

Key Challenges for the future: Financing Dams and Sustainable Development¹

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Abstract

On April 2004 the UNEP Dams and Development Project convened in London a multi-stakeholder international workshop on Financing Dams and Sustainable Development aiming to highlight key issues and mechanisms whereby financiers have a greater degree of confidence in the appropriateness and sustainability of dam projects, and in doing so, the costs of potential disruption and uncertainty are reduced. The overall objective of the workshop was to identify ways of minimising risk related to the financing of dams and their alternatives and thereby achieve more sustainable projects. Risks addressed included financial and investment risk, reputational risk, risk to livelihoods and environmental risk. The meeting also provided the opportunity to exchange views on the expectations, roles and responsibilities of public and private financial organizations, the criteria appropriate for improvement of safeguard policies and procedures of private and public sector financiers, the steps that may be taken to build confidence and ensure that risks have been minimized at key decision-points in financing processes; and the activities that the DDP and public and private financial institutions themselves may undertake to advance progress in this area.

This paper illustrates the findings of the meeting in terms of identifying the challenges for financing sustainable dam projects and building confidence among stakeholders in the financing process.

1. INTRODUCTION

The UNEP Dams and Development Project (DDP) aims to improve decision-making, planning and management of dams and their alternatives promoting dialogue on the basis of the core values and strategic priorities recommended by the World Commission on Dams. In pursuance of this objective the DDP facilitates dialogue on dams and development at national and global level. National dialogues aim to raise awareness on the country dam issues, analyse the core values and strategic priorities in the national legal context and produce recommendations on policy and procedure to improve the country dams' decision-making framework. The approach is multi-stakeholder in nature seeking to involve all groups including government, private sector, affected people, NGOs and academia. Dialogue activities and processes have taken place so far in Argentina, Indonesia, Kenya, Malawi, Namibia, Nepal, South Africa, Sri Lanka, Thailand, Vietnam and Zambia.

At global level, the dialogue is channelled through the Dams and Development Forum integrated by 120 organisations that meet on an annual basis and international multi-stakeholder issues-based workshops. Since the establishment of the project by UNEP in November 2001, three DD Forum meetings have taken place and four workshops dealing with key issues concerning dams' planning and management have been convened: Options Assessment, Financing Dams and Sustainable Development, Addressing existing Dams and Ensuring Compliance. A fifth workshop on Gaining Public Acceptance is planned. Discussion at global level intend to exchange views and experiences in order to clarify the concepts underlying the core values and strategic priorities, discuss the roles and responsibilities of the stakeholders, analyse challenges and opportunities for their integration in the

¹ This paper draws on the contents of the information prepared in support of as well as on the outcomes of the discussions reported in the proceedings of the workshop on Financing Dams and Sustainable Development convened by DDP on April 21-22, London. The proceedings can be downloaded from the DDP website (www.unep-dams.org) or can be requested in printed format to ddpinfp@unep.org.

national context, identify key issues and produce recommendations that will feed into the national level debate².

2. FINANCING DAMS AND SUSTAINABLE DEVELOPMENTS

Investments in large dam infrastructure exhibit a clear negative trend during the last decade that continues up to date. It responds to escalating conflicts surrounding dam building and operation. They impose a high level of investments risk to all actors in the financial sector – bilateral and multilateral development banks, export credit agencies or private sector financiers. Investment risks are associated to financial risks resulting from uncertainties in performance, risks to livelihoods and environmental risks resulting from negative social and environmental impacts. All three aspects have to do with the sustainability of the outcomes of the decision making process associated to the planning and management stages of these large infrastructures.

The Core values and Strategic Priorities put forward by the World Commission on Dams (WCD) have achieved generalised acceptance by all stakeholders as pillars of a decision-making framework that ensures sustainable outcomes. In its final report the WCD suggested a number of specific initiatives related to project financiers. For the private sector this included consideration of processes and criteria to promote socially and environmentally sound projects and embedding them in corporate social responsibility procedures. For Export Credit Agencies, the Commission recommendations included common social and environmental criteria for financial guarantees and increased capacity to implement project appraisal associated with these criteria. For bilateral and multilateral agencies, the Commission recommended a review of operational policies and internal procedures.

Since the launching of the report, action has been initiated in a number of related areas, not all directly in response to the report, but with relevance to it. For example, the World Bank, Asian Development Bank and others have reviewed the Commission's recommendations and published their positions – identifying where they agree and where they differ. Twenty four of the twenty six export credit agencies in the OECD have agreed on improved environmental standards, '*Common Approaches on the Environment and Officially Supported Export Credits*'. A growing number of private banks have adopted guidelines of the International Finance Corporation for development projects (announced as the Equator Principles). The International Hydropower Association elaborated Sustainability Guidelines for the hydropower sector, incorporating a number of the principles contained in the WCD recommendations and it is complemented by a Compliance Protocol. The WWF has been active in addressing financial issues concerning dams. There has also been a significant growth of interest in systems to document corporate social responsibility such as the Global Reporting Initiative (GRI).

3. THE WORKSHOP

Central to the financing of large infrastructures like dams issue is building confidence and ensuring that risks have been minimized at key decision-points in the financing processes. These processes go alongside with the selection, planning and implementation of dam projects and their alternatives. In this regard the roles and responsibilities of public and private financial organizations in relation to the processes that lead to their selection and implementation, including policies and sustainability criteria of dam projects, have a significant relevance.

Improvements of safeguard policies of private and public financial organizations, searching for new approaches that lower risk and the steps needed to build confidence and ensure risk minimization were though some of the aspects addressed by the workshop on Financing Dams and Sustainable Development, that the UNE-DDP convened on April 21-22, in London with support from the WWF International and the British Dam Society.

² More information on the DDP, its activities and outcomes can be obtained in www.unep-dams.org

The meeting aimed at identifying ways of minimizing risk related to the financing of dams and their alternatives and thereby achieving more sustainable projects. The risks addressed included financial and investment risk, reputational risk, risk to livelihoods and environmental risk.

About 60 participants from government, commercial banks, multi-lateral development banks, bilateral agencies, export credit agencies, NGOs, industry, utilities, affected and indigenous peoples' groups and professional associations attended the workshop. The programme started on the evening of the first day with three keynote addresses by speakers providing Government, commercial banking and international conservation NGO perspectives on financing dams and sustainable development. Over dinner, participants seated in mixed stakeholder groupings identified a number of challenges for mobilizing investment for dams and sustainable water management and water and energy service provision. On the following day there were three sessions comprising a series of 5-minute presentations and discussion of key points related to building confidence in processes that supported financing decisions. The final session looked at possible follow-up activities that the DDP and the constituencies might consider further.

4. IDENTIFYING THE CHALLENGES FOR FINANCING SUSTAINABLE DAM PROJECTS

There is a hierarchy of challenges at local, national and international levels that impact on the mechanisms and opportunities for financing large dams and their alternatives. Workshop discussions addressed the central challenge that is improving the flow of financing to investments that promote sustainable development of water and energy services, particularly for developing countries and communities that have limited financial resources. In order to bridging the gap between aspiration and reality, the following common and context specific challenges were identified:

- Providing a diversified mix of public, public-private and private investment mechanisms appropriate to the different economic and governance settings;
- Providing an expanded portfolio of interventions to meet the diverse needs in rural, peri-urban and urban settings;
- Improving governance in a broad sense including policy reforms, institutional reforms, regulatory reform and the engagement and involvement of the public as stakeholders.
- Establishing consensus within a country on investment priorities and balancing immediate needs with longer-term economic development aims.

Challenges for financing dams and sustainable development also depend on the stage in the planning and project cycle where key financing decisions are taken. At planning level the assessment of dam and non-dam options should be oriented to meeting national requirements while addressing local sensitivities. In this regard stakeholder views need to be incorporated in defining available options and in policy development by financial institutions. Given inherent uncertainties at this planning level the use of risk management philosophy from early stages of planning was recommended.

The consideration of the full range of public, public-private and private financing models was deemed relevant at project design level where a dam emerges as the favoured option. Early consultation with affected stakeholders with a view to a better understanding of their rights and risks was also pointed out. Compliance was the issue identified as central during implementation and management of the dam project. Adaptive management, high quality environment management and monitoring plans, balancing transparency and business confidentiality and taking benefit of lessons learnt in the context of multi-stakeholder approaches were the relevant aspect highlighted by the participants.

5. BUILDING CONFIDENCE AMONG STAKEHOLDERS IN THE FINANCING PROCESS

A number of perspectives on building confidence in the process that led to financing decisions emerged during discussions at the workshop and are summarised below:

- Governments should provide a clear policy framework for the planning and development of water resources projects (including dams and their alternatives) and enabling conditions to enhance financial flows for equitable and sustainable investments.
- Governments should provide an inclusive framework for options assessment beyond their regulatory oversight functions and are sufficiently involved in project preparation to promote sustainable outcomes.
- Inclusive processes for selection, development and management of dam projects are encouraged by governments and the private sector to build public confidence in the outcomes, reduce risks of delay or abandonment of individual projects, and improve the development effectiveness of projects.
- Mechanisms for the equitable sharing of benefits and costs are introduced as an essential step towards gaining public acceptance.
- Improving risk management at all stages of planning and implementation is required to improve financial flows for investment in new water resources projects (including dams and their alternatives).
- New approaches and models for public-private financing of dams (and many non-dam options) need to be identified, tested and more widely adopted to improve financing flows for investments in water infrastructure.
- More emphasis is placed on defining sustainability criteria applicable to dam projects, including the need for uniformity and the introduction of appropriate procedures for independent monitoring of their application.
- Private financial institutions build on the Equator Principles to reflect sector-specific good practice and enhance transparency and accountability in their investment decisions.
- National ownership of decision-processes related to the development and management of dam projects is enhanced and local capacity is fully utilized.
- A checklist of topics is available to assist private financing institutions identify potential problem areas in screening dam projects and streamline and focus their subsequent investigations on their financial participation.

6. FOLLOW UP

A range of ideas was proposed for future action, some relating to specific stakeholder groups and others are more generic. Among them, DDP was requested to pursue the dissemination of the issues-based workshops proceedings and papers, including the publication an information sheet; promote the output of the issue-based workshops at the country level, particularly in those countries where national dialogue processes are taking place; explore synergies with other UNEP programmes to carry forward the dialogue, in particular UNEP-Finance Initiative (FI) and consider preparing a checklist of topics related to dams and sustainability as a guide for decision-makers.