

Position Statement on Hydro Power Plants

FMO (the Netherlands Development Finance Company) is the Dutch development bank. FMO supports sustainable private sector growth in developing and emerging markets by investing in ambitious entrepreneurs.

Our stakeholder approach is to engage proactively with clients, governments, non-governmental organizations (NGO's) and communities to steer towards a positive impact on some of society's leading global Environmental, Social and Governance (ESG) issues. FMO has long-term experience and builds on a broad and in-depth internal expertise in its engagement with its clients to stimulate the application of the highest ESG standards. This approach also serves to mitigate the potential negative impacts that our investments may contribute to.

This Position Statement is an integral part of a framework of Position Statements related to the FMO Sustainability Policy that steers FMO's activities. The Position Statements explain FMO's choices in relation to major global sustainability issues. They reflect our objective to apply the highest standard of ethics and integrity to our business activities.

Hydro power

For the purpose of this Position Statement, dams and hydro power refers to the construction and operations of dams, associated power plants and related infrastructure, the generation of hydroelectric power, and associated transmission and distribution facilities worldwide.

Hydro power contributes to the dual objectives of (1) providing reliable and affordable energy to businesses and households in developing countries and (2) the fight against climate change. Hydro power is an extremely efficient way of generating electric power and it is one of the cheapest sources of electricity. In contrast to most other renewable sources of energy, hydro power can be used as baseload. Moreover, hydro power may generate substantial government revenue and makes the host country less dependent on expensive fossil fuels.

Like other infrastructure projects, hydro power projects are technically complex and may be accompanied by potential technical, environmental and social challenges. Hydro power installations may have downstream impacts as they change natural water flows and, if dams are constructed, areas of land may be flooded. Prime environmental risks may relate to the loss of habitats and biodiversity, the emission of Green House Gases, the migration of aquatic species and change of water quality and availability. Social risks may relate to potential land and water use conflicts, community resettlements, losses of livelihoods, rights of local populations and cultural heritage.

FMO's choices

FMO values the potential economic and environmental benefits of hydro power as a clean and renewable energy source. FMO also recognizes the potential adverse impacts on environment, communities and human rights. Therefore, FMO requires, before any decision to invest is made, a rigorous investigation of 1) the potential environmental and social impacts¹, 2) the reliability of the proposed project, including timelines, costs and proposed development outcomes, and 3) an assessment of the capability and willingness of our clients to manage potential adverse environmental and social impacts. FMO requires the project to comply with the most recent IFC Performance Standards², this includes, but is not limited to, consultation of the local population affected by the project, thorough project justification and a decommissioning plan. If the adverse environmental and social impacts cannot be sufficiently mitigated according to the applicable Standards, FMO will not finance the project. FMO also recognizes the responsibility of businesses to respect human rights, wherever they operate, and independently of the local government's abilities and willingness to fulfill their human rights obligations.

Implementation

FMO executes an assessment of the Environmental and Social Management System of the client, and related capacity to implement the mitigation measures. For this, FMO commissions the help of qualified and reputable external industry experts. The project needs to demonstrate a reduction in greenhouse gas emission as calculated following the International Finance Institutions (IFI) harmonized GHG accounting principles, and specific plans need to be available to compensate for any negative effects.

As long as FMO is involved in the project, extensive monitoring will take place by FMO and by qualified and reputable external industry experts. This monitoring includes frequent consultation with local population.

The elements in the FMO Sustainability Policy on grievance mechanisms are of particular importance in relation to land-governance, and will be required.

Please see the FMO Position Statements on Disclosure³, Corruption and Bribery⁴ and on Land Governance for more information on FMO's position and choices in these issue-areas.

Feedback

We welcome feedback on our Position Statements. Please contact us at consultation@fmo.nl.

¹ Including, but not limited to, water footprint and environmental flow.

² [IFC Performance Standards](#)

³ The Position Statement on Disclosure and Transparency is expected for 2017, FMO's current position on this issue can be found [here](#).

⁴ The Position Statement on Corruption and Bribery is expected for 2017, FMO's current position on this issue can be found [here](#).