

Guidelines for Dams

Why does ABN AMRO have Guidelines for Dams?

Dams play an important role in energy generation and water resource management, providing renewable energy, flood control, and water services for agriculture, industry, and domestic use. As populations grow and economic development leads to higher consumption, the challenges of providing sufficient energy and water resources will intensify, especially in emerging markets.

The following Environmental, Social and Ethical (ESE) impacts and risks are typically associated with hydro activities:

- *Environmental impacts:* The inundation of a river basin may cause significant ecological damage, reduce water quality and disrupt river flow patterns.
- *Health & Safety:* The construction and operation of dams may pose significant occupational health and safety risks. Dam safety, evidenced most prominently by dam failure or malfunctioning, is a critically important issue that can have significant impact on life, property and the environment.
- *Local communities:* The development of dams may cause significant, and sometimes irreversible, social damage to local communities and ecology. The physical displacement of people can often result in the destruction of local cultures, homes and livelihoods, loss of traditional land and water-use rights, and damage to local fisheries.
- *Transparency and human rights:* When operating in countries with high levels of corruption, companies may face ethical issues: revenue mismanagement, a lack of transparency in transactions and human rights abuses.

The bank has adopted its Guidelines for Dams to ensure informed decision-making that is consistent with the bank's business principles and sustainability risk principles. In defining the guidelines, ABN AMRO has taken into account widely-recognised international standards aimed at best practice in the development of dams. These include institutional codes and standards, such as those promulgated by the hydro industry, and the strategic priorities and recommendations espoused by the [World Commission on Dams](#).

What is the scope of these guidelines?

The Guidelines for Dams are part of the bank's sector policies on energy, and as such are part of the underlying policies of the [Sustainability Risk Policy](#). The Guidelines are in line with the bank's core values and business principles and its moderate risk appetite. The Guidelines apply to ABN AMRO and all its subsidiaries, branches, representative offices and legal entities that are under its control.

The Guidelines are applicable to all clients active in the development of dams. They apply to all financial services, including lending and other forms of financial assistance, debt and equity capital markets activities, as well as advisory work.

For project financing, the bank follows the [Equator Principles](#), a common baseline and framework established among banks for the implementation of environmental and social procedures and standards for project financing.

What standards does ABN AMRO apply to this sector?

Excluded activities

The following practices from the bank's [Exclusion List](#) bear special relevance for dams:

- Activities resulting in significant conversion or degradation of a critical habitat;
- Activities involving child labour, the exploitation of children, bonded and/or forced (child) labour;
- Resettlement of indigenous and/or vulnerable groups without free prior and informed consent (FPIC).

In addition to the excluded activities mentioned above, ABN AMRO will not enter into engagement related to dams:

- In critical natural areas, such as those included in the UN list of protected areas, [UNESCO World Heritage Sites](#) and wetlands on the [Ramsar List](#);
- Which require forest removal in areas of tropical moist forest.

General standards

Bank clients must operate in accordance with the relevant international and national laws and regulations, and, especially when involved in high sustainability risk activities, are expected to adopt and adhere to international good practices on sustainability risk management. These practices apply to the whole supply chain and relate to the following areas:

- *Local regulation and governance:* ABN AMRO will seek assurance that acceptable enabling legislative and regulatory frameworks are in place and that appropriate governance mechanisms and institutional capacity exists to enforce compliance. At the project level, the client will be required to establish the project's compliance with all relevant local, state and host country social and environmental laws, regulations, obligations under applicable international social and environmental treaties, agreements and conventions.
- *Analysis of alternatives:* ABN AMRO prefers engaging in projects that are selected through a transparent and participatory options assessment process that considers reasonable alternatives based on project site, design, safety and technical characteristics, their potential environmental and social impacts, and the feasibility of mitigation.
- *Health & safety:* clients should care for the safety, health and wellbeing of all employees, including day labourers and migrant workers, respect human and indigenous rights and care especially for the wellbeing of local communities and those who are affected by their operations. Recognising that dam safety is an issue throughout the operating life of the facility, ABN AMRO requires that the design and construction of the dam is adequately supervised and that the client adopt safety measures for the design, construction, operation and maintenance of the dam and related facilities.

- *Benefits sharing:* ABN AMRO recognises that project-affected communities are entitled to share in project benefits, and that the nature and extent of agreed benefits can take many different forms. Once suitable provisions for equitable benefit sharing have been agreed by all parties involved, the bank will seek assurance that such provisions are implemented.
- *Participation of affected communities:* ABN AMRO will seek assurance that affected communities are consulted on project selection and on compensation, resettlement and benefits sharing. For projects with significant adverse risks, ABN AMRO must be satisfied that the process ensures free, prior and informed consultation and enables informed participation by the affected communities.
- *Entitlements, compensation and resettlement:* ABN AMRO will seek assurance that all possible project alternatives have been investigated to avoid or minimise adverse impact on local community entitlements, and physical or economic displacement. Where this is unavoidable, such physically or economically displaced communities should be provided with fair, appropriate and legally guaranteed compensation and assistance to restore or improve their living conditions. ABN AMRO will ensure that this process is conducted under free prior and informed consent.
- *Culture and livelihood of indigenous peoples:* ABN AMRO recognises that the project development process should foster full respect for the dignity, human rights, aspirations, cultures and customary livelihoods of indigenous peoples. Projects should avoid or at least mitigate impacts on traditional or customary lands, but where such impacts are unavoidable, ABN AMRO will seek to ensure that the client and/or government has entered into good faith negotiation with indigenous peoples, documenting their informed participation, and providing for fair and equitable sharing of culturally appropriate benefits.
- *Terrestrial and aquatic biodiversity and ecosystems:* ABN AMRO will seek evidence that the project will appropriately avoid or minimise adverse impacts to biodiversity in the project's area of influence. To achieve this, the bank requires an assessment of the significance of project impacts on all levels of biodiversity, including the differing values attached to biodiversity by specific stakeholders, and impacts on ecosystem services.
- *Hydrological and cumulative impacts:* ABN AMRO seeks assurance that an assessment is undertaken of the cumulative impacts from the project. This assessment should identify cumulative impacts in the project area of influence and in areas potentially vulnerable to impacts from project-related developments that may occur at a later time or different location. Proposed mitigation measures shall include downstream hydrology and environmental flows as appropriate.
- *Impacts on international waterways:* Projects on international waterways may affect relations between states. ABN AMRO will need to be satisfied that the issues involved are covered by appropriate agreement or arrangement between all stakeholders involved.

By applying the Guidelines ABN AMRO is consistent with the core values of the [World Commission on Dams](#), and accepted by the [International Hydropower Association](#), namely: equity, efficiency, participatory decision-making, sustainability and accountability.

Extra standards for Special Consideration Projects

Projects that pose particular significant material and adverse social or environmental impacts will be classified as "Special Consideration Projects". These projects may require additional or more comprehensive due diligence procedures in the approval process. One or more of the following circumstances will classify a project as a Special Consideration Project:

- Projects involving the relocation of local communities;
- Projects located in, or adjacent to, critical natural habitats and protected areas;
- Projects involving large dams (the [International Commission on Large Dams](#) defines large dams as those with a height of 15m or more, or those between 5-15m with a reservoir volume of 3 million m³);
- Projects on international waterways requiring consent of international riparian countries;
- Projects in areas where there is armed unrest, conflict or human rights violations by national regimes/military/paramilitary forces;
- Projects that impact on the “Annotated Ramsar List” sites (see www.ramsar.org).

How does ABN AMRO put its standards into practice?

In accordance with the Sustainability Risk Policy, the Guidelines for Dams use a sustainability risk management process consisting of the four following steps: (1) risk determination of the activity in which the bank is involved; (2) an assessment of the client’s sustainability performance in managing the sustainability risk; (3) approval; and (4) monitoring.

The first step consists of screening and risk determination. The transaction and the client’s activities are screened for “embargoed matters” on the bank’s exclusion list. Transactions excluded in the case of dam projects are described above.

Subsequently, the transaction’s sustainability risk level (low, medium, high) is determined based on the business activity (the “what”) and location (the “where”) of the transaction, using the bank’s Global Sustainability Risk Index. For dams, environmental impacts on the project’s surroundings and local communities are key.

The second step is the assessment of the client’s sustainability performance by means of a due diligence procedure. For this procedure, ABN AMRO applies a tool to assess the processes bank clients have in place to manage the environmental and social impacts resulting from their hydro activities. The tool focuses on (i) environmental, social, health and safety policies; (ii) internal governance mechanisms; (iii) operating and/or risk management systems; (iv) stakeholder engagement processes and (v) operational track record. The outcome of the assessment will provide the basis for determining whether the client has the requisite commitment and capacity to appropriately manage the environmental and social impacts of its business, and will be taken into account in our engagement and credit decisions.

The third step is the transaction’s approval from a sustainability risk perspective. Clients are expected to meet the bank’s standards and their commitment and performance is part of the approval and monitoring by the bank. Where a client’s approach to the management of environmental and social issues within its business is not yet at industry standard, ABN AMRO will view the client’s commitment to sustainability and the client’s willingness to improve business practises, within a mutually acceptable time-frame, as important elements of the final decision to proceed with the engagement.

Special Consideration Projects will be approved only if ABN AMRO is satisfied that relevant safeguards are in place to ensure that the associated risks and impacts are appropriately managed

and mitigated. ABN AMRO may require a more specific action plan, such as a biodiversity action plan or a detailed resettlement action plan. If, in the opinion of ABN AMRO, these additional mitigation measures or safeguards do not adequately manage the issues, ABN AMRO will not proceed with the engagement.

The fourth step is monitoring. ABN AMRO's monitoring is focused on clients with a sustainability performance that is subject to improvements. ABN AMRO monitors the client's compliance with the bank's conditions and mutually agreed measures, for as long as the bank maintains a financial interest in the transaction.