

CSR SECTOR POLICY - Hydroelectric power plants

1. Scope of the Policy

The present policy (the Policy) applies to all financings and investments activities and more broadly involvements of Crédit Agricole CIB (the Bank) that directly relate to the construction or expansion of hydroelectric developments with associated reservoirs¹. Transactions linked to an existing infrastructure (acquisition, leveraging...) also enter the scope of the Policy.

Are also concerned all forms of involvement of the Bank relating to companies when the operation of hydroelectric power plants constitutes an essential share of their activity. These involvements of the Bank are more specifically covered by section 7 of the Policy.

The Policy applies from the date it is published. Are excluded pre-existing activities in this sector, including commitments already made or business opportunities which are already at an advanced stage of negotiation.

The Policy will be reviewed from time to time.

2. Sector issues and objectives of the Policy

Hydroelectricity is a renewable and low carbon source of energy, with a favourable potential for development at a competitive economic cost. As such, it can insure a significant part of the world energy needs while contributing to the fight against global warming. Furthermore, dams can contribute to water resource management by avoiding periods of flood and drought.

Some hydroelectric plants which require large associated reservoirs in natural habitats can however produce significant negative impacts in terms of biodiversity (impacts on critical ecosystems) or in terms of human rights (physical or economic displacements of people).

This Policy comes as a supplement to the rules regarding energy policies from Countries and the investment policies from the clients of the Bank and is not intended to supplant them. It seeks to state the CSR² analysis criteria and requirements of the Bank. It supplements the implementation of the Equator Principles for project finance transactions.

3. Reference frame

In appraising hydroelectric power plants financings and investments opportunities, the Bank will be guided by the standards resulting from the following conventions, initiatives or institutions:

- the World Commission on Dams,
- the International Hydropower Association (IHA),
- the standards of the World Bank group and in particular the International Finance Corporation (IFC) Performance Standards and Environment Health and Safety Guidelines.

4. Analysis criteria

The Bank will analyse every transaction linked to a hydropower development with an associated reservoir according to the following criteria:

¹ Is concerned any infrastructure leading to a large-scale change in the regime of the stream (accumulation upstream, substantial change in the natural seasonal flow of the river downstream). Run-of-the-river infrastructure, power units using a limited diversion of the stream (the diverted water being rejected in the same stream, downstream), do not enter the scope of the Policy.

² Corporate Social Responsibility

- existence of a national or regional strategic plan for managing the watershed (allowing in particular the knowledge and the management of the impacts by the authorities, with, if necessary, a comparative assessment of potential projects),
- assessment of impacts due to the creation of a reservoir and the modification of the river flow regime (potential impacts to biodiversity and cultural heritage, potential physical or economic displacement of people, change in the livelihood of affected upstream and downstream population, quality of water and consequences for health, greenhouse gas (GHG) emissions due to the flooding of vegetation and the inflow of carbon-rich materials from upstream³),
- management of the construction phase (discharge of pollutants, soil erosion, influx of migrant workers, working conditions),
- safety of the hydro facilities (geological studies, seismic risk survey, quality of materials, experience of constructors),
- consultation of affected populations and, if necessary, consent from indigenous peoples,
- setting up of a grievance mechanism at the project level,
- inter States consultation in the event of cross-borders impacts,
- quality and credibility of the management plans.

The quality of the assessment and management of those impacts identified will be measured against the IFC Performance Standards and the recommendations by the World Commission on Dams⁴.

In accordance with these standards and in particular the Performance Standard 1 of the IFC, the client is expected to establish and maintain an Environmental and Social Management System (an "ESMS") appropriate to the nature and scale of the project and commensurate with the level of its environmental and social risks and impact. This ESMS implies in particular an ongoing monitoring and assessment of impacts and mitigation measures.

The IHA Hydropower Sustainability Assessment Protocol (HSAP) may be used as a tool for assessing the project.

Concerning existing assets, the various analysis criteria above will be used *a posteriori* (impacts observed on ecosystems, management of potential displacement of population, safety of the hydropower facilities...). It will result into an overall positive or negative assessment of the project with respect to its social and environmental impacts.

5. Exclusion criteria

The Bank will not participate in transactions linked to any hydropower development (new project, expansion or existing asset) with an associated reservoir if aware of the following characteristics:

- evidence of an excessive level of the environmental and social impacts of the project towards its economic advantages on the basis of the reports requested by the Bank,
- evidence that GHG emissions from the reservoir exceed, on an annual average, those of a coal-fired power plant of the same capacity,
- critical impact on a protected area or on wetlands of international importance covered by the Ramsar Convention⁵,
- the project is located within a site listed on the UNESCO World Heritage list⁶,

³ Aspects useful for the understanding of the phenomenon and for measuring emissions can be found in the following report: GHG Measurement Guidelines for Freshwater Reservoirs, UNESCO / IHA 2010. The principles and quantitative measuring techniques for those emissions being still improved, the Bank may adopt a qualitative approach based in particular on the energy density (ratio of the installed capacity by the surface of the reservoir). It is advisable to be particularly watchful when the energy density is below 4 MW/km² and the quantity of flooded biomass is significant. Also, an estimate may be needed when the size of the reservoir exceeds 1000 ha in order to comply to the IFC Performance Standards.

⁴ There are 7 recommendations relating to:

1. Gaining Public Acceptance
2. Comprehensive Options Assessment
3. Addressing Existing Dams
4. Sustaining Rivers and Livelihoods
5. Recognising Entitlements and Sharing Benefits
6. Ensuring Compliance
7. Sharing Rivers for Peace, Development and Security

⁵ Cf. section References and glossary

⁶ Cf. section References and glossary

or when a risk of material non-compliance has been identified and has not received, in its opinion, satisfactory answers with respect to:

- the IFC Performance Standards (or similar standards when a export credit agency or a multilateral institution is involved in the financing) or the Environment, Health and Safety Guidelines, in particular with respect to:
 - o establishing an ESMS
 - o protection of the fundamental rights of the workers
 - o forced displacement of population
 - o compensation of impacts on downstream communities
 - o biodiversity conservation
 - o impact on critical natural habitats⁷
 - o consent from Indigenous People
 - o protection of cultural heritage
- the Recommendations of the World Commission on Dams⁸
- public consultation or, when necessary, consent from affected indigenous peoples,
- inter States consultation in the event of major cross-borders impacts.

6. Implementation

Where the transaction is directly linked to a particular hydroelectric development with an associated reservoir, the project will be assessed against all the analysis criteria above and the Bank will seek to determine if an exclusion criterion exists.

If an exclusion situation is identified or if the outcome of the general assessment is negative, the Bank will not participate in the transaction. Any potential exceptional situation will be handled in accordance with section 8 below.

Compliance with the environmental and social management plans and conditions will be monitored as part of the annual review process of the operations.

Where the transaction is an advisory mandate, the Bank will seek to promote the principles included in this Policy. The Bank will not enter into an advisory mandate when aware at the date of the mandate that the envisaged project definitely exhibits an exclusion criterion. When considering financing a project for which the Bank has acted as financial advisor, it shall only do so in compliance with the present Policy, including in respect of the exclusion criteria.

7. Involvement of the Bank not linked to a specific hydropower development

Some transactions are not directly linked to the construction or expansion of a specific hydropower installation but nonetheless fall within the scope of implementation of the Policy. It is in particular the case for financial assistance to companies significantly active in operating hydroelectric power plants with associated reservoirs. On the occasion of the annual review of the relationship, the clients will be sensitised to the issues of the Policy and the Bank will request information relating to their own policy (written or *de facto*).

The regulatory framework in which the client evolves should lead to the respect of the principles of the Policy for the activities located in High Income OECD Countries.

In other countries, the client policy will be assessed towards the principles of the Bank Policy, by taking into account the most recent evolutions and the possible plans for improvement. The Bank will assess whether the HSAP protocol is being used (tool for operating hydroelectric power plants). A particular attention will be given to potential exclusion criteria in relation to the future projects. In the case of a significant difference, the recommendation of the CERES committee will be required. The bank will also assess whether the client has established an ESMS, and is publicly reporting on these aspects (website, annual report⁹, ...).

The decision to enter into relation with a new client falling under the scope of the Policy will only be taken after a detailed analysis of the activities of the client in the field of hydropower developments.

⁷ Compliance with the Performance Standards is assumed in High Income OECD Countries

⁸ Cf. footnote #4

⁹ Reporting according to the Global Reporting Initiative is regarded as a good practice.

This analysis shall confirm, if needed at a CERES committee level, that the client practices comply with the principles of the Bank Policy.

Such assessments will be based on information which is either public or which the client has made available to the Bank.

8. Exceptions

Transactions that present uncertainty with respect to compliance with the Policy shall be referred to the CERES committee for recommendation. If the committee considers that the transactions does not conform to the Policy, such transaction will be subject to a final arbitration by the General management of Crédit Agricole CIB.

9. References and glossary

Recommendations by the World Commissions on Dams: recommendations of the report Dams and Development – A new framework for decision-making, World Commission on Dams, November 2000:
<http://www.unep.org/dams/WCD/report.asp>

Hydropower Sustainability Assessment Protocol (HSAP) developed by the International Hydropower Association (IHA):
http://www.hydropower.org/sustainable_hydropower/IHA_Sustainability_Assessment_Protocol.html

IFC Performance Standards and Environmental, Health and Safety Guidelines:
<http://www.ifc.org/ifcext/sustainability.nsf/Content/PerformanceStandards> and
<http://www.ifc.org/ifcext/sustainability.nsf/Content/EHSGuidelines>

Wetlands of international importance covered by the Ramsar Convention:
http://www.ramsar.org/cda/fr/ramsar-documents-list/main/ramsar/1-31-218_4000_1

Site listed on the UNESCO World Heritage list:
<http://whc.unesco.org/fr/list/>