KfW response received on July 22, 2022

Dear Ms Skybenko, dear Ms Manukyan,

Thank you for your request and the opportunity for us to respond. Please find below the relevant information on the topic:

KfW support to renewable energy projects:
Renewable energies, including hydro power, are a central component of German Development Cooperation which supports its partner countries in providing people with sustainable access to energy and in adopting climate-friendly approaches. KfW Development Bank promotes the expansion of renewable energy world-wide and supports its partners in setting up clean and sustainable energy provision systems.

During project appraisal for power supply projects, KfW conducts both microeconomic and macroeconomic analyses. On the basis of a large number of appraisal criteria the financial sustainability of each individual project is thereby ensured. Since hydropower projects are implemented in river ecosystems and sometimes in close proximity to human settlements, potential risks and benefits for the environment and people have to be carefully assessed during appraisal as well. In order to assess the projects broader contribution to a country's welfare, KfW consistently conducts a macroeconomic analysis at appraisal stage, including externalities. The assessment criteria include e.g. improvement of energy supply, avoiding the costs of grid-connected fossil electricity generation, diversifying and improving the security of electricity generation and reducing import dependency, as well as contribution to climate change mitigation such as greenhouse gas emissions (GHG).

Sustainability criteria for KfW Project funding:
As part of its Environmental and Social Due Diligence (ESDD) all projects supported by KfW Development Bank are subject to a comprehensive and systematic assessment of environmental and social risks and impacts prior to appraisal. The outcomes of this assessment are then used to inform the detailed design of projects and are further incorporated into respective mitigation measures to steer the project over its entire life cycle (i.e., from preparation to completion). For projects potentially involving significant risks to the environment and people, the foundation of the Environmental and Social Impact Assessments (ESIAs) and resulting Environmental and Social management Plans (ESMPs) is their compliance with relevant national law and legal requirements as well as international best practice standards, namely the Environmental and Social Standards (ESS) of the World Bank, the IFC Performance Standards (PS), the General and sector-specific Environmental, Health and Safety (EHS) Guidelines of the World Bank Group, the recommendations of the World Commission on Dams (WCD), as well as the Core Labour Standards of the International Labour Organization (ILO).

Although these standards and guidelines are in line with the Universal Declaration of Human Rights and include several human rights references, KfW Development Bank additionally requests its partners to adhere to the requirements of the Human Rights Guidelines of the BMZ, including the Voluntary Guidelines on the Responsible Governance of Tenure of Land (VGGT) and the UN Basic Principles and Guidelines on Development-based Evictions and Displacements, wherever deemed relevant. Based on these requirements, an important element of the project preparation and implementation process is to consult with affected communities during the appraisal and implementation and provide them with access to grievance redress and remedy.

KfW support to Small-hydro power plants, Armenia:
KfW is aware of the general concern over the environmental issues related to small hydropower sector, therefore KfW has arranged additional measures to minimise the risk of negative impacts on the environment. Particularly, a strategic cooperation with WWF to exclude controversial SHPPs in Armenia is established, certain projects in risky areas are excluded from the eligible list.

KfW support to Vorotan Cascade, Armenia:
Vorotan Cascade, consisting of 3 hydro plants which supply 20% of Armenia's energy was built between 1970 and1989. The plant saves around 540.000 tons of CO2 per year. Since the construction of the Vorotan cascade, the operator lacked the capacity for rehabilitation measures. As a result, the three plants were in need of repair and could not produce optimal output for current or future energy needs.
KfW was asked to provide a loan to the Armenian government for rehabilitation and modernisation of the power plant. The loan agreements were signed between the Armenian government and KfW in 2010 and re-enforced after the privatization of the power plant. An Environmental and Social Impact Assessment (ESIA) with an Environmental and Social Management Plan (ESMP) were developed and an additional ecological specialist study has been conducted. The implementation of the ESMP is closely monitored and reported upon. The rehabilitation of the Vorotan Cascade has been mainly finalized in December 2021.

In case of further questions, please do not hesitate to contact us.

Kind regards,
KfW Development Bank