Forum for the Future Asia Pacific Ltd
#02-01, 22 Cross Street
Singapore 048421

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Answer to question 3 under 'DFIs' responsibility to respect human rights'

What are the main challenges and opportunities for DFIs to ensure the inclusion of human rights requirements in projects and to enforce the responsibility to respect human rights among clients?

The renewable energy (RE) sector is key to the reduction of carbon dioxide emissions and is uniquely positioned to deliver a range of other benefits spanning energy security, opportunities for greater energy access, jobs and livelihood opportunities, as well as reduced or no pollution from electricity generation, among others. **Though these benefits are substantial, virtually no sector is yet universally sustainable in its impact – including renewable energy.**

As the RE sector continues to grow and evolve, it will need to ensure that adverse impacts on the environment, communities and human rights do not arise from its value chain and operations. This is particularly so as the relative positive and adverse impacts across RE value chains can be overlooked in order to reach scale. Instead, RE solutions that are emerging have inherited similar business models and mindsets to other, existing industries; endorsing models which promote lower costs of production for shareholder's profit margins. **Yet, scrutiny of the sector remains at surface-level**.

For instance, many countries – including some of the global leaders in the scaling of RE – do not require developers to conduct environmental or social impact assessments (EIAs / SIAs). This is presumably based on the premise that the sector is an inherent force for good. **However, unless the potential negative social and environmental impacts of RE are proactively mitigated and transformed, the growth of this vitally important sector may be put in jeopardy**. We are already beginning to see examples of mega solar parks experiencing hold ups and challenges from adversely impacted communities – which in turn, drives considerable investor risk.

In the absence of adequate state-level regulation, **one of the stronger drivers for environmental and social accountability within the RE sector in many countries is the World Bank and IFC Performance Standards** and similar compliance provisions from other international financial institutions, such as the Asian Development Bank and the Asia Infrastructure and Investment Bank.[1]

[1] These accountability mechanisms typically call for developers to have Environmental and Social Management Systems (ESMS) to address four areas: issues in connection with siting and land acquisition; baseline assessments for environmental, ecological/ biodiversity and social impacts; stakeholder engagement; and the inclusion of grievance redressal mechanisms.

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What has become clear, however, is that a more robust approach is necessary in order to address critical impacts emerging in the RE system. For instance, in the limited instances where human rights are explicitly referenced within DFI standards, it is often with regards to steps recommended in the event of 'limited high risk circumstances', rather than as a means of informing broader rights-based processes and outcomes.[2] **A critical starting point is thus to shift the framing of responsibilities from one of risk mitigation, to that of upholding human rights.**

In this connection, DFI instruments are uniquely positioned to support rights-based business models by unlocking meaningful finance opportunities for emerging leaders in this area. This begins with significantly strengthening requirements related to human rights due diligence processes, as well as accountability mechanisms such as accessible, equitable and transparent operational-based grievance mechanisms. **Perhaps the most critical gap to fill is in the role that DFIs could play in enhancing the protection of human rights defenders** – particularly as civil society spaces continue to shrink considerably across the globe. Especially so in an increasingly volatile political and economic climate.

There is an additional need for DFIs to proactively support place-based planning and management of RE, too. A common practice among DFIs is to draw on external infrastructural/RE experts with little understanding of local contexts. Such instances often lead DFIs to devise processes that overlook local social needs. This, in turn, lends itself to devising solutions that are not fit-for-purpose and/or that may be socially disruptive.

Overall, impacts emerging in the RE system – including those related to land-use change, water use, biodiversity impact, energy injustice, and labour and human rights abuses – are complex, and most are not restricted to the RE sector alone. DFIs have a key role to play in devising lending conditions that help actors **shift from a reactive to a proactive approach that systematically manages impacts throughout the lifecycle and value chain** in a manner that is ecologically sound, socially just and rights-respecting. In sum, in seizing this opportunity, DFIs can better support development that lasts, and for all.

[2] See, for instance, IFC Performance Standards on Environmental and Social Sustainability (2012), footnote 12.