

3.2 Dams

3.2.1 What is at stake?

Large dams and associated infrastructure are among the most controversial and potentially destructive of all internationally-financed projects. According to the report of the [World Commission on Dams](#) (WCD) released in November 2000, large dams have displaced between 40 and 80 million people worldwide. Millions more have been ousted by the construction of canals, powerhouses and other associated infrastructure. Many of these people have not been satisfactorily resettled, nor have they received adequate compensation, and those who have been resettled have rarely had their livelihoods restored. In the natural world, dams have fragmented and stilled 60 per cent of the world's rivers, leading to profound and often irreversible impacts on riverine and adjoining terrestrial environments. Meanwhile, the economic benefits of large dams have often been elusive. Large dams tend to under-perform their targets for power generation, and lengthy construction delays and large cost overruns are routine.¹⁷

In addition to these environmental, social and economic concerns, the business case for applying strong environmental and social standards to dam projects is compelling. Proponents of environmentally and socially disruptive dam projects have increasingly met effective resistance from committed, well-organised and often globally-connected grassroots advocacy campaigns. For an industry in which cost overruns are the norm, anticipated benefits are often not realised, and virtually all project costs are incurred upfront, the added burdens of community opposition can destroy the financial justifications for the project. As a result, potential conflicts are best resolved by negotiations between all those whose rights are involved and who bear the risks of proposed projects.

The bank's policy should ensure that it will not be involved in the financing of the construction and exploitation of environmentally and socially disruptive dam projects. In developing such a policy, the bank could make use of the best international standards available as described below.

3.2.2 Best standards available

The most authoritative and broadly supported set of standards to be applied to dam and water projects are the guidelines articulated by the [World Commission on Dams](#) (WCD). This body was convened by the [World Bank](#) and [World Conservation Union \(IUCN\)](#), and comprised 12 eminent members drawn from a broad spectrum of stakeholders. In an intensive multi-stakeholder process the WCD addressed the range of environmental and social issues associated with large dams based on worldwide experience over the last several decades, and provided a rich analytical and planning menu to draw from.¹⁸

The centrepieces of the Commission's recommendations were its "rights and risks" approach to project decision-making, and its seven strategic priorities and supporting principles:¹⁹

1. *Gaining Public Acceptance*: Public acceptance of key decisions should be ensured for equitable and sustainable water and energy resources development. Where
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projects affect indigenous and tribal peoples, such processes are guided by their free, prior and informed consent.

2. *Comprehensive Options Assessment*: Alternatives to dams should be subject of a comprehensive and participatory assessment of the full range of policy, institutional and technical options, in which social and environmental aspects have the same significance as economic and financial factors.
3. *Addressing Existing Dams*: Opportunities should be taken to optimise benefits from existing dams, address outstanding social issues and strengthen environmental mitigation and restoration measures.
4. *Sustaining Rivers and Livelihoods*: Options assessment and decision-making around river development should prioritise the avoidance of impacts, followed by the minimisation and mitigation of harm to the health and integrity of the river system. Avoiding impacts through good site selection and project design is a priority.
5. *Recognising Entitlements and Sharing Benefits*: Mutually agreed and legally enforceable mitigation and development provisions need to be negotiated with adversely affected people. Accountability of responsible parties to agreed mitigation, resettlement and development provisions is ensured through legal means, such as contracts, and through accessible legal recourse at the national and international level.
6. *Ensuring Compliance*: Compliance with applicable regulations, criteria and guidelines, and project-specific negotiated agreements needs to be secured at all critical stages in project planning and implementation. Regulatory and compliance frameworks use incentives and sanctions to ensure effectiveness where flexibility is needed to accommodate changing circumstances.
7. *Sharing rivers for Peace, Development and Security*: The use and management of resources should be the subject of agreement between states to promote mutual self-interest for regional cooperation and peaceful collaboration. Dams on shared rivers should not be built where riparian states raise objections that are upheld by international panels.

It should be noted that similar problems as with dams are occurring with other water infrastructure projects, including navigation works, inter-basin water transfers and large irrigation projects. Similar principles could be applied on the construction and financing of these type of projects.

3.2.3 Content of a bank policy

Financial institutions that provide assistance to dams and associated infrastructure projects should adopt a sectoral policy which incorporates the WCD recommendations. This policy should apply to all dams and associated infrastructure but could be expanded into a wider freshwater policy. This could cover all significant water infrastructure

projects, including navigation works, inter-basin water transfers and large irrigation projects.

With regard to dams the WCD considered the implications of its findings for private sector financiers, and provided a set of recommendations for them to follow:²⁰

1. Use comprehensive options assessments as a risk mitigation tool.
2. Incorporate the WCD principles, criteria and guidelines into the environmental and social policies of the financial institution and use the guidelines as minimum screens for evaluating support for, and investment in, individual projects.
3. Develop legally binding environmental and social provisions in the insurance coverage and the debt and equity arrangements of the financial institution.
4. Develop criteria for bond-rating systems for use in financing all options, including large dams, in the water resources and electric power sectors.²¹

In addition to the WCD recommendations, the bank policy should preclude support for dam projects that are located in, or substantially impact upon, critical natural habitats, [Ramsar-listed wetlands](#) and [UNESCO World Heritage Sites](#). These critical natural habitats are discussed further in paragraph 4.1 on biodiversity.

3.2.4 Scoring table

The considerations in the previous paragraphs lead to the following scoring table with regard to bank policies on dams:

0. *The bank has no policy on this sector;*
1. *The bank's policy is vaguely worded or aspirational, with no clear commitments;*
2. *The bank's policy includes elements such as options assessment, steps to ensure dam safety, and consultation with neighbouring states, but does not commit to the WCD strategic priorities and supporting principles;*
3. *The bank's policy commits to the WCD strategic priorities and supporting principles;*
4. *The bank's policy commits to the WCD strategic priorities and supporting principles for all dams and precludes support for dam projects that are located in, or substantially impact upon, critical natural habitats.*

When the bank has a separate Biodiversity policy which excludes activities in critical habitats, this element will be regarded as included in its dam policy as well.

The Equator Principles score 2 points on dams. Collective standards are discussed further in paragraph 7.1. The scores for collective standards are awarded to all signatories, unless the bank's own dams policy scores higher. Scores of individual and collective standards are not added up, only the highest score is awarded.

3.2.5 Results

The dams sector is the only sector policy on which all signatories of the Equator Principles score a 2, as project finance is fairly relevant for financing dams. Three banks have developed their own policy on financing dams. These are ABN AMRO (the

Netherlands), Barclays (United Kingdom) and HSBC (United Kingdom). Of these three, HSBC has developed the best policy, which covers practically all financing of dams.

Scores on Dams policies					
HSBC	4	JPMorgan Chase	2	Bank of China	0
ABN AMRO	2	KBC	2	BNP Paribas	0
ANZ	2	Mitsubishi UFJ	2	China Construction	0
Banco Bradesco	2	Mizuho Financial	2	Deutsche Bank	0
Banco do Brasil	2	Nedbank	2	Goldman Sachs	0
Banco Itaú	2	RBS	2	ICBC	0
Bank of America	2	Royal Bank of Canada	2	Merrill Lynch	0
Barclays	2	Scotiabank	2	Morgan Stanley	0
BBVA	2	Société Générale	2	Santander	0
Citi	2	Standard Chartered	2	Saudi-American Bank	0
Crédit Agricole	2	Sumitomo Mitsui	2	Standard Bank	0
Credit Suisse	2	Unicredit	2	State Bank of India	0
Fortis	2	WestLB	2	UBS	0
ING	2	Westpac	2	Dexia	X
Intesa Sanpaolo	2	Bank Mandiri	0	Rabobank	X