

August 25, 2017

VIA ELECTRONIC MAIL

Commission Secretary
B.C. Utilities Commission
Sixth Floor, 900 Howe Street
Vancouver, BC Canada V6Z 2N3

Attention: Mr. Patrick Wruck

Dear Mr. Wruck:

**Re: BC Utilities Commission – Site C Inquiry
Submission by Dr. Atif Ansar
Blavatnik School of Government and Saïd Business School,
University of Oxford, Oxford, United Kingdom**

The attached research paper is respectfully submitted to provide context for the BC Utilities Commission in their inquiry into the Site C Dam and Generating Station Project, as per Section 3.b of the Commission's Terms of Reference as set out by the Province of British Columbia.

The document gives an impartial description of risk management and cost/schedule forecasting, as it relates to the planning and implementation of large dams, like Site C. The document reveals an endemic problem with cost and scheduling overruns on large dam construction projects world-wide, and describes a methodology for making more realistic estimates of project cost and schedules, that is based on actual outcomes of similar, previously completed projects. The methodology may be valuable for the Commission in determining their response to, specifically Terms of Reference Sections 3.b (ii) and (iii).

This cover letter summarizes the general findings of our research work. I encourage the Commission to read the full text of the attached paper, and contact me with questions or for further detail.

Introduction

I, Atif Ansar, and my colleagues, Mr. Bent Flyvbjerg, Mr. Alexander Budzier and Mr. Daniel Lunn, all researchers at the University of Oxford, in Oxford England, are the sole authors of the work completed and findings described in the document. The study is based on an analysis of large dams built between 1934 and 2007, totalling 245 projects in 65 countries with a total cost of \$353 billion (in 2010 prices). Of these, 186 were hydroelectric power projects (including 40 in North America) and the remainder were for other purposes. The data were statistically evaluated using an "outside view" or "reference class forecasting" approach, a relatively recent and very powerful protocol for estimating the likelihood of cost and schedule overruns in dam construction projects.

Summary

Our findings indicate that in most cases, large hydropower dams are too costly in absolute terms and take too long to build to deliver positive risk-adjusted returns. Our findings are consistent with mounting evidence in present-day situations that large dams have strikingly poor performance records in terms of economy, impacts to social and environmental values, and public support. Simply put, dams don't make economic sense. Moreover, dams have negative impacts on the environment and local communities. We suggest you seriously consider non-dam alternatives.

Findings

There is overwhelming evidence that dam costs and schedules are systematically under-estimated:

1. Three out of four large dams studied suffered cost overruns and four out of five dams suffered schedule overruns.
2. Actual costs were on average 96% higher than estimated costs (we excluded from our calculations pre-construction planning and assessments, debt payments, post-environmental remedial works, and opportunity costs of submerging land to form reservoirs, so real costs for Site C could be higher than our study may suggest).
3. Actual implementation schedules were on average 44% (2.3 years) longer than estimated (and not including the lengthy lead time for project planning and assessment).
4. Cost and schedule overruns are ubiquitous to all dams, regardless of their size, the project type (hydroelectric power, irrigation, flood control, or water supply), the construction type (wall or earthfill), the year or region in which it was built, or by whom.
5. Cost and schedule overruns are more likely in larger-scale projects.
6. Overruns have not improved over time, suggesting that we are not learning from previous projects; dam costing and scheduling forecasts today are likely to be as wrong as they were between 1934 and 2007.

Discussion

Our research suggests that energy planners need to be more realistic in forecasting costs and schedules. Cost estimates should be increased by as much as 99 percent and construction schedules by 66 percent, if planners are to achieve an 80 percent certainty that their projects will be completed within budget and time.

To illustrate how unrealistic forecasting may affect project deliverables, I provide by example the World Bank-backed Itumbiara hydroelectric power project in Brazil. It faced a parallel issue that is currently plaguing the Site C project on the Peace River: the site chosen for the project was, like the site chosen for Site C, "geologically unfavorable". The plan for the project optimistically declared that there was ample contingency [20% of base cost] for dealing with larger than estimated amounts [of compressible, weak, rock]. In fact, this weak geology ended up costing 96% of the project base cost.

Itumbiara's case is illustrative of a broader problem. Even though risks (geological in the Itumbiara example) can be anticipated, there is little planners can do to hedge against them. Exhaustive investigations may be undertaken, but there remains a considerable chance of encountering unfavorable conditions in the construction phase of projects.

We know that this risk will be considerably less with smaller, more flexible projects. Planning is shorter and less costly, they can be built and go online quicker, or be abandoned without large collateral damage, and so are preferable to high-risk dinosaur projects like conventional mega-dams.

Conclusions

There is strong evidence that the actual benefits of a dam fall short of targets. More probable is that the cost and implementation schedules of large projects like Site C will significantly increase beyond current forecasts. Increases have devastating consequences on electricity rates, place financial burden on the public and private business that must pay higher rates and taxes to support their public utilities, and potentially damage the long-term financial outlook of those public utilities and their governments in terms of borrowing and credit.

Our analysis suggests that a more favourable alternative than Site C for meeting long-term energy demand, would be to implement smaller generating projects as real demand appears. Smaller projects are more flexible, have less up-front delays, can be built very quickly with lower risk of cost or schedule overruns, and have lower financial risk because they represent a smaller portion of a government or public utility balance sheet.

We commend the BCUC for its research and methodology in the review of the Site C hydroelectric project.

Terms of reference

3. The terms of reference in accordance with which the commission must inquire into the matter referred to it by section 2 are as follows:
 - a. the commission must advise on the implications of
 - i. completing the Site C project by 2024, as currently planned,
 - ii. suspending the Site C project, while maintaining the option to resume construction until 2024, and
 - iii. terminating construction and remediating the site;
 - b. more specifically, the commission must provide responses to the following questions:
 - i. After the commission has made an assessment of the authority's expenditures on the Site C project to date, is the commission of the view that the authority is, respecting the project, currently on time and within the proposed budget of \$8.335 billion (which excludes the \$440 million project reserve established and held by the province)?
 - ii. What are the costs to ratepayers of suspending the Site C project, while maintaining the option to resume construction until 2024, and what are the potential mechanisms to recover those costs?
 - iii. What are the costs to ratepayers of terminating the Site C project, and what are the potential mechanisms to recover those costs?
 - iv. Given the energy objectives set out in the Clean Energy Act, what, if any, other portfolio of commercially feasible generating projects and demand-side management initiatives could provide similar benefits (including firming; shaping; storage; grid reliability; and maintenance or reduction of 2016/17 greenhouse gas emission levels) to ratepayers at similar or lower unit energy cost as the Site C project?
 - c. in making applicable determinations respecting the matters referred to in paragraphs (a) and (b), the commission must use the forecast of peak capacity demand and energy demand submitted in July 2016 as part of the authority's Revenue Requirements application, and must require the authority to report on
 - i. developments since that forecast was prepared that will impact demand in the short, medium and longer terms, and
 - ii. other factors that could reasonably be expected to influence demand from the expected case toward the high load or the low load case;
 - d. the commission must consult interested parties respecting the matters referred to in paragraphs (a) and (b);
 - e. in carrying out its inquiry, the commission must be guided by the understanding that the inquiry is not a reconsideration of decisions made in the environmental assessment process or by statutory decision makers or the courts;
 - f. the commission may obtain expert advice on any subject related to the inquiry and may exercise any of its powers under the Act in order to carry out the inquiry in accordance with these terms of reference;
 - g. the commission must submit to the minister charged with the administration of the Hydro and Power Authority Act

- i. a preliminary report outlining progress to date and preliminary findings by September 20, 2017, and
- ii. a final report, including the results of the commission's consultations, by November 1, 2017.

In summary:

In summary, the questions before the BCUC are:

- a. whether the project is on time and within budget;
- b. the cost to ratepayers of suspending the project;
- c. the cost to ratepayers of terminating the project;
- d. what portfolio of generating projects and demand-side management initiatives could provide similar benefits; and
- e. what are expected peak capacity demand and energy demand.

Comments on the preliminary report will be accepted after it has been published on September 20, 2017.

Damming the rivers of the Amazon basin

Edgardo M. Latrubesse^{1,2}, Eugenio Y. Arima¹, Thomas Dunne³, Edward Park¹, Victor R. Baker⁴, Fernando M. d'Horta⁵, Charles Wight¹, Florian Wittmann⁶, Jansen Zuanon⁵, Paul A. Baker^{7,8}, Camila C. Ribas⁵, Richard B. Norgaard⁹, Naziano Filizola¹⁰, Atif Ansar¹¹, Bent Flyvbjerg¹¹ & Jose C. Stevaux¹²

More than a hundred hydropower dams have already been built in the Amazon basin and numerous proposals for further dam constructions are under consideration. The accumulated negative environmental effects of existing dams and proposed dams, if constructed, will trigger massive hydrophysical and biotic disturbances that will affect the Amazon basin's floodplains, estuary and sediment plume. We introduce a Dam Environmental Vulnerability Index to quantify the current and potential impacts of dams in the basin. The scale of foreseeable environmental degradation indicates the need for collective action among nations and states to avoid cumulative, far-reaching impacts. We suggest institutional innovations to assess and avoid the likely impoverishment of Amazon rivers.

Dams in the Amazon river basin have induced confrontations among developers, governmental officials, indigenous populations and environmentalists. Amazonian hydroelectric dams are usually justified on the basis that they supply the energy needed for economic development in a renewable form that also minimizes carbon emissions. Recent scientific reviews have considered the environmental impacts of damming Amazonian rivers^{1–3}, but regrettably, the effects of dams have been assessed mainly through studies undertaken only in the vicinity of each dam⁴. Such a local approach generally ignores the far larger, basin-scale, geomorphological, ecological and political dimensions that will determine the future productive and environmental condition of the river system as a whole. For networks of large dams on huge rivers⁵, far less consideration has been given to the need to assess environmental impacts at regional to continental scales.

There is ample evidence that systems of large dams on trunk rivers and tributaries, constructed without anticipation of cumulative consequences, lead to large-scale degradation of floodplain and coastal environments^{6–8}. In the Amazon, basin-wide assessments are complex and involve multiple countries and state institutions. Yet, because the social and environmental impacts of large dams are severe, disruptive and characteristically irreversible^{9,10}, there is a pressing need for assessment of the nature and exceptional international scale of their environmental impacts and for systematic consideration of their selection, design and operation in order to minimize these deleterious impacts. System-wide evaluation could also be used as a basis for examining trade-offs between energy production and other economic and socio-environmental values, and for anticipating and ameliorating unavoidable changes to economies, navigation, biodiversity and ecosystem services.

Here we provide an analysis of the current and expected environmental consequences that will occur at multiple scales if the proposed widespread construction of Amazonian dams goes forward. We move beyond qualitative statements and critiques by introducing new metrics—specifically a Dam Environmental Vulnerability Index or DEVI—to quantify the impacts of 140 constructed and under construction dams, and the potential impact of 428 built and planned dams (that produce more than 1 MW) in the Amazon basin. We find that the dams, even if only a fraction of those planned are built, will have important environmental consequences that

are irreversible; there exists no imaginable restoration technology. These include massive hydrophysical and biotic disturbances of the Amazon floodplain, estuary, and its marine sediment plume, the northeast coast of South America, and regional climate. However, the extent and intensity of impacts on specific biological groups are uncertain and need to be explored during future work.

We assessed the current and potential vulnerabilities of different regions of the Amazon basin and highlight the need for a more efficient and integrative legal framework involving all nine countries of the basin in an anticipatory assessment of how the negative socio-environmental and biotic impacts of hydropower development can be minimized to achieve environmental benefits for the relevant riverine communities and nations.

Amazonian rivers and dams

The Amazon river system and its watershed of 6,100,000 km² comprise Earth's most complex and largest network of river channels, and a diversity of wetlands that is exceptional in both biodiversity and in primary and secondary productivity¹¹. The river basin discharges approximately 16% to 18% of the planet's freshwater flow to its large estuary and the nearshore Atlantic Ocean^{12,13}. Four of the world's ten largest rivers are in the Amazon basin (the Amazon, Negro, Madeira and Japurá rivers), and 20 of the 34 largest tropical rivers are Amazonian tributaries¹⁴. The Amazon is also the largest and most complex river system that transfers sediments and solutes across continental distances, constructing and sustaining Earth's largest continuous belt of floodplain and a mosaic of wetlands encompassing more than 1,000,000 km².

The sediment regimes and geochemistry of Amazon tributaries differ according to the dominant geotectonic regions that they drain¹⁵. Andean mountains and Andean foreland rivers are rich in suspended sediment and solute loads, and the water pH is near neutral. Cratonic rivers are characterized by low suspended sediment load and low pH, and are often highly enriched in dissolved and particulate organic carbon. Lowland rivers drain sedimentary rocks and transport an abundant suspended sediment load entirely within the tropical rainforest. A fourth mixed-terrain category including Andean mountains, foreland and cratonic areas applies only to the Madeira basin because of the complexity of its geotectonic domains.

¹University of Texas at Austin, Department of Geography and the Environment, Austin, Texas, USA. ²Earth Observatory of Singapore and Asian School of the Environment, Nanyang Technological University, Singapore. ³University of California at Santa Barbara, Bren School of Environmental Science and Management, Santa Barbara, California, USA. ⁴University of Arizona, Department of Hydrology and Atmospheric Sciences, Tucson, Arizona, USA. ⁵National Institute of Amazonian Research (INPA), Manaus, Brazil. ⁶Institute of Floodplain Ecology, Karlsruhe Institute of Technology, Rastatt, Germany. ⁷Duke University, Nicholas School of the Environment, Durham, USA. ⁸Yachay Tech, Geological Sciences, Urcuquí, Ecuador. ⁹University of California at Berkeley, Energy and Resources Group, Berkeley, California, USA. ¹⁰Federal University of Amazonas, Department of Geography, Manaus, Brazil. ¹¹University of Oxford, Said Business School, Oxford, UK. ¹²State University of Sao Paulo (UNESP-Rio Claro), Department of Applied Geology, Rio Claro, Brazil.

The fluvial channels and floodplain morphologies, the amount and characteristics of the sediments transported by the rivers, the annual flood pulse, and the action of morphodynamic erosional–depositional processes in space and time provide disturbance regimes that result in high habitat diversity of the alluvial landscape, high biotic diversity, and high levels of endemism for both aquatic and non-aquatic organisms^{16,17}.

We identified 76 existing dams or dams under construction on the cratonic rivers of the Amazon basin, 62 in the Andes, and two dams in the foreland–cratonic transition, in the Madeira river. Planned installations include 136, 146 and 6 dams in the Andean, cratonic and lowland environments respectively. The proposed dams include small, large and mega projects that account for 48%, 45% and 7% of the total number respectively (see Fig. 1 and its Source Data). Three of the ten largest mega dams in terms of power generation are built or near completion: the Belo Monte (11,233 MW) dam on the Xingu river; and the Santo Antônio (3,150 MW) and Jirau (3,750 MW) dams on the Madeira river. The remaining seven largest are still in planning stages, underlining the need for immediate attention to the impacts of these mega construction projects. The only planned Andean storage mega dam in the top ten is on the Marañon (4,500 MW) river in Peru, but many others have been proposed for the sediment-rich Andean source regions (Fig. 1).

Dam Environmental Vulnerability Index

Here we present a Dam Environmental Vulnerability Index (DEVI) and undertake a large-scale assessment of the environmental impact of existing, and planned Amazonian dams. This allows us to provide vulnerability maps for the 19 major Amazon sub-basins by considering two scenarios: existing and under-construction dams in 2017 (Supplementary Fig. 2), and all dams, whether existing, under construction or planned (Fig. 2).

The DEVI is a measure of the vulnerability of a basin's mainstem river resulting from existing and potential conditions within the basin and combines the following three sub-indices (Supplementary Information). DEVI is also a useful tool to compare the potential hydrophysical impacts of proposed dams on the fluvial systems with the spatial distribution of biological diversity. (i) the Basin Integrity Index (BII), which quantifies the vulnerability of the river basin to existing and potential land use change, potential erosion and runoff pollution; (ii) the Fluvial Dynamics Index (FDI), which gauges the influence of fluxes of sediment transported by the rivers, the morphodynamic activity of the rivers, and the stage-range of the flood pulse; (iii) the Dam Impact Index (DII), which quantifies how much of the river system will be affected by the planned and built dams.

DEVI values range from 0 to 100, with higher values indicating greater vulnerability of a sub-basin. The contribution of each individual index to the basin vulnerability is also examined (Fig. 2, Supplementary Figs 2 and 3, and Supplementary Table 1).

Andean foreland sub-basins

The Andean Cordillera (approximately 12% of the Amazon basin area) provides more than 90% of the detrital sediment to the entire system^{12,18}, out of which wetlands are constructed, and supplies most of the dissolved solids and nutrients transported by the mainstem Amazon river to its floodplains, estuary and coastal region¹⁹ (Fig. 1). The sediment yields of the Andean tributaries are among the highest on Earth, comparable to basins in the Himalaya and insular Southeast Asia²⁰.

Of the five major Andean sub-catchments, three account for most of the planned, constructed and under-construction dams in this region: the Ucayali (47 dams), Marañon (104 dams) and Napo (21 dams) catchments (Fig. 1). The dams are located in areas of high sediment yield, at an average elevation of 1,500 m (Fig. 1). The upper Napo river basin in Ecuador underwent accelerated construction of dams in recent years and currently exhibits moderate DEVI values (Supplementary Fig. 3). However, when assessing the potential impact of planned dams, the most vulnerable rivers will be the Marañon and Ucayali, with DEVI values of 72 and 61 respectively (Fig. 2). An additional environmental concern is that these threatened fluvial basins harbour a large diversity of birds, fish and trees^{21,22}. Their BII values range from high to moderate. In general,

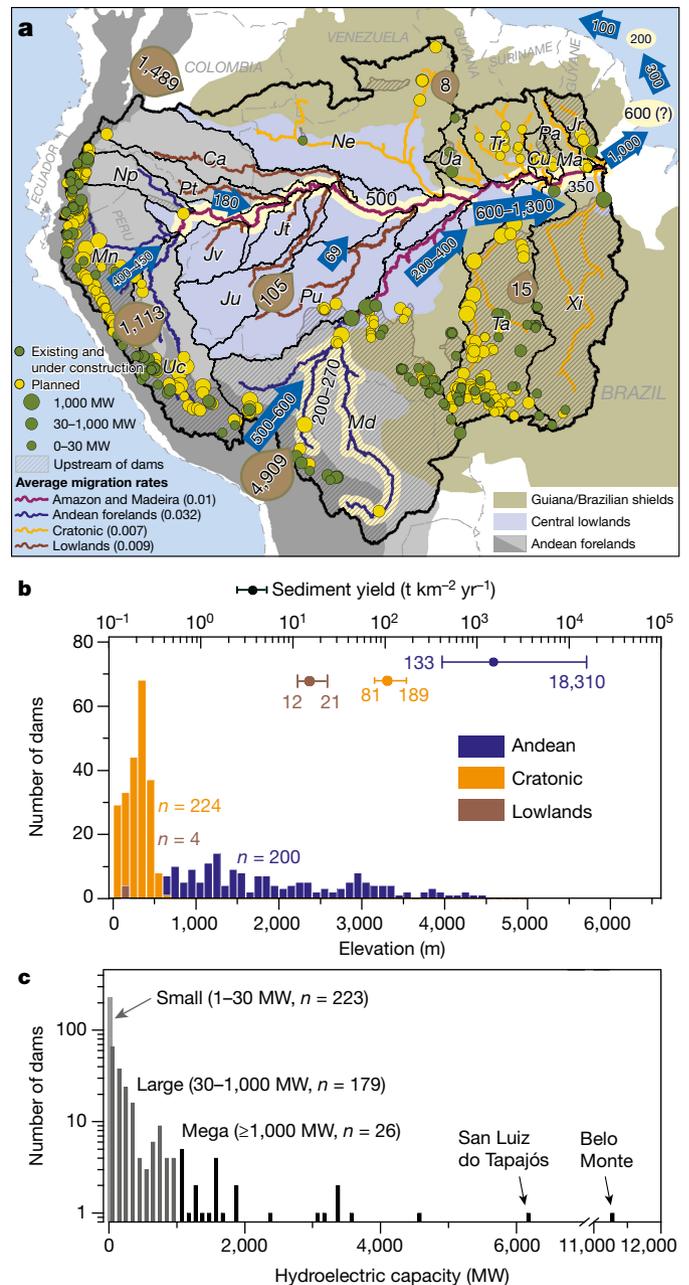


Figure 1 | The Amazon's 19 sub-basins: geologic-physiographic domains, sediment fluxes, channel migration rates and dams. **a**, The Andean foreland rivers are: Marañon (Mn), Ucayali (Uc), Napo (Np), Putumayo (Pt) and Caqueta-Japura (Ca). The cratonic rivers are: Jari (Jr), Paru (Pa), Curuapenema (Cu), Maricuru (Ma), Tapajós (Ta), Xingu (Xi), Trombetas (Tr), Negro (Ne) and Uatumã (Ua). The mixed-terrain river is: Madeira (Md). The lowland rivers are: Juruá (Ju), Purús (Pu), Jutái (Jt) and Javari (Jv). Averaged sediment yield ($\text{t km}^{-2} \text{yr}^{-1}$) for major sediment source terrains is shown as brown 'balloons'^{12,20}; sediment loads (Mt yr^{-1}) are shown as yellow shading^{12,18}, and mean channel migration rates (channel widths per year) are shown by physiographic province²³ (red, green and blue lines). Migration rates of 0.01 were estimated for the Solimões–Amazon and Madeira rivers (purple line). **b**, Numbers of dams in each elevation range (bars) and geological region (Andean mountains, cratonic and lowlands). Ranges and means of sediment yields ($\text{t km}^{-2} \text{yr}^{-1}$) measured in each region are shown along the upper x axis. **c**, Histogram of the number of dams scaled by their hydroelectric capacity.

the anthropogenic and cover of these watersheds is large (>29%) and the amount of protected area upstream from the lowermost planned dam is relatively small (20–32%). High values of FDI are mainly related to

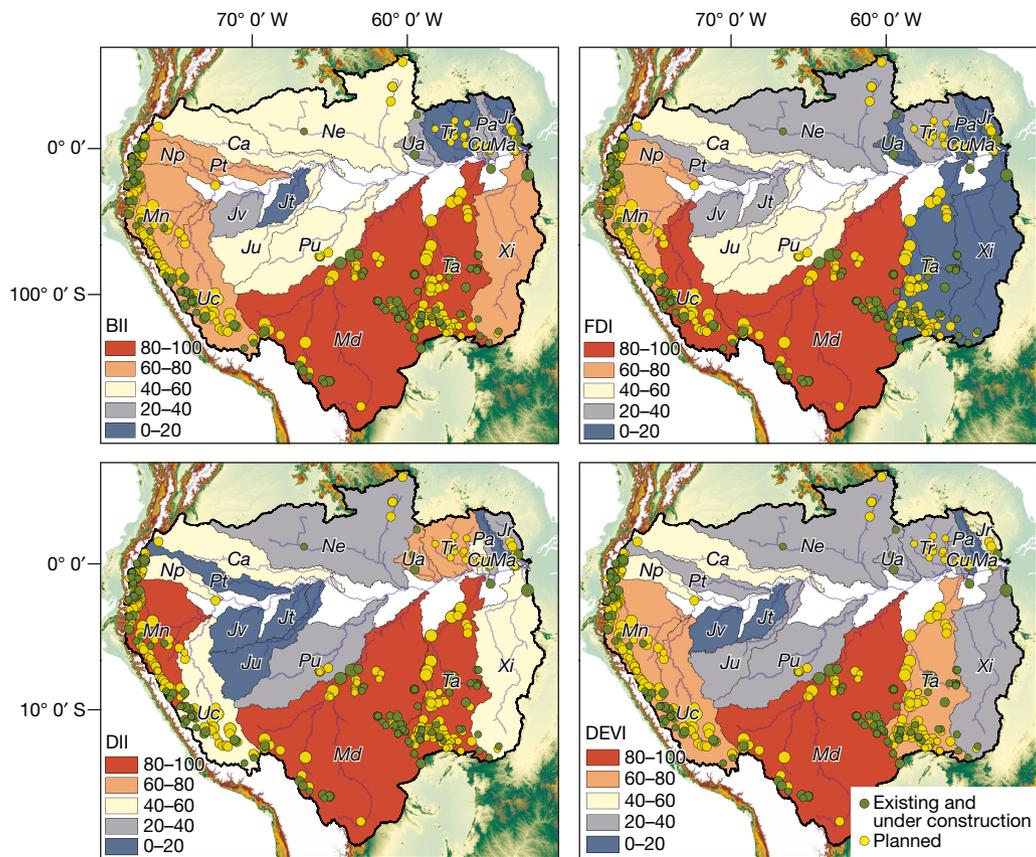


Figure 2 | Vulnerability indices of sub-basins in the Amazon for existing, under construction, and planned dams. The Basin Integrity Index (BII), the Fluvial Dynamics Index (FDI), the Dam Impact

Index (DII), and the combined Dam Environmental Vulnerability Index (DEVI). Red colours indicate highest vulnerability based on the three indices; blue basins are least vulnerable. Dots indicate dam locations.

high sediment yields, high channel migration rates (about 0.046 channel widths per year) and moderate to high water stage variability. High rates of channel cutoff and abandonment result in oxbow lakes and atrophied branches, leading to increased sediment storage. The Ucayali is the most sensitive river in this regard (Fig. 1). The Marañón river is critically threatened and its DII is very high because it would be affected by a large number of dams concentrating along most of the mountainous course of the main channel (Figs 1 and 2).

Cratonic sub-basins

The ten cratonic sub-basins (Fig. 1) host rivers that drain moderate- or low-elevation Precambrian shields and old sedimentary and basaltic plateaus, and have low sediment yields, very low migration rates (about 0.008 channel widths yr⁻¹)²³, and moderate annual variability of mean water stage (water stage variability), resulting in low FDI values (Figs 1 and 2).

Despite the fact that the mainstem of the Tapajós has not yet been disrupted by dams, this basin exhibits the largest values of DEVI among cratonic basins owing to the recent proliferation of constructed and under-construction dams on the major tributaries (Supplementary Fig. 2). The Xingu river was recently affected by the construction of the Belo Monte megadam (Supplementary Fig. 2). When assessing the impact of planned dams, the Tapajós is also the most threatened cratonic river, followed by the Xingu, Trombetas and Uatumã rivers (DEVI < 35) (Fig. 2). The BII value is higher in the Tapajós sub-basin (87) than in the Xingu basin (63), because the Tapajós has less protected area upstream of the lowermost dam and a larger deforestation rate. Anthropogenic land cover is large in both basins (around 61% and 48%, respectively) and anthropogenic disturbance of the landscapes, enabled by the scarcity of protected areas in southeastern cratonic basins, has begun to increase sediment supplies²⁴ (Supplementary Fig. 3).

The Tapajós river will suffer much higher hydrophysical and ecological impacts than will the Xingu river because of the far larger number of

planned dams distributed along hundreds of kilometres of the river. With all planned (90) and existing (28) dams in place, the Tapajós river itself and all its major tributaries will be impounded. Together with the Madeira and Marañón, the Tapajós sub-basin is one of the most threatened in the Amazon basin (Fig. 2 and Supplementary Figs 2 and 3). Despite limited knowledge about the biodiversity of this basin, the information available in environmental studies required by law to assess the impact of planned dams^{25,26} indicates that the Tapajós river harbours unique fish and bird species that are considered to be threatened by existing and planned dams, and some of the fish species are officially included in the Brazilian Ministry of the Environment List of species at risk of extinction (Supplementary Table 2). Coincidentally, our DEVI assessments point that the Tapajós river needs to be a priority area for further detailed studies regarding impacts of dams on aquatic ecosystems and biodiversity.

Some smaller cratonic sub-basins such as the Jari (1 constructed, 4 planned dams) and Paru (3 planned dams), have relatively low DEVI values around 11, as a result of being well protected and having fewer planned dams (Fig. 2, Supplementary Fig. 3).

Lowland sub-basins

The lowland rivers drain Tertiary sedimentary rocks that remain mostly covered by rainforest. Because of their low gradients and lack of rapids, these rivers are free of dams. The six dams planned for the Purús river are not on the main channel, and for that reason its DEVI value (34) is only moderate (Fig. 2). Anthropogenic land cover disturbance in these sub-basins is also relatively low: Purús (24%), Juruá (28%), Jutá (12%) and Javari (18%). However, the BII values of the Purús and Juruá sub-basins are 40 and 44 respectively (Fig. 2).

Madeira sub-basin

The Madeira river, the largest Amazon tributary in terms of drainage area, water and sediment discharge, has been strongly affected by the recent

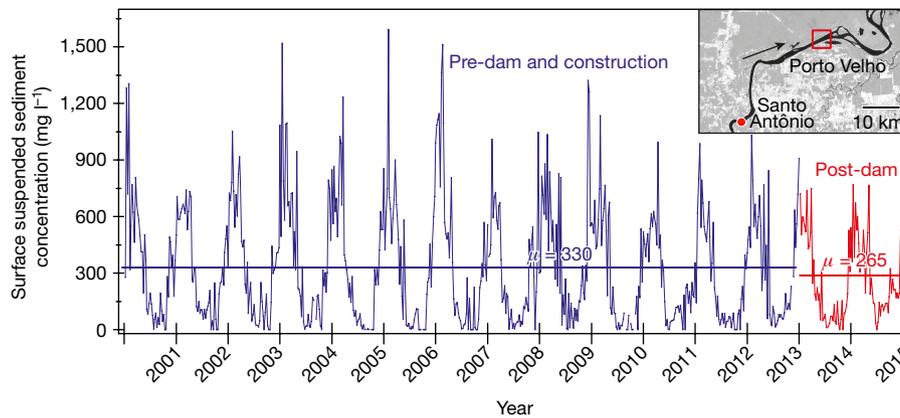


Figure 3 | Changes in surface suspended sediment concentration in the Madeira river downstream of the Santo Antônio dam (8° 48' 06'' S, 63° 57' 03'' W) for pre-and post-dam construction periods. Horizontal coloured lines indicate mean surface suspended sediment concentrations μ for each period: pre-dam construction (2001–2013), and post-dam construction (2014–2015). A decrease of 20% in the mean annual surface

construction of dams and currently exhibits the largest values of DEVI of the whole Amazon basin (Supplementary Fig. 2).

However, the future environmental perspective is even worse. With 83 dams planned or built, 25 on Andean tributaries, 56 on cratonic tributaries, and two on the mainstem, the sub-basin of the Madeira river is also the most threatened in the Amazon (DEVI > 80) (Figs 1 and 2). Nearly 80% of the Madeira river watershed, an area with high sediment yield, lies upstream of the Madeira River Hydroelectric Complex, which consists of two recently constructed mega-dams (the Santo Antônio and Jirau dams) and two dams planned at the Bolivian–Brazilian border and within Bolivia. The large potential impact to the Madeira sub-basin indicated by the DEVI is especially alarming as this sub-basin harbours high biological diversity associated with its fluvial habitats^{21,22}.

The Madeira river's FDI is characterized by low channel migration rates, high water stage variability (12–14 m) and high sediment yield. Cratonic tributaries generate about 36% of the Madeira river discharge and have lower values of FDI (owing to lower sediment load, water stage variability and migration rates) than the Andean foreland tributaries but high DII values because of the lengths and flooded areas of the impoundments. The dams planned for the Andean foreland would affect major rivers (the Madre de Dios, Beni and Mamore rivers) that have the highest sediment yields of the entire Andes–Amazon watershed (Fig. 1). The channel migration rates in these foreland rivers are very high, and the Beni and Mamore floodplains store about 280 Mt yr⁻¹ of sediment on the Bolivian plains²⁷ while their water stage variability is moderate (Fig. 1).

The Madeira river accounts for approximately 50% of the total sediment transported into the Amazon river system from Bolivia and Peru, and sediment trapping by its large dams will be a major problem. Although assessments of sediment transport and trapping conducted by governmental and independent consultants are controversial²⁸, it is estimated that about 97% of the sandy load would be trapped upstream of the Santo Antônio and Jirau dams²⁹. These estimates do not account for the trapping effects of the 25 upstream storage dams planned for the Andean reaches and upstream lowlands and palliative flushing strategies that may be implemented. Using satellite-based observations (Supplementary Text 2), we estimate the surface suspended sediment concentration, immediately downstream of the Santo Antônio dam for the years 2001–2015. Our results indicate that the Santo Antônio and Jirau dams caused an approximately 20% decrease in the mean surface suspended sediment concentration of the Madeira river (Fig. 3), despite unusually high flood discharges in 2014 and 2015.

Mainstem Amazon system and Amazon sediment plume

The Amazon river mainstem sustains a biologically rich floodplain with an area greater than 100,000 km² (ref. 30). Despite the high sediment

suspended sediment concentration is detected in the Madeira river (details of methods are available in Supplementary Information section 2). The red rectangle in the inset indicates the area used for the Moderate Resolution Imaging Spectroradiometer–Surface Suspended Sediment Concentration (MODIS–SSSC) calibration; Porto Velho is a city in Rondonia, Brazil.

yields of its Andean catchments, the Amazon basin sediment yield at the continental scale is only moderate (about 216–166 Mt km⁻²) because much of its sediment supply is stored in its floodplains. For 2,000 km along the Brazilian Amazon river, exchange of sediment between the channel and the floodplain exceeds the annual flux of sediment (about 800–1,200 Mt yr⁻¹) discharged from the river at Óbidos, the farthest-downstream measuring station^{12,18}. The processes of channel–floodplain exchange include bank erosion, bar deposition, particle settling from diffuse overbank flow, and sedimentation in floodplain channels, levees and internal deltas, and are associated with a mean channel migration rate of 0.02% ± 20% channel widths per year and a water stage variability^{18,31} of about 10 m (Fig. 1). Sediment storage along the whole Amazon river (channel–floodplain system) from the Peruvian border to Óbidos is approximately 500 Mt yr⁻¹ (Fig. 1). The lower Amazon river between Manacapuru and Óbidos, with its large fluvial lakes and wetlands, is a particularly crucial and vulnerable area from an ecological and geomorphological perspective. An estimated 162–193 Mt yr⁻¹ of sediment is stored in the floodplain along this reach of the Amazon river¹². An additional estimated 300–400 Mt yr⁻¹ of sediment is deposited in the lower fluvial reach and delta plain¹⁸ (Fig. 1). The implied decrease of sediment along the main channel and floodplains of the mainstem Amazon will have major impacts on its sediment dynamics and ecology.

A recent vulnerability assessment suggested that the Amazon mouth is at “low to moderate risk” when compared to other deltas of the world³². However, these assessments in deltas are typically focused on land loss, and the mouth of the Amazon has more characteristics of an estuary than of a delta. The assessment in ref. 32 of the Amazon mouth probably underestimates the cumulative effects of dams and the impacts on the environmental functions and services provided by the lower Amazon and its plume because the assessment does not appear to consider the current effects of very recently constructed dams nor the future effects of those dams that are under construction and planned.

The role of Amazon sediments on coastal and marine ecosystem functions is not fully understood. About 200–300 Mt yr⁻¹ of muddy Amazon sediment is transported northwestward along the Atlantic continental shelf towards the Guyana and Venezuela coast³³. These sediments provide substrate and nutrients for the largest preserved mangrove region of South America, which spans Marajo Island, the coastline of the Pará and Amapá states of Brazil, and the Guianas. Another recent discovery confirmed the existence of an extensive carbonate reef system of around 9,500 km² from the French Guiana border to the state of Maranhão in Brazil (about 1,000 km); this reef system has unique functions owing to the influence of the plume, which provides ecosystem services and acts as a selective biogeographic corridor between the Caribbean and the southern Atlantic Ocean³⁴. Our understanding of the environmental links and mechanisms

BOX 1

The Amazon Cooperation Treaty (ACT), signed by Brazil, Bolivia, Colombia, Guyana, Ecuador, Peru, Venezuela and Suriname, aims to promote the sustainable development of these Amazon countries. It is the legal instrument that recognizes the transboundary character of the Amazon river basin. Its executive arm is the Amazon Cooperation Treaty Organization (ACTO). The countries of the Amazon basin (except Guyana) are also signatories of the Ramsar Convention (<http://www.ramsar.org/>), which stipulates the sustainable use of wetland resources, rivers and other continental wetlands.

Of the ACTO members, Brazil leads regarding water policies and legislation. Brazil's main legal framework for this is the Brazilian Water Management Act (Law 9433/1997). The law sets standards for a decentralized and participatory water resources management system; considers river basins as the fundamental territorial units; defines strategies for water planning, management and governance; and contemplates the creation of river basin committees. These river basin committees, formed by representatives of the government sector, water users and civil society, are responsible for defining strategies for basin management, river basin planning and conflict mediation. The creation of a participative basin committee for the Amazon could follow the general lines of work and responsibility of the river basin committees.

Ongoing international basin management policies in the Amazon are nascent and concentrated in the MAP region—that is, the Madre de Dios, Acre and Pando departments, in Peru, Brazil and Bolivia, respectively. MAP aims to collaborate on the integrated management of the Acre river and it is the only international water initiative formed by civil society in the entire Amazon basin⁴⁵.

The main tool in Brazil and some Amazon countries for environmental governance and licensing is local environmental impact assessment, which in most cases does not provide adequate technical information for, and thus has had minimal influence on, policy decisions⁵⁸. Additional tools such as strategic environmental assessments and integrated environmental assessments are being tried in Brazil, but the environmental impact assessment is still the only legal mandatory instrument for licensing. In Amazonian countries, the scale of assessment currently required for construction of dams is entirely local, and the decision-making process requires adequate analysis of hydrophysical and ecological impacts for the entire river system and coastal zone^{59,60}. Improvements in the technical requirements of term of references, integrated assessment at the basin scale, and scrutiny of project viability by ACTO, and the proposed participative basin committee and Amazon Basin Panel, are required.

A proposal in Brazil to amend the federal constitution (PEC-65/2012-Brazilian Senate) will weaken environmental licensing for infrastructure projects by eliminating the current three-step process (preliminary, installation and operational) in favour of a simpler, but watered-down, environmental impact assessment^{61,62}.

Brazil modified its Forestry Code in 2012, facilitating legal deforestation of large portions of the Amazon floodplains⁶³. Some legally protected areas were also degazetted or downsized to make room for planned and existing dams that overlap with conservation areas. These trends reverse the trend towards global environmental leadership shown by Brazil during recent decades. Change is needed to scale up cost-benefit analyses to encompass regional and transnational basinwide values.

of interactions between the Amazon plume and the coral reef is still rudimentary.

It has been suggested that the Amazon plume may also have inter-hemispheric climate effects, influencing precipitation in the Amazon forest as well as moisture convergence into Central America, the number and intensity of summer storms, and storm trajectories towards the Caribbean, Central America and the southern United States³⁵.

Sustainable solutions for Amazonian rivers

There is ongoing debate about the costs and benefits of building large dams: water development planners, engineers and economists have been shown to be overly optimistic and to systematically underestimate costs³⁶. The costs of dams are much more difficult to estimate than those of other energy projects because each dam must be constructed to work within its particular environmental, geological and hydrological conditions³⁶.

Although large-scale hydropower is often seen as an attractive way to provide power to the Amazon region, economic uncertainties driven by climate change, land-use change and sensitivity to extreme drought events strongly affect projections of the economics of operation and power generation^{37,38}.

Recent research has shown that, even before taking into account negative impacts on human society and the environment, on average the actual construction costs of large dams tend to be too high to yield a positive financial return on investment^{9,10,36,39}. Estimated benefits from water development are likely to be realized, but the unexpected environmental and social costs that typically occur with every dam project detract from the net benefits⁴⁰. A global analysis of 245 large dams, including 26 major dams built between 1934 and 2007, demonstrated that actual costs averaged 96% (median 27%) higher than predicted, and one out of ten dams costs three times its estimate³⁶.

Furthermore, most of the dams, even those in Peru and Bolivia, are intended for exporting energy from their regions to cover Brazil's growing national demand for electricity, which was projected to increase about 2.2% annually up to 2050^{41,42}. However, in the current economic situation the Brazilian government is reassessing this macroeconomic forecast and accepts that the middle-term growth rates of electricity demand are below previous estimates, that national plans for greater energy security overestimated the need for infrastructure, and that the demand by 2022 could be fully met with only 60% of the planned investments⁴³. Thus, we suggest that the economic need and economic viability of dam construction in Brazil and the Andean countries need to be re-assessed. After the construction of three controversial mega-dams (the Belo Monte, Jirau and Santo Antônio dams), the Amazon countries have a second chance to reflect on the sustainable future of their unique fluvial resources.

We propose that it is essential for government agencies in all countries of the Amazon basin to formally recognize the gradually unfolding, but enormous, scale of dam-building impacts propagating through the riverine and coastal systems of the entire region, so that they can accurately assess, plan for, and avoid or ameliorate, the foreseeable degradation of the ecosystem services of these incomparable wetlands. Such recognition could provide a basis for trans-boundary communication and cooperation; a few examples are suggested here.

Current legislation only partially considers policies for national and international waters⁴⁴, and the licensing process to approve large infrastructure projects has been simplified and weakened (Box 1). At the basin scale, it is critical to revitalize, improve and expand policy instruments such as the Amazon Cooperation Treaty Organization (ACTO), and to build new international actions based on existing legal instruments already available in Brazil but still inoperative in the Amazon, such as the Water Management Act (Law 9433/1997), which promotes an integrated water management system (Box 1).

ACTO could be the catalyst to build new international actions, policies and plans for river management. ACTO could also strengthen its technical and scientific capacity, consolidate existing programmes, and encourage more active participation of natural and social scientists engaged with stakeholders and decision makers. Such specialists could provide technical and scientific data by monitoring trends in sediment loads, the extent of wetland inundation, overbank flooding frequencies, coastal sediment plume size and riparian deforestation; they could anticipate environmental-socioeconomic impacts and suggest strategies for basin and resource management, as well as for avoidance of conflict.

We suggest that a legal transboundary water resources framework is required that has as its premise an integrative basin-scale approach. Proposals for the use of water resources by different agencies (energy, transportation and environment) must be combined into basin-scale, multi-faceted frameworks, rather than being isolated as independent competing entities. Social participation and basin-integrated management among states or department units of Peru, Brazil and Bolivia, such as the MAP collaboration for integrated management of the Acre river (a tributary of the Purús river) (Box 1), is an encouraging solution⁴⁵. However, such regional plans need to be incorporated into a major

decision-management tree at the basin scale and not simply atomized among a plethora of widely dispersed, independent, small projects in the basin.

A commission linked to ACTO, supported by an international panel of multidisciplinary experts (the Amazon Basin Panel), could produce assessments of the natural capital and its functioning, together with an assessment of socio-economic demands, conflicts and trends along the waterways of the Amazon river basin, and could define integrated and sustainable management plans for transboundary water resources. In this context, the assessment of vulnerability and impacts is a fundamental step. The DEVI measurement of vulnerability at sub-basin scales demonstrates that the recent construction of dams is profoundly affecting the Amazon basin, and predicts that, if the planned dams are constructed, their cumulative effects will increase the complexity and scale of the impacts. Our assessment also reveals why downstream nations and Brazilian states that are not directly involved in the construction of dams in their sovereign territories are nevertheless vulnerable to indirect environmental impacts and thus have reason to assess the consequences of dam building far upstream of their borders.

Amazon Basin Panel assessments could also provide the scientific basis for governments and society at all levels to develop policies that recognize the fundamental connectedness of river and coastal environments. We suggest participative strategies replicating the management of the Intergovernmental Panel on Climate Change (IPCC), involving members from ACTO countries, and additional members (such as France), and including scientists and international peer scrutiny. Like IPCC reports, the Amazon Basin Panel assessments could be policy-relevant but not policy-prescriptive. They may present projections of environmental impacts and issues based on different scenarios, and help suggest to policymakers a range of potential sustainable policies for river management.

The decision-making processes could be supported further through the creation of a participative basin committee of representatives of the different socio-political actors to discuss and define recommendations that consider socio-environmental governance and the protection of collective rights⁴⁶, under the coordination of ACTO (Box 1). Into that institutional context, a further policy instrument we suggest for reversing national–regional scale environmental degradation is the creation of new conservation units in the Amazon and hydro–socio-economic–ecological zoning regulations. These conservation units could be explicitly designed to recognize and protect watersheds, main channels, floodplains and eco-hydro-geomorphological services; and to assess sites of important natural, cultural, scenic and economic value to local communities.

Regarding energy policies, the medium-term demand for electricity can be met without sacrificing Amazon fluvial and coastal ecosystems and economies. One-off megaprojects—such as large dams, and large coal or nuclear plants—incur disproportionately large risks, which make them relatively unattractive compared to the more replicable alternatives^{36,39,47}. Preliminary evidence suggests that modular solutions—including wind energy, solar energy, and on-site combined heat, cooling and power plants—provide compelling alternatives not only environmentally but also financially⁴⁸.

More flexible measures in Amazon countries could facilitate a smooth transition to a more diverse energy matrix based on other renewable sources in the mid- to long term, protecting the ecological services provided by the great, undammed Amazon rivers. Brazil, for example, has huge potential for the production of wind energy, (>143 GW), solar energy, and a variety of alternatives for hydropower besides large dams (such as small hydroelectric plants and river hydrokinetic energy)^{49–52}. At present, Brazil is losing approximately 20% of the total energy produced within Brazil to deficient transmission⁵³. Using a conservative projection, improvements in the transmission and distribution system and repowering and modernizing existing hydropower plants could increase energy delivery of approximately 2.84% (ref. 54). Peru also has a remarkable potential for wind, solar and geothermal energy but very little has been used^{55,56}.

In contrast to current policy, the energy sector needs to be a part of integrated Amazon-basin planning and management initiatives. At

present, the energy sector tends to operate in the region as an independent agent imposed through vertical and centralized governmental decisions, but without a participative process that considers the needs and expectations of the local communities and that integrates the multidisciplinary scientific and technical information concerning the character and functioning of the Amazon river basin at multiple scales and locations, into political and socio-economic analyses. Scientists played a critical part in reducing deforestation in Brazil through monitoring systems, by assessing the role of forests in regional climate regulation, and by showing that agricultural production could be increased without further deforestation⁵⁷. We propose that through the integration of available scientific knowledge, it will be possible to apply analogous strategies to the protection of natural resources in the Amazon fluvial and coastal systems.

Citizens of the Amazon basin countries will ultimately have to decide whether hydropower generation is worth the price of causing profound damage to the most diverse and productive river system in the world. If those decisions are made within the context of a comprehensive understanding of the fluvial system as a whole, the many benefits the rivers provide to humans and the environment could be retained.

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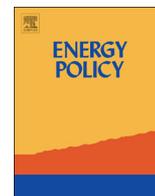
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Should we build more large dams? The actual costs of hydropower megaproject development[☆]

Atif Ansar^{a,b,*}, Bent Flyvbjerg^b, Alexander Budzier^b, Daniel Lunn^c

^a Blavatnik School of Government, University of Oxford, Oxford OX1 4JJ, UK

^b Saïd Business School, University of Oxford, Oxford OX1 1HP, UK

^c Department of Statistics, University of Oxford, Oxford OX1 3GT, UK

HIGHLIGHTS

- We investigate *ex post* outcomes of schedule and cost estimates of hydropower dams.
- We use the “outside view” based on Kahneman and Tversky’s research in psychology.
- Estimates are systematically and severely biased below actual values.
- Projects that take longer have greater cost overruns; bigger projects take longer.
- Uplift required to de-bias systematic cost underestimation for large dams is +99%.

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ABSTRACT

A brisk building boom of hydropower mega-dams is underway from China to Brazil. Whether benefits of new dams will outweigh costs remains unresolved despite contentious debates. We investigate this question with the “outside view” or “reference class forecasting” based on literature on decision-making under uncertainty in psychology. We find overwhelming evidence that budgets are systematically biased below actual costs of large hydropower dams—excluding inflation, substantial debt servicing, environmental, and social costs. Using the largest and most reliable reference data of its kind and multilevel statistical techniques applied to large dams for the first time, we were successful in fitting parsimonious models to predict cost and schedule overruns. The outside view suggests that in most countries large hydropower dams will be too costly in absolute terms and take too long to build to deliver a positive risk-adjusted return unless suitable risk management measures outlined in this paper can be affordably provided. Policymakers, particularly in developing countries, are advised to prefer agile energy alternatives that can be built over shorter time horizons to energy megaprojects.

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1. Large hydropower dam controversy

The 21st Century faces significant energy challenges on a global scale. Population and economic growth underpin increasing demand for energy from electricity to transport fuels. Social objectives of poverty alleviation, adaptation and mitigation of climate change, and energy security present policy makers and business leaders with difficult decisions and critical trade-offs in implementing sound energy policies. Demand for electricity is, for example, slated to

almost double between 2010 and 2035 requiring global electricity capacity to increase from 5.2 terawatt (TW) to 9.3 TW over the same period (IEA, 2011). Currently, the de facto strategic response to these big energy challenges is “big solutions” such as large hydropower dams. Are such big solutions in general and large hydropower dams in particular the most effective strategy, on a risk-adjusted basis, to resolve global energy challenges? Might more numerous small interventions be more prudent from the perspective of risk management and maximizing net present value even when they entail somewhat higher per unit cost of production?

Proponents of large dams envisage multiple benefits. A big step-up in hydropower capacity along with a long and varied list of corollary benefits: reducing fossil fuel consumption, flood control, irrigation, urban water supply, inland water transport, technological progress, and job creation (Billington and Jackson, 2006; ICOLD, 2010). Inspired by the promise of prosperity, there is a robust

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* Corresponding author. Tel.: +44 186 528 8795; fax: +44 186 528 8805.

E-mail addresses: atifansar@gmail.com, atif.ansar@sbs.ox.ac.uk (A. Ansar).

pipeline of new mega-dams being developed globally after a two-decade lull. The Belo Monte dam in Brazil, the Diamer-Bhasha in Pakistan, Jinsha river dams in China, Myitsone dam in Myanmar, or the Gilgel Gibe III dam in Ethiopia, all in various stages of development, are unprecedented in scale.

Large dams are, however, controversial because they exert substantial financial costs (World Bank, 1996; World Commission on Dams, 2000). Beyond the financial calculus, large dams have profound environmental (McCully, 2001; Scudder, 2005; Stone, 2011), ecological (Nilsson et al., 2005; Ziv et al., 2012), and social (Bakker, 1999; Duflo and Pande, 2007; Richter et al., 2010; Sovacool and Bulan, 2011) impacts. Stone (2011, p. 817) reports in *Science* that the Three Gorges dam in China is an “environmental bane” that will cost over USD 26.45 billion over the next 10 years in environmental “mitigation efforts”. Despite their outsized financial and environmental costs, the purported benefits of large hydropower dams prove uncertain. For example, the World Commission of Dams (2000, p. 30) reported that for large hydropower dams “average [hydropower] generation in the first year of commercial operation is 80% of the targeted value”—a trend of which the recently completed Bakun hydroelectric project in Borneo is an alarming example (Sovacool and Bulan, 2011). Similarly, Duflo and Pande (2007) find adverse distributional impacts of large irrigation dams in India. Winners downstream come with losers upstream yielding a more modest, if any, net economic benefit.

The scale of contemporary large dams is so vast that even for a large economy such as China’s the negative economic ramifications “could likely hinder the economic viability of the country as a whole” if the risks inherent to these projects are not well managed (Salazar, 2000). Similarly, Merrow et al. (1988, pp. 2–3) warn that “such enormous sums of money ride on the success of megaprojects [such as large dams] that company balance sheets and even government balance-of-payments accounts can be affected for years by the outcomes”. Such warnings are not idle alarmism. There is mounting evidence in civil society, academic research, and institutional accounts that large dams have strikingly poor performance records in terms of economy, social and environmental impact, and public support (McCully, 2001; Scudder, 2005; Singh, 2002; Sovacool and Bulan, 2011; WCD, 2000). There are acrimonious, and as yet inconclusive, debates in scientific literature and civil society about whether large dams are a boon or a curse. Should we build more large hydropower dams? How confident can planners be that a large bet on a large dam will pay-off handsomely?

We investigate these questions with the “outside view” or “reference class forecasting” based on the literature on decision-making under uncertainty that won Princeton psychologist Daniel Kahneman the Nobel Prize in economics in 2002 (Kahneman and Tversky, 1979a, 1979b; Kahneman, 1994) extended and applied by Bent Flyvbjerg and colleagues to infrastructure projects (Flyvbjerg et al., 2003; Flyvbjerg, 2009). We present statistical and comparative evidence from the largest reference class to-date of actual costs of large hydropower dam projects (hereafter large dams unless stated otherwise). We find that even before accounting for negative impacts on human society and environment, the actual construction costs of large dams are too high to yield a positive return. Large dams also take inordinately long periods of time to build, making them ineffective in resolving urgent energy crises. Our evidence pertains primarily to large dams and the results cannot be applied either to smaller dams or other large energy solutions such as nuclear power without first building a separate “reference class” for other types of power generation technologies. Our findings, however, point towards the generalizable policy proposition that policymakers should prefer energy alternatives that require less upfront outlays and that can be built very quickly.

There is no doubt that harnessing and managing the power of water is critical for economies but large dams are not the way to do so unless suitable risk management measures outlined in this paper can be affordably provided. Building on literature in decision making under uncertainty in management, psychology, and planning research, this paper further provides public agencies (e.g. national planning and finance ministries, power and water authorities), private entrepreneurs, investors, and civil society a framework to test the reliability of *ex ante* estimates for construction costs and schedules of power generation alternatives. An impartial and rigorous application of the reference class forecasting methods proposed here can improve the selection and implementation of new investments.

2. Delusion and deception in large hydropower dam planning?

Our approach to address the debates about whether or not to build dams is to incorporate an evidence-based perspective that reflects how decisions among alternative options are actually made and on what basis. Theoretical and empirical literature on decision-making under uncertainty proposes two explanations—psychological delusion and political deception—that suggest decision-makers’ forecasts, and hence *ex ante* judgment, are often adversely biased (Tversky and Kahneman, 1974; Kahneman and Lovallo, 1993; Flyvbjerg, 2003; Lovallo and Kahneman, 2003; Kahneman, 2011).

First, experts (e.g., statisticians, engineers, or economists) and laypersons are systematically and predictably too optimistic about the time, costs, and benefits of a decision. This “planning fallacy” (Kahneman and Tversky, 1979b; Buehler et al., 1994) stems from actors taking an “inside view” focusing on the constituents of the specific planned action rather than on the outcomes of similar actions already completed (Kahneman and Lovallo, 1993). Thus, for example, the estimated costs put forward by cities competing to hold the Olympic Games have consistently been underestimated yet every four years these errors are repeated. Biases, such as overconfidence or overreliance on heuristics (rules-of-thumb), underpin these errors.

Second, optimistic judgments are often exacerbated by deception, i.e. strategic misrepresentation by project promoters (Wachs, 1989; Pickrell, 1992; Flyvbjerg et al., 2002, 2005, 2009). Recent literature on infrastructure delivery finds strong evidence that misplaced political incentives and agency problems lead to flawed decision-making (see Flyvbjerg et al., 2009). Flyvbjerg et al. (2009, p. 180) further discuss that delusion and deception are complementary rather than alternative explanations for why megaprojects typically face adverse outcomes. It is, however, “difficult to disentangle” delusion from deception in practice. Using quasi-experimental evidence from China, Ansar et al. (2013) suggest that while better incentive alignment can help to lower the frequency and, to a lesser extent, the magnitude of biases, it does not entirely cure biases.

Be it delusion or deception, is decision-making in large hydropower dams systematically biased by errors in cost, schedule, and benefit forecasts? What is the risk that costs might outweigh benefits for a proposed dam? While the future is unknowable, uncertain outcomes of large investments can still be empirically investigated using “reference class forecasting” (RCF) or the “outside view” techniques (Kahneman and Lovallo, 1993; Flyvbjerg, 2006, 2008). To take an outside view on the outcome of an action (or event) is to place it in the statistical distribution of the outcomes of comparable, already-concluded, actions (or events). The outside view has three advantages: First, it is evidence-based and requires no restrictive assumptions. Second, it helps to test and fit models to explain why the outcomes of a reference class of

past actions follow the observed distribution. Third, it allows to predict the uncertain outcomes of a planned action by comparing it with the distributional information of the relevant reference class. The theoretical foundations of the outside view were first described by Kahneman and Tversky (1979b) and later by Kahneman and Lovallo (1993) and Lovallo and Kahneman (2003) as means to detect and cure biases in human judgment. The methodology and data needed for employing the outside view, or reference class forecasting, in practice were developed by Flyvbjerg (2006, 2008) in collaboration with first implemented in practice by Flyvbjerg and COWI (2004).

2.1. Three steps to the outside view

The outside view, applied to large dams for the first time here, involves three steps: (i) identify a reference class; (ii) establish an empirical distribution for the selected reference class of the parameter that is being forecasted; (iii) compare the specific case with the reference class distribution. We take a further innovatory step of fitting multivariate multilevel models to the reference data to predict future outcomes. Our technique is an important improvement in the methodology of the outside view that can be generalized and applied to other large-scale and long-term decisions under uncertainty. With de-biased forecasts managers can make empirically and statistically grounded, rather than optimistic, judgments (Dawes et al., 1989; Buehler et al., 1994; Gilovich et al., 2002).

The outside view—as implemented by Flyvbjerg (2006, 2008)—is not without limitations (see Sovacool and Cooper, 2013 for a discussion specifically about energy megaprojects). For example, RCF focuses on generic risk inherent in a reference class rather than specific project-level risk. We rectify against this limitation by fitting regression models in addition to using traditional RCF methods in the result section below. Sovacool and Cooper (2013, p. 63) further suggest that RCF may not provide sufficiently accurate indication of the risks of rare megaprojects the likes of which have never been built before. Such “out of the sample” problems are well noted in probability theory. They do not, however, deny the fundamental usefulness of RCF. If anything our results err towards conservative estimates of actual cost overruns and risks experienced by large dams.

2.2. Measures and data

Following literature on the planning fallacy (Sovacool and Cooper, 2013), the parameters central to our investigation and multilevel regression analysis is the inaccuracy between managers' forecasts and actual outcomes related to construction costs, or the cost overrun, and implementation schedule, or schedule slippage. Following convention, cost overrun is the actual outturn costs expressed as a ratio of estimated costs¹; cost overruns can also be thought as the underestimation of actual costs (Bacon and Besant-Jones, 1998; Flyvbjerg et al., 2002). Schedule slippage, called schedule overrun, is the ratio of the actual project implementation duration to the estimated project implementation. The start of the implementation period is taken to be the date of project approval by the main financiers and the key decision makers, and the end is the date of full commercial operation.

Inaccuracies between actual outcomes versus planned forecasts are useful proxies for the underlying risk factors that led to the inaccuracies. For example, cost overruns reduce the attractiveness

of an investment and if they become large the fundamental economic viability becomes questionable. Bacon and Besant-Jones (1998, p. 317) offer an astute summary:

The economic impact of a construction cost overrun is the possible loss of the economic justification for the project. A cost overrun can also be critical to policies for pricing electricity on the basis of economic costs, because such overruns would lead to underpricing. The financial impact of a cost overrun is the strain on the power utility and on national financing capacity in terms of foreign borrowings and domestic credit.

Similarly, schedule slippages delay much needed benefits, expose projects to risks such as an increase in finance charges, or creeping inflation, which may all require upward revision in nominal electricity tariffs. Financial costs and implementation schedules, because of their tangibility, are also good proxies for non-pecuniary impacts such as those on the environment or on the society. Projects with a poor cost and schedule performance are also likely to have a poor environmental and social track record. A greater magnitude of cost and schedule overruns is thus a robust indicator of project failure (Flyvbjerg, 2003).

In taking the outside view on the cost and schedule under/overruns, our first step was to establish a valid and reliable reference class of previously built hydropower dams as discussed above. The suggested practice is that a reference class ought to be broad and large enough to be statistically meaningful but narrow enough to be comparable (Kahneman and Tversky, 1979b; Kahneman and Lovallo, 1993; Flyvbjerg, 2006). International standard defines dams with a wall height > 15 m as large. The total global population of large dams with a wall height > 15 m is 45,000. There are 300 dams in the world of monumental scale; these “major dams” meet one of three criteria on height (> 150 m), dam volume (> 15 million m³), or reservoir storage (> 25 km³) (Nilsson et al., 2005).

From this population of large dams, our reference class drew a representative sample of 245 large dams (including 26 major dams) built between 1934 and 2007 on five continents in 65 different countries—the largest and most reliable data set of its kind. The portfolio is worth USD 353 billion in 2010 prices. All large dams for which valid and reliable cost and schedule data could be found were included in the sample. Of the 245 large dams, 186 were hydropower projects (including 25 major dams) and the remaining 59 were irrigation, flood control, or water supply dams. While we are primarily interested in the performance of large dam projects with a hydropower component, we also included non-hydropower dam projects in our reference class to test whether project types significantly differ in cost and schedule overruns or not. Fig. 1 presents an overview of the sample by regional location, wall height, project type, vintage, and actual project cost.

The empirical strategy of this paper relied on documentary evidence on estimated versus actual costs of dams. Primary documents were collected from *ex ante* planning and *ex post* evaluation documents of the

1. Asian Development Bank;
2. World Bank, also see World Bank (1996) and Bacon and Besant-Jones (1998);
3. World Commission of Dams (WCD), also see WCD (2000)²;
4. U.S. Corps of Engineers;
5. Tennessee Valley Authority;

¹ Cost overruns can also be expressed as the actual outturn costs minus estimated costs in percent of estimated costs.

² Note that the World Bank, Asian Development Bank, and the WCD typically report cost data in nominal USD. We, however, converted these data, adapting methods from World Bank (1996: 85), into constant local currencies.

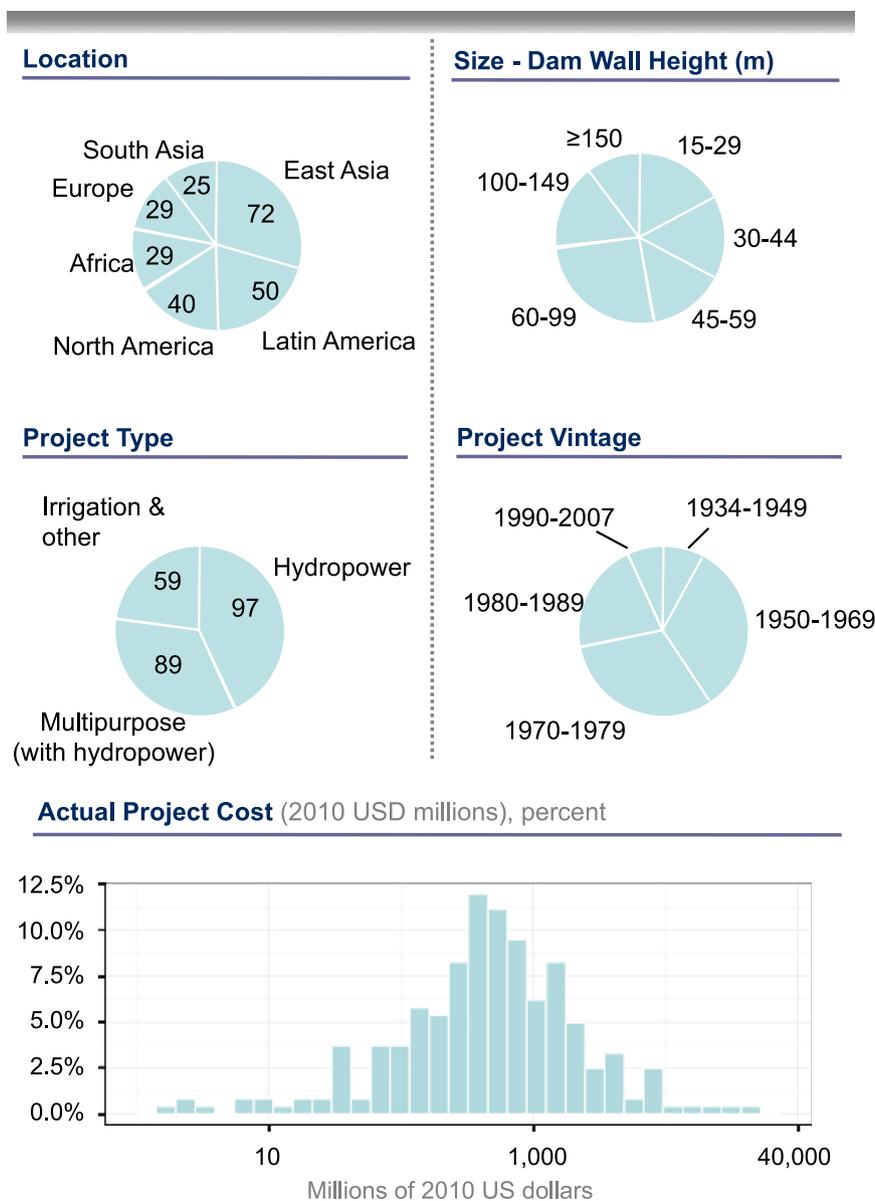


Fig. 1. Sample distribution of 245 large dams (1934–2007), across five continents, worth USD 353B (2010 prices).

6. U.S. Bureau of Reclamation, also see [Hufschmidt and Gerin \(1970\)](#)³ and [Merewitz \(1973\)](#) on the U.S. water-resource construction agencies.

The procedures applied to the cost and schedule data here are consistent with the gold standard applied in the field—more detailed methodological considerations can be found in [Flyvbjerg et al. \(2002\)](#), [Federal Transit Administration \(2003\)](#), [Pickrell \(1989, 1992\)](#), [World Bank \(1996\)](#) and [Bacon and Besant-Jones \(1998\)](#) with which our data are consistent. All costs are total project costs comprising the following elements: right-of-way

acquisition and resettlement; design engineering and project management services; construction of all civil works and facilities; equipment purchases. Actual outturn costs are defined as real, accounted construction costs determined at the time of project completion. Estimated costs are defined as budgeted, or forecasted, construction costs at the time of decision to build. The year of the date of the decision to build a project is the base year of prices in which all estimated and actual constant costs have been expressed in real (i.e. with the effects of inflation removed) local currency terms of the country in which the project is located. We exclude from our calculations debt payments, any *ex post* environmental remedial works, and opportunity cost of submerging land to form reservoirs. This makes comparison of estimated and actual costs of a specific project a like-for-like comparison.

2.3. Analyses

We investigated the magnitude and frequency of cost and schedule forecast (in)accuracies with a combination of simple

³ [Hufschmidt and Gerin \(1970\)](#) report data on over 100 dams built in the United States between 1933 and 1967. The salient results of the study were that in nominal USD terms dams built by TVA suffered a 22% cost overrun; U.S. Corps of Engineers overrun was 124% for projects built or building prior to 1951, and 36% for projects completed between 1951 and 1964; while U.S. Bureau of Reclamation overrun was 177 per cent for projects built or building prior to 1955 and 72 per cent for all projects built or building in 1960 ([Hufschmidt and Gerin, 1970: 277](#)). Despite its large sample, [Hufschmidt and Gerin \(1970\)](#) do not report data broken down project-by-project. The validity and reliability of these data could not thus be established and were consequently excluded.

statistical (parametric and non-parametric) tests and by fitting more sophisticated multilevel regression models sometimes termed Hierarchical Linear Models (HLM).

Multilevel or hierarchically structured data are the norm in the social, medical, or biological sciences. Rasbash et al. (2009, p. 1) explain: “For example, school education provides a clear case of a system in which individuals are subject to the influences of grouping. Pupils or students learn in classes; classes are taught within schools; and schools may be administered within local authorities or school boards. The units in such a system lie at four different levels of a hierarchy. A typical multilevel model of this system would assign pupils to level 1, classes to level 2, schools to level 3 and authorities or boards to level 4. Units at one level are recognized as being grouped, or nested, within units at the next higher level. Such a hierarchy is often described in terms of clusters of level 1 units within each level 2 unit, etc. and the term clustered population is used.” Important for a hierarchical linear model is that the dependent variable is at the lowest level of the nested structure. Multilevel models are necessary for research designs where data for observations are organized at more than one level (i.e., nested data) (Gelman and Hill, 2007). Failing to use multilevel models in such instances would result in spurious results (Rasbash et al., 2009).

With respect to our data on dams, projects are nested in the countries of their domicile. Like test scores of pupils from the same school tend exhibit within-school correlation, similarly outcomes of dam projects may exhibit within-country correlation that needs to be properly modeled using a multilevel model. We took this into account by modeling country as a first level random effect in a mixed effects multilevel model. The

models were made parsimonious by using stepwise variable selection.

3. Results and interpretation

Our second step was to establish an empirical distribution for the cost forecast errors of large dams. We collected data on 36 possible explanatory variables, listed in Table 1, for the 245 large dams in our reference class.

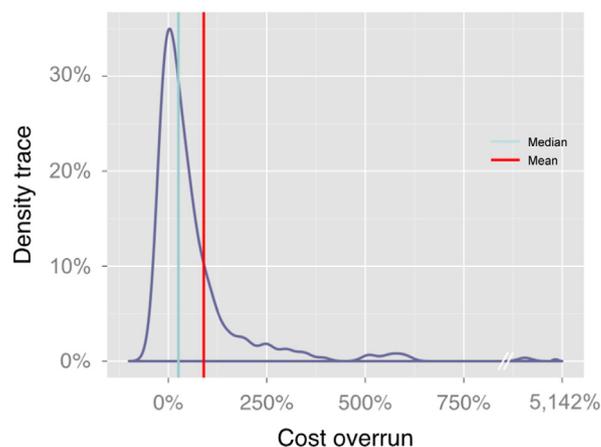


Fig. 2. Density trace of actual/estimated cost (i.e. costs overruns) in constant local currency terms with the median and mean ($N=245$).

Table 1

Variables and characteristics used in multilevel regressions on construction cost overrun and schedule slippage.

Project-specific variables

Project features

- Hydropower or non-hydropower large dam project (dummy variable)
- New power station or station extension (dummy variable)

Size

- Generator unit capacity (MW)
- Total project generation capacity (MW)
- Dam height for new hydropower station (meters)
- Hydraulic head for new hydropower station (meters)^a
- Reservoir area created by project (hectares)^a
- Length of tunnels (kilometers)^a

Cost

- Estimated project cost (constant local currency converted to 2010 USD MM)
- Actual project cost (constant local currency converted to 2010 USD MM)
- Cumulative inflation contingency (percentage)

Time

- Year of final decision to build
- Estimated implementation schedule (months)
- Year of start of full commercial operation
- Actual implementation schedule (months)

Procurement

- Estimated project foreign exchange costs as a proportion of estimated total project costs (percentage)
- Competitiveness of procurement process, international competitive bidding amount as a proportion of estimated total project costs (percentage)^{*}
- Main contractor is from the host country (dummy variable)

Country variables

- Country (second level to control for within country correlation)
- Political regime of host country is a democracy (dummy variable)
- GDP of host country (current USD)
- Per capita income of host country in year of loan approval (constant USD)
- Average actual cost growth rate in host country over the implementation period—the GDP deflator (percentage)
- MUV Index of actual average cost growth rate for imported project components between year of loan approval and year of project completion
- Long-term inflation rate of the host country (percentage)
- Actual average exchange rate depreciation or appreciation between year of formal-decision-to-build and year of full commercial operation (percentage)
- South Asian projects (dummy variable)
- North American projects (dummy variable)

^a Denotes variables with a large number of missing values not used for regression analysis.

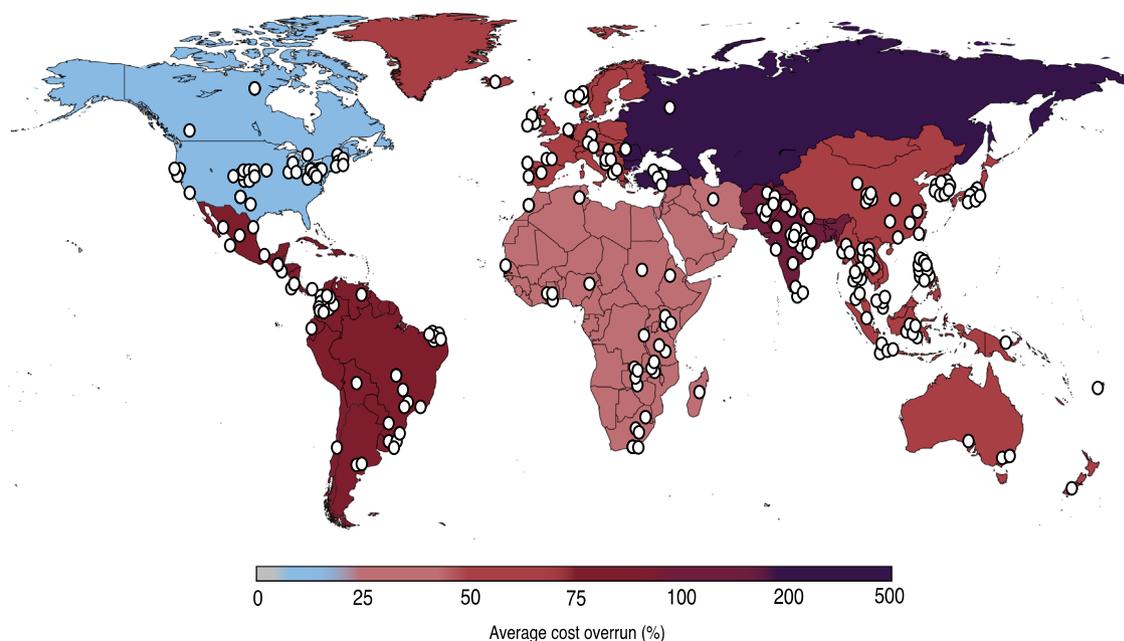


Fig. 3. Location of large dams in the sample and cost overruns by geography.

3.1. Preliminary statistical analysis of cost performance

With respect to cost overruns, we make the following observations:

1. Three out of every four large dams suffered a cost overrun in constant local currency terms.
2. Actual costs were on average 96% higher than estimated costs; the median was 27% (IQR 86%). The evidence is overwhelming that costs are systematically biased towards underestimation (Mann–Whitney–Wilcoxon $U=29,646$, $p < 0.01$); the magnitude of cost underestimation (i.e. cost overrun) is larger than the error of cost overestimation ($p < 0.01$). The skew is towards adverse outcomes (i.e. going over budget).
3. Graphing the dams' cost overruns reveals a fat tail as shown in Fig. 2; the actual costs more than double for 2 out of every 10 large dams and more than triple for 1 out of every 10 dams. The fat tail suggests that planners have difficulty in computing probabilities of events that happen far into the future (Taleb, [2007] 2010, p. 284))
4. Large dams built in every region of the world suffer systematic cost overruns. The mean forecasting error is significantly above zero for every region. Fig. 3 shows the geographical spread and cost overruns of large dams in our reference class. Large dams built in North America ($n=40$) have considerably lower cost overrun ($M=11\%$) than large dams built elsewhere ($M=104\%$). Although after controlling for other covariates such as project scale in a multilevel model, reported below, the differences among regions are not significant. We noted, three out of four dams in our reference class had a North American firm advising on the engineering and economic forecasts. Consistent with anchoring theories in psychology, we conjecture that an over-reliance on the North American experience with large dams may bias cost estimates downwards in rest of the world. Experts may be “anchoring” their forecasts in familiar cases from North America and applying insufficient “adjustments” (Flyvbjerg et al., 2009; Tversky and Kahneman, 1974), for example to adequately reflect the risk of a local currency depreciation or the quality of local project management teams. Instead of optimistically hoping to replicate the North American cost

performance, policymakers elsewhere ought to consider the global distributional information about costs of large dams.

5. The typical forecasted benefit-to-cost ratio was 1.4. In other words, planners expected the net present benefits to exceed the net present costs by about 40%. Nearly half the dams suffered a cost overrun ratio of 1.4 or greater breaching this threshold after which the asset can be considered stranded—i.e. its upfront sunk costs are unlikely to be recovered. This is assuming, of course, that the benefits did not also fall short of targets, even though there is strong evidence that actual benefits of dams are also likely to fall short of targets (WCD, 2000; McCully, 2001; Scudder, 2005).⁴
6. We tested whether forecasting errors differ by project type (e.g., hydropower, irrigation, or multipurpose dam) or wall type (earthfill, rockfill, concrete arch, etc.). Pairwise comparisons of percentage mean cost overrun and standard deviations as well as non-parametric Mann–Whitney tests for each of the parameters show no statistically significant differences. We conclude that irrespective of project or wall type, the probability distribution from our broader reference class of 245 dams applies as in Fig. 2.
7. We analyzed whether cost estimates have become more accurate over time. Statistical analysis suggests that irrespective of the year or decade in which a dam is built there are no significant differences in forecasting errors ($F=0.57$, $p=0.78$). Similarly, there is no linear trend indicating improvement or deterioration of forecasting errors ($F=0.54$, $p=0.46$) as also suggested in Fig. 4. There is little learning from past mistakes. By the same token, forecasts of costs of large dams today are likely to be as wrong as they were between 1934 and 2007.

We also explored the absolute costs of large hydropower dams ($N=186$). A large hydropower dam on average costs 1800 million in 2010 USD with an average installed capacity of 630 MW. One MW installed capacity on average costs 2.8 million in 2010 USD.

⁴ A more comprehensive inquiry into planned versus actual benefits of dams is postponed until a future occasion but data available on 84 of the 186 large hydroelectric dam projects thus far suggests that they suffer a mean benefits shortfall of 11%.

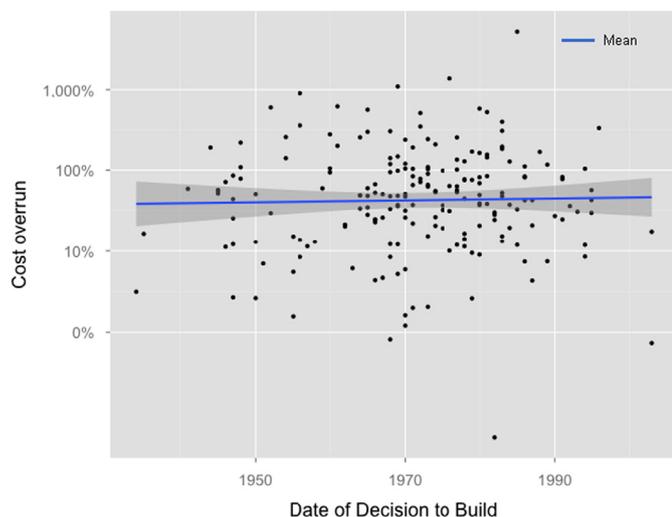


Fig. 4. Inaccuracy of cost estimates (local currencies, constant prices) for large dams over time ($N=245$), 1934–2007.

A preliminary univariate analysis, which makes no attempts to take into account any covariates, shows that increase in the scale of a dam, e.g., measured as height of the dam wall, increases the absolute investment required exponentially, e.g. a 100 m high dam wall is four times more costly than a 50 m wall ($R^2=0.27$, $F=92.5$, $p<0.01$). An even stronger relationship can be seen between installed capacity MW and actual costs ($R^2=0.70$, $F=461.1$, $p<0.01$).

Furthermore, the rate of cost overrun outliers increases with increase in dam size either measured in installed hydropower generation ($r=0.24$, $p=0.01$) or wall height ($r=0.13$, $p=0.05$). Since there is a significant correlation between dam height and hydropower installed capacity ($r=0.47$, $p<0.01$), evidence suggests that larger scale in general is prone to outlying cost overruns. We further investigate the effects of scale on cost overruns by fitting multilevel models (Models 1 and 2) reported below.

3.2. Preliminary statistical analysis of schedule performance

Not only are large dams costly and prone to systematic and severe budget overruns, they also take a long time to build. Large dams on average take 8.6 years. With respect to schedule slippage, we make the following observations:

8. Eight out of every 10 large dams suffered a schedule overrun.
9. Actual implementation schedule was on average 44% (or 2.3 years) higher than the estimate with a median of 27% (or 1.7 years) as shown in Fig. 5. Like cost overruns, the evidence is overwhelming that implementation schedules are systematically biased towards underestimation (Mann–Whitney–Wilcoxon $U=29,161$, $p<0.01$); the magnitude of schedule underestimation (i.e. schedule slippage) is larger than the error of schedule overestimation ($p<0.01$).
10. Graphing the dams' schedule overruns also reveals a fat tail as shown in Fig. 5, albeit not as fat as the tail of cost overruns. Costs are at a higher risk of spiraling out of control than schedules.
11. There is less variation in schedule overruns across regions than cost overruns. Large dams built everywhere take significantly longer than planners forecast. North America with a 27% mean schedule overrun is the best performer. A non-parametric comparison using a Wilcoxon test ($p=0.01$) suggests that projects in South Asia have significantly greater schedule overruns ($M=83%$) than rest of the world taken as a whole

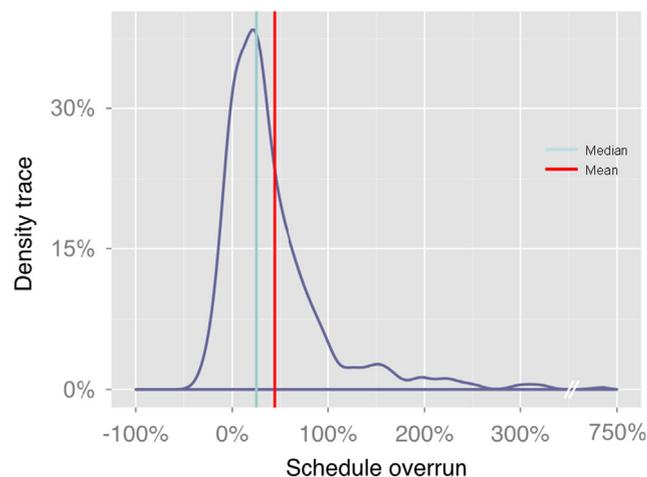


Fig. 5. Density trace of schedule slippage ($N=239$) with the median and mean.

($M=42%$). We investigate this further with a multilevel model below (Model 3).

12. There is no evidence for schedule estimates to have improved over time.

We tested whether implementation schedules and project scale are related. A preliminary univariate analysis, which makes no attempts to take into account any covariates, shows that increase in the scale of a dam, e.g., measured as estimated cost of construction, increases the absolute actual implementation schedule required exponentially ($R^2=0.13$, $F=36.4$, $p<0.01$). Large scale is intimately linked with the long-term (see Model 2 below). The actual implementation schedule, reported here, does not take into the account lengthy lead times in preparing the projects. Dams require extensive technical and economic feasibility analysis, social and environmental impact studies, and political negotiations. The actual implementation cycles are far longer than the average of about 8.6 years, as shown in our data, that it takes to build a dam. These lengthy implementation schedules suggest that the benefits of large dams (even assuming that large dam generate benefits as forecasted) do not come “online” quickly enough. The temporal mismatch between when users need specific benefits and when these benefits come online is not to be downplayed (Ansar et al., 2012). Alternative investments that can bridge needs quickly, without tremendous time lags, are preferable to investments with a long lead-time and hence duration risk (Luehrman, 1998; Copeland and Tufano, 2004).

3.3. Multilevel regression analysis of cost and schedule performance

Means, standard deviations, and correlations of the variables used in the multilevel regressions are shown in Table 2.

We fitted multilevel regression models with projects nested by country as a second level to incorporate within-country correlation. The models were fitted using the “lme” procedure in the “nlme” package in R software. This function fits a linear mixed-effects model in the formulation described in Laird and Ware (1982) but allowing for nested random effects. The within-group errors are allowed to be correlated and/or have unequal variances. We found it necessary to transform variables to remove excessive skewness as noted in Table 2. Using stepwise variable selection, we are not only able to fit explanatory models for cost and overruns and estimated duration but also practicably parsimonious models for predicting them.

Table 3 summarizes the results from multilevel model examining predictors of cost overruns (Model 1). Model 1 identifies

Table 2
Descriptive statistics and correlations (N=245).

Variable	Mean	S.D.	1	2	3	4	5	6	7	8	9
1. Cost Overrun ^a	2.0	3.6									
2. Schedule slippage ^a	1.5	0.7	0.17**								
3. Estimated schedule (months) ^b	73.1	33.8	-0.16*	0.23**							
4. Actual schedule (months) ^b	102.7	55.7	-0.27**	-0.43**	0.76**						
5. Year—decision to build	1971.1	13.2	-0.02	0.05	-0.21**	-0.25**					
6. Year—completion	1979.6	12.7	-0.14*	-0.10	0.03	0.08	0.94**				
7. Project type dummy	0.8	0.4	-0.14*	0.08	0.10	0.02	-0.02	-0.02			
8. Democracy dummy	0.4	0.5	0.00	-0.14*	0.16*	0.20**	-0.45**	-0.38**	0.00		
9. Estimated cost (USD MM 2010 constant) ^b	699.6	1215.5	-0.03	0.09	0.48**	0.37**	0.02	0.13*	0.37**	-0.04	
10. Actual cost (USD MM 2010 constant) ^b	1462.2	4032.5	-0.38**	0.02	0.50**	0.43**	0.02	0.17**	0.38**	-0.03	0.93**
11. Height of dam wall (m) ^c	77.3	51.6	-0.10	0.10	0.26**	0.17**	0.10	0.16*	0.34**	-0.03	0.51**
12. Installed hydropower capacity (MW) ^b	487.0	1255.3	-0.16*	0.19**	0.22**	0.08	0.13*	0.16*	0.69**	-0.14*	0.59**
13. Length of dam wall (m) ^b	1364.1	2061.9	-0.12	-0.07	0.25**	0.30**	-0.19**	-0.08	-0.07	0.08	0.37**
14. Tunnel length (m) ^b	3500.0	7869.5	0.13	-0.12	-0.04	0.16	-0.06	-0.01	-0.23	0.05	0.11
15. Manufactures unit value index CAGR ^d	6.0	5.4	-0.01	-0.03	-0.25**	-0.18**	-0.12	-0.18**	0.08	-0.08	-0.13
16. GDP (nominal USD B) ^b	1221.1	253.4	-0.05	0.25**	0.36**	0.17*	0.29**	0.37**	-0.13	0.13	0.19*
17. Per capita income (2000 constant USD) ^b	4132.8	5198.6	0.23**	0.15*	0.11	0.01	-0.37**	-0.40**	-0.07	0.48**	-0.07
18. Long-term inflation (%) ^b	17%	0.2	-0.29**	0.04	-0.09	-0.11	0.22**	0.19**	0.24**	-0.37**	0.13*
19. Forex depreciation (%) ^e	18%	70.3	-0.30**	-0.04	0.03	0.00	0.29**	0.29**	0.16*	-0.20**	0.21**
20. South Asia dummy	0.1	0.3	-0.25**	-0.18**	0.17**	0.26**	-0.04	0.07	-0.06	0.20**	0.11
21. North America dummy	0.2	0.4	0.28**	0.06	0.21**	0.13*	-0.57**	-0.55**	-0.09	0.52**	0.06
Variable	10	11	12	13	14	15	16	17	18	19	20
11. Height of dam wall (m)	0.51**										
12. Installed hydropower capacity (MW)	0.60**	0.47**									
13. Length of dam wall (m)	0.38**	0.03	0.13								
14. Tunnel length (m)	-0.01	0.05	-0.22	-0.18							
15. Manufactures Unit Value Index CAGR	-0.12	-0.08	-0.02	0.02	-0.02						
16. GDP (nominal USD)	0.19*	0.10	0.09	0.04	-0.29	-0.31**					
17. Per capita income (2000 constant USD)	-0.14*	-0.08	-0.11	-0.02	-0.09	-0.01	0.29**				
18. Long-term inflation (%)	0.22**	0.06	0.33**	0.07	-0.41*	0.15*	-0.03	-0.24**			
19. Forex	0.29**	0.09	0.29**	-0.02	-0.37*	-0.16*	0.00	-0.26**	0.64**		
20. South Asia dummy	0.19**	0.08	-0.03	0.20**	NA	-0.09	-0.01	-0.46**	-0.10	0.11	
21. North America dummy	-0.03	-0.10	-0.16*	0.19**	NA	-0.18*	0.33**	0.60**	-0.44**	-0.31**	-0.15*

^a One over (1/x) transformed.^b Log transformed.^c Sq. rt. (\sqrt{x}).^d Cb rt. ($\sqrt[3]{x}$).^e $x^{0.25}$ transformed to remove excess skewness for regression analysis and to calculate correlations.** $p < 0.01$.* $p < 0.05$.**Table 3**
Model 1—Significant variables for cost accuracy for large dam projects (constant local currency).

Variable	Regression coefficient	Standard error	t-Stat	2-Tailed significance
Intercept	1.402	0.185	7.560	0.000
Log estimated duration (months)	-0.100	0.041	-2.424	0.016
Log of country's long-term inflation rate (%)	-0.085	0.029	-2.930	0.005

Note: Dependent variable is cost forecast accuracy, which is the estimated/actual cost ratio (i.e. $1/x$ of the cost overrun to remove excessive skewness), based on 239 observations. Since the dependent variable in Model 1 is the inverse of the cost overrun a negative sign on the coefficients of both significant variables suggests that an increase in the estimated duration or long-term inflation rate increases the cost overrun.

the estimated implementation schedule and the long-term inflation rate in the country in which the project is built as highly significant variables. An increase in estimated duration of one year contributes to an increase in cost overrun of approx. 5–6 percentage points depending on the country whilst holding the inflation rate constant (see Fig. A1). Note that an R-squared measure, which is customary to report for single-level regressions as explained proportion of variance, cannot be applied to

multilevel models (Recchia, 2010).⁵ The usual diagnostics, based upon the model residuals, were satisfactory.

The first finding in Model 1 is that the larger the estimated implementation schedule the higher the cost overrun ($p=0.016$), with all other things being equal, is particularly noteworthy for two reasons.

First, Model 1 suggests that planners' forecasting skills decay the longer in the future they are asked to project the risks facing a large dam. Material information about risks, for example, related to geology, prices of imports, exchange rates, wages, interest rates, sovereign debt, environment, only reveal in future shaping episode to which decision-makers are "blind" ex ante (Flyvbjerg and Budzier, 2011). We discuss some qualitative case examples to illustrate this statistical result and its broader implications in the next section.

Second, preliminary analysis had suggested that estimated implementation schedules depend on the scale of a planned

⁵ Recchia (2010, p. 2) explains further why a R-squared measure cannot be used for a multilevel model. A single-level model "includes an underlying assumption of residuals that are independent and identically distributed. Such an assumption could easily be inappropriate in the two[or multi]-level case since there is likely to be dependence among the individuals that belong to a given group. For instance, it would be difficult to imagine that the academic achievements of students in the same class were not somehow related to one another". Also see Kreft and Leeuw (1998) and Goldstein (2010).

investment—i.e. bigger projects take longer to build. Support of this preliminary result was found by fitting a multilevel model (Model 2) that examines the predictors of estimated implementation schedule. Model 2 shows that height ($p=0.02$), installed capacity (MW) ($p=0.02$), and length ($p=0.04$) of the dam wall are significant variables associated with the estimated implementation schedule. The effect of these covariates can be seen from the coefficients in Table 4: a greater height, installed capacity, or length contribute to longer implementation schedules. We interpret Model 2 as follows. Estimated implementation schedule acts not only as a temporal variable but also as a surrogate for scalar variables such as wall height (which is also highly correlated with installed capacity). The larger the dam, the longer the estimated implementation schedule, and the higher the cost overrun.

Taken together, the multilevel models for cost overruns and estimated schedule suggest that longer time horizons and increasing scale are underlying causes of risk in investments in large hydropower dam projects.

The second finding in Model 1 is that higher the long-term inflation rate of the host country the higher the cost overrun suffered by a dam ($p=0.02$). The long-term inflation rate was calculated by fitting a linear model to the log of the time series of the GDP deflator index of each country. The slope of this fitted line can be interpreted as the annual average growth rate of the log inflation for each country. This slope is a different constant for each country with some countries such as Brazil with a considerably higher long-term inflation rate, and hence greater propensity to cost overruns, than China or the United States. Moreover, this slope is stable in the short-run (it takes years of high or low inflation to change this slope) and hence our estimate can be assumed to be reliable predictor. Recall that the cost overrun is being measured in constant terms (i.e. with the effects of inflation removed); yet Model 1 suggests that the inflation trajectory of a country, which we interpret as a surrogate of the overall macroeconomic management, is an important risk when making durable investments. The multilevel model finally suggests that once

country specific factors have been taken into account the factor that drives cost overrun is the planning horizon.

Finally, we fit a multilevel model (Model 3) to examine predictors of schedule overruns. Model 3 identifies the following significant variables: whether or not a country is a democracy; the per capita income of the country in 2000 constant USD in the year of the decision to build; the planned installed capacity (MW); and planned length of the dam wall (meters). Avid dam building countries in South Asia, at various stages of democratic maturity, have also one of the poorest schedule performances in building dams. We controlled for this fact by including a dummy variable for South Asia in the model as a covariate with an interaction effect with the democracy dummy. Democracy in South Asia is significant in explaining schedule overruns. The South Asia dummy, however, does not come out to be significant. The effect of these covariates and the interaction effect can be seen in Table 5.

First, democracies' forecasts about implementation schedules of large dams are systematically more optimistic than autocracies even after controlling for systematically higher schedule overruns in India and Pakistan. The size of the coefficient is large suggesting that political process has profound impact on the schedule slippage. We tested whether democracies take longer than autocracies to build large dams by fitting a model to explain the actual implementation schedule (Model 4). Model 4, summarized in Table 6, shows that effects of political regime on the actual schedule are not significant. In other words, while democracies do not take longer to build large dams than autocracies in absolute terms, democracies appear to be more optimistic. Given its vast scope, we defer a further investigation of this important result to a future inquiry. We note, however, that theories of delusion and deception in the planning of large infrastructure projects (Flyvbjerg et al., 2009) would interpret this as evidence of ex ante political intent among democratically elected politicians to present a rosier picture about large dams than they know the case to be.

Second, countries with a higher per capita income in constant 2000 USD in the year of decision to build tend to have lower

Table 4

Model 2—Significant variables for estimated construction schedule for large dam projects (months).

Variable	Regression coefficient	Standard error	t-Stat	2-Tailed significance
Intercept	3.444	0.197	17.464	0.000
Sq rt of dam wall height (m)	0.029	0.012	2.414	0.017
Log of dam wall length (m)	0.058	0.027	2.153	0.033
Log of hydropower installed capacity (MW)	0.016	0.007	2.141	0.034

Note: Dependent variable is log of the estimated construction schedule, based on 239 observations.

Table 5

Model 3—Significant variables for schedule slippage for large dam projects.

Variable	Regression coefficient	Standard error	t-Stat	2-Tailed significance
Intercept	0.405	0.163	2.483	0.014
Democracy dummy ^a	-0.134	0.055	-2.439	0.016
Log of country's per capita income in year of decision to build (constant USD)	0.065	0.019	3.334	0.001
Log of dam wall length (m)	-0.027	0.013	-2.081	0.039
Log of hydropower installed capacity (MW)	0.018	0.006	3.207	0.002
South Asia dummy	0.211	0.113	1.874	0.066
Democracy in South Asia interaction effect	-0.239	0.113	-2.114	0.036

Note: Dependent variable is $1/x$ of the actual/estimated schedule ratio, based on 239 observations.

^a Dummy based on the Polity2 variability of Polity IV regime index. Score of +10 to +6=democracy; score of +5 to -10=autocracy.

Table 6

Model 4—Significant variables for estimated construction schedule for large dam projects (months).

Variable	Regression coefficient	Standard error	t-Stat	2-Tailed significance
Intercept	-17.712	6.401	-2.767	0.007
Log of dam wall length (m)	0.105	0.029	3.567	0.001
Year of actual project completion	0.011	0.003	3.358	0.001

Note: Dependent variable is log of the actual construction schedule, based on 239 observations.

schedule overruns than countries with lower per capita income. We concur with the interpretation of Bacon and Besant-Jones (1998, p. 325) that “the best available proxy for most countries is [the] country-per-capita income...[for] the general level of economic support that a country can provide for the construction of complex facilities”. This result suggests that developing countries in particular, despite seemingly the most in need of complex facilities such as large dams, ought to stay away from bites bigger than they can chew.

Third, the evidence appears to be contradictory with respect to scale. While a greater dam wall length contributes to a higher schedule overrun, a higher MW installed capacity has the opposite effect. Model 3 in Table 5 shows that the size of coefficients for the two significant variables related to physical scale—i.e. Log of dam wall length (m) and Log of hydropower installed capacity (MW)—is approximately the same but with the opposite sign.⁶

In attempting to interpret this result our conjecture is as follows. Dam walls are bespoke constructions tied to the geological and other site-specific characteristics. In contrast, installed capacity is manufactured off-site in a modular fashion. For example, the 690 MW installed capacity of the recently completed Kárahnjúkar project in Iceland was delivered with six generating units of identical design (6×115 MW). We propose that project components that require onsite construction, e.g. dam wall, are more prone to schedule errors than components manufactured off-site, e.g. generation turbines. Project designs that seek to reduce the bespoke and onsite components in favor of greater modular and manufactured components may reduce schedule uncertainty.

This conjecture is supported by Model 4 in Table 6, which shows that the actual construction schedule, in absolute terms, is significantly increased with an increase in the length of dam wall. In contrast, MW installed capacity does not have an effect on the absolute actual construction schedule suggesting that construction schedules are more sensitive to on-site construction than to components manufactured in factories. Note that lower installed capacity does not necessarily equate with a smaller dam. For example, it is not rare for a large multipurpose dam to have a low MW installed capacity when, for instance, the dam is primarily being used for irrigation or flood management purposes.

4. Qualitative case examples and policy propositions

The statistical results reported in the preceding sections show that cost and schedule estimates of large dams are severely and systematically biased below their actual values. While it is beyond the scope of this paper to discuss wider theoretical implications, the evidence presented here is consistent with previous findings that point to twin problems that cause adverse outcomes in the planning and construction of large and complex facilities such as large hydropower dams: (1) biases inherent in human judgment (delusion) and (2) misaligned principal-agent relationships or political incentives (deception) that underlie systematic forecasting errors. In the context of large dams, we argue that large scale and longer planning time horizons exacerbate the impact of these twin problems. We now present a few qualitative examples of risks large dams typically face to illustrate the statistical results reported above. We jointly draw on the statistical analyses and

qualitative analyses to distill propositions of immediate relevance to policy.

Globally, experts' optimism about several risk factors contribute to cost overruns in large dams. For example, the planning documents for the Itumbiara hydroelectric project in Brazil recognized that the site chosen for the project was geologically unfavorable. The plan optimistically declared, “the cost estimates provide ample physical contingencies [20% of base cost] to provide for the removal of larger amounts [of compressible, weak, rock] if further investigations show the need” (World Bank, 1973). This weak geology ended up costing +96% of the base cost in real terms. Itumbiara's case is illustrative of a broader problem. Even though geological risks are anticipatable there is little planners can do to hedge against it. For example, exhaustive geological investigation for a large dam can cost as much as a third of the total cost (Hoek and Palmieri, 1998); at which point still remains a considerable chance of encountering unfavorable conditions that go undetected during the *ex ante* tests (Goel et al., 2012).

Policy proposition 1. *Energy alternatives that rely on fewer site-specific characteristics such as unfavorable geology are preferable.*

Similarly, in the Chivor hydroelectric project in Colombia, the planning document was upbeat that there will be no changes in the exchange rate between the Colombian Peso and the U.S. dollar during the construction period (1970–1977) stating, “No allowance has been made for possible future fluctuations of the exchange rate. This approach is justified by recent experience in Colombia where the Government has been pursuing the enlightened policy of adjusting [policy] quickly to changing conditions in the economy” (World Bank, 1970). In fact, the Colombian currency depreciated nearly 90% against the U.S. dollar as shown in Fig. 6.

Since over half the project's costs covers imported inputs, this currency depreciation caused a 32% cost overrun in real Colombian Peso terms. Currency exposure arises when the inputs required to build a project are denominated in one currency but the outputs in another, or vice versa. The outputs of dams, such as electricity, are denominated in the local currency. Similarly, any increases in tax receipts a dam may enable for the host government also accrue in local currency. A large portion of inputs to build a dam, particularly in developing countries, however, constitute imports paid for in USD. Since the USD liabilities also have to eventually be

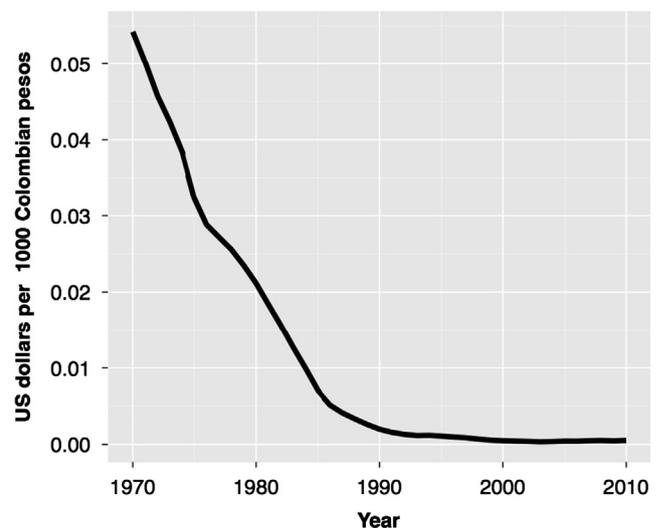


Fig. 6. Depreciation of the Colombian Peso 1970–2010.

⁶ Note that the dependent variable in Model 3 is forecast accuracy, the inverse of schedule overrun (i.e. $1/x$ of the schedule overrun or Estimated/Actual schedule). Thus a negative sign on the Log of dam wall length (m) suggests that an increase in wall length decreases the inverse of the schedule overrun. In other words, increase in wall length increases schedule overrun.

paid in local currency, currency exposure consistently proves to be a fiscal hemorrhage for large projects.

Policy proposition 2. *Energy alternatives that rely on fewer imports or match the currency of liabilities with the currency of future revenue are preferable.*

Although, following convention, our cost analysis excludes the effects of inflation, planners ought not to ignore the risks of “unanticipated inflation” (Pickrell, 1992, p. 164). Episodes of hyperinflation in Argentina, Brazil, Turkey, and Yugoslavia caused staggering nominal cost overruns, e.g. 7-times initial budget for Brazil’s Estreito dam (1965–1974), or 110-times initial budget for Yugoslavia’s Visegrad dam (1985–1990), which had to be financed with additional debt. Effects of unanticipated inflation magnify the longer it takes to complete a project. For example, during the planning phase of Pakistan’s Tarbela dam, it was assumed that inflation would not have a significant impact on the project’s costs. The appraisal report wrote: “A general contingency of 7½% has been added in accordance with normal practice for works of this size and duration” (World Bank, 1968). The project, launched in 1968, was meant to start full commercial operation in 1976, but the opening was delayed until 1984. Actual cumulative inflation in Pakistan during 1968–1984 was 380%; the actual cost of the dam in nominal terms nearly four times the initial budget. In the case of Tarbela, unanticipated inflation was “a product of delays in a project’s construction timetable and a higher-than expected inflation rate” (Pickrell, 1992, p. 164). For our reference class, 8 out of 10 large dams came in late with an average delay of 2.3 years. Moreover, forecasters expected the annual inflation rate to be 2.5% but it turned out to be 18.9% (averages for the entire sample). Large dams have a high propensity to face unanticipated inflation.

Policy proposition 3. *The best insurance against creeping inflation is to reduce the implementation schedule to as short a horizon as possible. Energy alternatives that can be built sooner and with lower risk of schedule overruns, e.g. through modular design, are preferable.*

Large dams are typically financed from public borrowing. While our calculations exclude debt-servicing, cost overruns increase the stock of debt but also the recurring financing costs that can further escalate if interest rates go up. The optimistic risk assessments of the costs of large dams are consistent with “explosive growth of Third World debt” (Bulow and Rogoff, 1990; Mold, 2012). For example, the actual cost of Tarbela dam, the majority of which was borrowed from external sources, amounted to 23% of the increase in Pakistan’s external public debt stock between 1968 and 1984; or 12% for Colombia’s Chivor dam (1970–1977) as shown in Table 7.

These case examples reinforce the essential message of our statistical results: bigger projects entail uncontrollable risks,

which even when anticipatable cannot be adequately hedged. We do not directly negate the presence of economies of scale or learning curves—i.e. declining average cost per unit as output increases. Instead our argument is that any economies of scale embedded in large scale are being acquired for a disproportionately increased exposure to risk that can cause financial impairment. Companies and countries with insufficient capacity to absorb adverse outcomes of big bets gone awry often face financial ruin.

Policy proposition 4. *Energy alternatives that do not constitute a large proportion of the balance sheet of a country or a company are preferable. Similarly, policymakers, particularly in countries at lower levels of economic development, ought to avoid highly leveraged investments denominated in a mix of currencies.*

5. Forecasting the actual costs and schedules using reference class forecasting (RCF)

As discussed in the method section, the third step of the “outside view” or RCF techniques is to compare a specific venture with the reference class distribution, in order to establish the most likely outcome for the specific venture. Thus if systematic errors in the forecasts generated using the “inside view” of previous ventures are found, decision-makers should apply an uplift or downlift to the “inside view” forecast in order to generate a de-biased “outside view” forecast. For example, empirical literature has established that rail projects suffer a cost overrun of 45% on average (Flyvbjerg, 2008; also see Table 8). The 50th percentile cost overrun for rail projects is 40% and the 80th percentile is 57%. Based on these findings, RCF techniques suggest that decision-makers ought to apply a 57% uplift to the initial estimated budget in order to obtain 80% certainty that the final cost of the project would stay within budget (Flyvbjerg, 2008, p. 16). If decision-makers were more risk tolerant then they could apply a 40% uplift to the initial estimated budget but then there will remain a 50% chance that the proposed project might exceed its budget.

In line with the RCF techniques, the third and final step of our investigation on dams was to derive a good predictor of cost and schedule overruns for proposed large dams based on the distributional information of the reference class. This predictor serves to “correct” the systematically biased *ex ante* cost and schedule estimates by adjusting them upwards by the average cost or schedule overrun (see Kahneman and Tversky, 1979b; Flyvbjerg, 2006, 2008).

First, using traditional RCF (Flyvbjerg, 2006, 2008), we traced the empirical distribution of cost and schedule overruns of large dams. Second, we use multilevel Models 1 and 3, described above, for predicting cost and schedule overruns. Models 1 and 3 prove to be practicably parsimonious models for two reasons: First both models are fitted with variables known *ex ante*. Second, both models were successfully fitted with only a few significant variables making it practicable to collect the data needed to make a prediction. For example, Model 1 on cost overruns has only two significant variables—estimate schedule and the long-term inflation rate of the host country. Data on both these variables is readily available for any proposed large dam making it possible to predict the cost overrun before construction begins. We illustrate the usefulness of our predictive models with an example below.

With respect to cost overruns, using traditional RCF (Flyvbjerg, 2006, 2008), we find that if planners are willing to accept a 20% risk of a cost overrun, the uplift required for large dams is +99% (i.e. ~double experts’ estimates) as seen in Fig. 7; and +176%

Table 7

Total stock of public net external debt (USD current, MM).

Year	Colombia	Pakistan
1968		3252.4
1970	1296.6	
1977	2699.6	
1984		9692.8
Debt increase over the implementation schedule	1403.0	6440.5
Cost of mega-dam over the relevant period (USD current MM)	Chivor dam	Tarbela dam
	168.7	1497.90
Cost of dam as percentage of debt increase	12.0%	23.2%

Table 8
Comparing large dams with other infrastructure asset classes.

Category	Types of projects	Mean cost overrun	Applicable capital expenditure optimism bias uplifts (constant prices)	
			50th percentile	80th percentile
Roads	Motorway, trunk roads, local road, bicycle facilities, pedestrian facilities, park and ride, bus lane schemes, guided buses	20%	15%	32%
Rail	Metro, light rail, guided buses on tracks, conventional rail, high speed rail	45%	40%	57%
Fixed links	Bridges, tunnels	34%	23%	55%
Building projects	Stations, terminal buildings		4–51% ^a	
Standard civil engineering			3–44% ^a	
Non-standard civil engineering			6–66% ^a	
Mining projects		14% ^b		
Thermal power plants		6% ^c		
Large dam projects	Large hydropower, large irrigation, flood control, multipurpose dams	90%	26%	99%
Nuclear power plants		207% ^d		109–281% ^d

^a Based on Mott MacDonald (2002).

^b Based on Bertisen and Davis (2008).

^c Based on Bacon and Besant-Jones (1998, p.321), included for an approximate comparison purposes only, reference class probability distribution not available.

^d Based on Schlissel and Biewald (2008, p.8) review of the U.S. Congressional Budget Office (CBO) data from Energy Information Administration, Technical Report DOE/EIA-0485 (January 1, 1986).

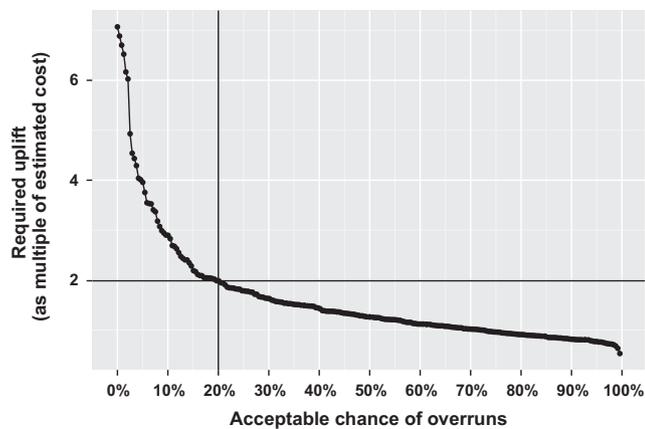


Fig. 7. Required uplift for large dam projects as function of the maximum acceptable level of risk for cost overrun, constant local currency terms ($N=245$).

including unanticipated inflation. If planners are willing to accept a 50–50 chance of a cost overrun, the uplift required is 26% (32% outside North America).

In terms of cost overruns, Fig. 7 also illustrates that large dams are one of the riskiest asset classes for which valid and reliable data are available. Compare, for example, Fig. 7 with reference class forecasts previously conducted for rail, road, tunnel, or bridge projects (Flyvbjerg, 2006, 2008) also summarized in Table 8.

Second, using our multilevel Model 1 we were able to derive predictions for cost overrun (in constant local currency) and schedule overrun respectively.

Experts estimate, for instance, that Pakistan's Diamer-Bhasha dam, whose construction began shortly after the 2010 floods, will cost PKR 894 billion (~USD12.7B in 2008 prices and exchange rates and about 9% of Pakistan's 2008 GDP) (WAPDA, 2011). The dam is forecasted to take 10 years from 2011 and become operational in 2021. Using our first approach, the reference class forecast for cost overruns suggests that planners need to budget

PKR 1,788B (USD25.4B) in real terms to obtain 80% certainty of not exceeding the revised budget. Including the effects of unanticipated inflation the required budget is PKR 2,467B (USD35.0B) or about 25% of Pakistan's 2008 GDP. A future sovereign default in Pakistan owing to this one mega-dam is not a remote possibility.

Using our second approach, our multilevel Model 1 predicts that given the 10 year estimated duration and a long-term inflation rate of about 8% the expected (average) cost overrun of a large dam in Pakistan will be 44% (PKR 1,288B or USD 18.3B). Combining the two methods, a conservative estimate for the cost overrun on the Diamer-Bhasha dam is 44% at which point there remains a 4 in 10 chance of the revised budget being exceeded. Note, however, that if a dam of dimensions similar to Diamer-Bhasha were being built in the US, Model 1 predicts that it would only suffer a cost overrun of 16%, which the much larger US economy could absorb without any lasting damage.

We applied a similar two-pronged forecast of schedule slippage. Using our first approach, the reference class forecast for schedule slippage suggests that planners for large dams around the world need to allow for a 66% schedule overrun to achieve 80% certainty that the project will be completed within the revised implementation schedule. Since Diamer-Bhasha is expected to take 10 years to build (2011–2021), planners need to adjust their schedule estimate upwards to nearly 17 years (i.e. an actual opening date of 2028). Using our second approach, our multilevel Model 3 predicts that given that the dam's final decision to build was made in Pakistan by a democratically elected government, when the per capita income was USD 497 in 2000 constant dollars, a dam wall length of 998 m, and an installed capacity of 4500 MW, the expected outcome is a 60% schedule overrun. Thus, using either approach, Diamer-Bhasha can be expected to only open in 2027 when there remains a 20% risk of further delay. Pakistan is facing an energy crisis today (Kessides, 2011). A dam that brings electricity in 2027 will be a little late in coming.

Note, however, that if a dam of dimensions similar to Diamer-Bhasha were being built in the US (with its high per capita income of approximately USD 38,000), Model 3 predicts that it would face a schedule slippage of a mere 0.05%. Recall that per capita income

is a useful proxy for the economic support that a country can provide for the construction of complex facilities. This suggests that rich and not developing countries best attempt very large energy projects, such as large dams. Even so, richer countries should also consider alternatives and should adopt the risk management measures of the outside view illustrated here to choose prudently among energy alternatives.

Using their “inside” cost estimates, the net present benefits to cost ratio of the dam according to experts is 1.43 (WAPDA, 2011). Even assuming experts' calculations about potential benefits are accurate, although this is a doubtful assumption, the de-biased cost forecasts require an uplift of 44–99% in constant prices suggest that the benefits to cost ratio will be below one. The Diamer-Bhasha dam is a non-starter in Pakistan. This is without even discussing potential effects of inflation and interest rates, potential social and environmental costs, and opportunity cost Pakistan could earn by committing such vast amount of capital to more prudent investments.

Our reference class forecasting techniques suggests that other proposed large dam projects such as Belo Monte, Myitsone, or the Gilgel Gibe III among many others in early planning stages are likely to face large cost and schedule overruns seriously undermining their economic viability. Large dams also exert an opportunity cost by consuming scarce resources that could be deployed to better uses, sinking vast amounts of land that could have yielded cash flows and jobs from agricultural, timber, or mineral resources. Risks related to dam safety, environment, and society further undermine viability of large dams. Decision-makers are advised to carefully stress test their proposed projects using the risk management techniques of the outside view proposed here before committing resources to them.

The outside view techniques applied to large dams above have broader application in energy policy by helping public agencies (e.g. national planning and finance ministries, power and water authorities), private entrepreneurs and investors a framework to improve upfront selection among alternatives. The problems of cost and schedule overrun are not unique to large hydropower dams. Preliminary research suggests that other large-scale power projects using nuclear, thermal, or wind production technologies face similar issues. Our research of large hydropower projects reveals that there is a serious dearth of valid and reliable data on the risk profiles of actually completed energy projects across the board. Much of the data in existing literature are drawn from surveys and interviews of dubious validity. At times, interest groups, seeking to promote a particular kind of scale or technology, also report distorted data. There is thus an urgent need to empirically document, in a comprehensive global database, the risk profiles of energy infrastructure assets of large, medium, and small scales across production technologies. For example, comparing the likely actual cost, schedule, and production volumes of a large hydropower dam project versus an on-site combined heat and power generator.

We propose that prior to making any energy investment, policy makers consult a valid and reliable “outside view” or “reference class forecast” (RCF) that can predict the outcome of a planned investment of a particular scale or production technology based on actual outcomes in a reference class of similar, previously completed, cases. Rigorously applying reference class forecasting to energy investments at various scales and production technologies will yield the following contributions:

- Create transparency on risk profiles of various energy alternatives, from not only the perspective of financial cost and benefit but also environmental and social impact—hard evidence is a counter-point to experts' and promoters' oft-biased inside view.

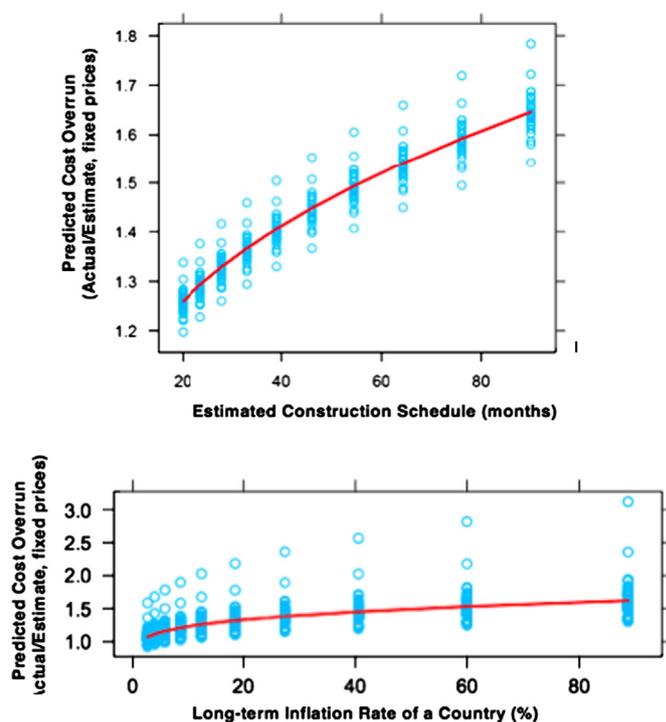


Fig. A1. .

- Improve resource allocation through outside-in view to estimate costs, benefits, time, and broader impacts such as greenhouse gas emissions incurred in building a project and emission created or averted once a project becomes operational.

A comprehensive global dataset that can create such transparency on risk profiles of energy alternatives does not yet exist. We have sought to bridge this precise gap by providing impartial evidence on large hydropower dam projects. As a venue for further research we hope valid and reliable data on the actual cost, schedules, benefits, and impacts of other production technologies will become available to enable comparative analysis with novel implications for theory and practice.

Appendix A. Visual representation of Model 1 (reported in Table 3)

See Fig. A1.

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