



United Nations Environment Programme DAMS AND DEVELOPMENT PROJECT

Promoting Dialogue

Financing Dams and Sustainable Development

The second issue-based workshop on Financing Dams and Sustainable Development was convened in London on 21-21 April 2004, within the context of the DDP work programme component on supporting global dialogues. 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 that were addressed at the workshop included financial and investment risk, reputational risk, risk to livelihoods and environmental risk. Other specific aims were to exchange views on:



- The expectations, roles and responsibilities of public and private financial organizations in relation to policies and sustainability criteria of dam projects and processes that lead to their selection.
- The criteria appropriate for improvement of safeguard policies and procedures of private and public sector financiers in relation to the selection, planning and implementation of dam projects and their alternatives, and the potential for new approaches to lower risk.
- The steps that may be taken to build confidence and ensure that risks have been minimized at key decision-points in financing processes.

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 outputs are presented below.

Identifying the Challenges for Financing Sustainable Dam Projects

Aiming at 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, 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 at Different Stages of the Planning and Project Cycle

Challenges for financing dams and sustainable development also depend on the stage in the planning and project cycle where key financing decisions are taken. In this respect, workshop participants in the round table discussions identified the following challenges.

Planning – assessment of dams and non-dam options

- Meeting national requirements while addressing local sensitivities
- Using a risk management philosophy from early stages of planning
- Ensuring views of all stakeholders are incorporated in defining available options
- Reflecting stakeholder views in policy development by financial institutions

Project design - where a dam emerges as the favoured option

- Consulting with project-affected people early in the process
 - Considering the full range of public, public-private and private financing models
 - Ensuring promises made during planning are met and implemented with transparency
 - Gaining a better understanding of the rights and risks of affected stakeholders



Compliance during implementation and management of a dam project

- Balancing transparency and business confidentiality
- Ensuring high quality of environment management and monitoring plans
- Monitoring and follow-up through multi-stakeholder approaches
- Adapting to a changing environment
- Acknowledging past mistakes and committing to improved performance

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:

- Provision by governments of 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.
- Provision by government of an inclusive framework for options assessment beyond their regulatory oversight functions and are sufficiently involved in project preparation to promote sustainable outcomes.
- Governments and the private sector encourage inclusive processes for selection, development and management of dam projects to build public confidence in the outcomes, reduce risks, 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).
- 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.



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