in way that could lead ultimately to a sustainable project?

At Forum Meeting 8 it was agreed that the Protocol is assessing projects including elements outside the proponent's control, and in the Protocol it will endeavour to articulate where responsibilities lie. The working group agreed to carry this thinking across to Section I. The recommendation of the working group is to tighten the focus of Section I to:

“assessment of the fit of a potential hydropower project within the strategic environment”.

Likely Users of the Section I Assessment Tool

Trials of Section I during September to December 2009 were undertaken by industry of a project (Sinop, Brazil), by a river commission of a transboundary river basin (MRC, 3-S basin, Laos, Vietnam, Cambodia), and by an NGO of an electricity masterplan (M-Power, Thailand, in progress). The MRC concluded that Section I could not meet its needs which are focused very tightly on the assessment of the sustainability of river basin development and management, and it is progressing with partners with development of its own assessment tool modeled on the Protocol. The working group discussed that NGOs and civil society groups such as M-Power may want to put pressure on governments to address and strengthen some of the contextual issues (e.g. political risks, quality of the energy master planning or options assessment processes, institutional capacity) which would ultimately be in the interests of better hydropower projects, but the sub-group did not feel that they need a Protocol to do this as it is an exercise much broader than just hydropower.

It was agreed at Forum Meeting 8 that the most likely users of the Protocol as a whole would be assessors and representatives of the project, and the Protocol language and guidance should be tailored around these most likely users. However it was fully

recognized that these would not be the only users, and the Protocol should be understood to be open for anyone to use.

Consistent with this and in the interests of simplicity, the working group felt that Section I should be targeted at industry to assess risks and opportunities at the early project identification stage, to define the need to develop management responses in the case of a weak contextual environment, and to inform the decision whether to proceed with project preparation.

It noted that other users might include NGOs and civil society to put pressure on industry to do what it can to address gaps and support strengthening initiatives for the strategic environment, or to prioritise projects where there is a good strategic fit and avoid projects where there is a poor strategic fit; also development banks so that they can build measures into their project support to strengthen the strategic environment or to avoid projects where there is a poor strategic fit.

It was felt that issues for all users will be access to information, which may be absent, patchy and likely only very high level at this early stage. It was also recognized that much of the use of Section I may be for potential project proponents to do self-assessments, and that there may be a tendency at such early stages to maintain higher level of confidentiality. The working group felt that a tool even if for internal self-assessment that gets industry thinking about sustainability of a project before committing to project preparation is of high value. Consistent criteria for assessment at this stage were thought to be of high value. If there is a strong strategic fit of the project then industry may be interested in making the results of the assessment public.

What Differentiates Section I from Section II?

The working group discussed if Section I becomes more clearly hydropower project focused, what differentiates it from Section II. The difference was seen to be in timing of the assessment, degree of detail of the assessment, and level of information that can be accessed.

If Section II is designed to be used at the point at which a decision is made to proceed with project implementation, then any earlier stage use of Section II will inform what measures need to still be undertaken or advanced to inform the decision about readiness for project implementation. In parallel thinking, Section I should be designed to be used at the point at which a decision is made to proceed with project preparation; then any earlier stage use of Section I will inform what measures need to still be undertaken or advanced to inform this decision. The working group noted that the decision to proceed with project preparation can involve major financial outlays, for example in the case of the Nam Theun II Hydroelectric Project in Laos.

Topics

The working group discussed options for merging, eliminating and adding topics. For the Section I Outline Document, the working group proposed maintaining the same range of topics as in the Draft Protocol, with some reorientation of the text to make them apply more directly to a potential project. There may be a need to add a topic on River Basin Sustainability as it only implicitly covered in Regional and National Plans and Policies.

There may also be further opportunity to reduce the number, for example by a “project impact risks” which could cover the last four, given that one wouldn’t have a lot of information to discern clear differences in a five point gradation on each topic. Adding “and Business Risks” to the topic “Economic and Financial Issues” was also proposed as something to think about.

As the next step, the working group agreed that a draft outline document should be prepared to see how the list of Section I topics from the Draft Protocol works, and then to re-evaluate:

- *Demonstrated Need*
- *Options Assessment*
- *Regional/National Plans and Policies (including River Basin Planning)*
- *Political Risk (including corruption and transboundary risks)*
- *Institutional Capacity*
- *Technical Issues and Risks*
- *Social Issues and Risks*
- *Environmental Issues and Risks*
- *Economic and Financial Issues*

Scoring

The working group also considered questions about scoring and whether to maintain the present 5 point scale or to move to some other system – possibly a yes/no evaluation as to whether something had been done; or possibly a 3 point score (high, medium, low). It was recognized that at this earliest stage of a project consideration, the level of available information may not be well developed and so may not support a 5 point gradation. However it was felt that there should be sufficient information, “fit for purpose”, to address these topics, otherwise the likelihood of moving toward a sustainable project is in fact at risk. Furthermore there will be some situations with sufficient information that compressed scales will not provide enough gradation. The working group noted that in the existing IHA Sustainability Assessment Protocol 2006 that there is a Section A with a different format and it is rarely used; an early discussion of the Forum was that employing a 5 point grading system for Section I would help lift the profile of this section.

The working group recommended to continue with the 5 point scale in development of the outline document, but be open to adapting depending on the results.

Conclusions

In conclusion, the HSAF Section I Working Group makes the following recommendations to the Forum, for consideration at Webinar 3:

- Retain Section I – Strategic Assessments in a four section Protocol.
- The purpose of Section I is to assess the strategic basis for a hydropower project. This section of the Protocol can be used prior to and to inform the

decision that there is a strategic basis to move forward with project preparation.

- The focus of Section I is on the assessment of the fit of a potential hydropower project within the strategic environment.
- The target users for Section I are developers to assess risks and opportunities at the early project identification stage, to define the need to develop management responses in the case of a weak contextual environment, and to inform the decision whether to proceed with project preparation. Section I should be designed to be used at the point at which a decision is made to proceed with project preparation; then any earlier stage use of Section I will inform what measures need to still be undertaken or advanced to inform this decision.
- The same Section I topics as in the Draft Protocol will be used for development of a Section I Outline Document, at which point they can be re-evaluated.
- A 5 point scoring approach will be retained for Section I, and a Section I Outline Document will present draft statements of 3 and 5, at which point the 5 point scoring approach can be re-evaluated.