

Questions & Answers on the Barro Blanco Hydropower project in Panama 2 June 2016

1. What is the Barro Blanco project?

The Barro Blanco project is a hydropower project in Panama, with an installed capacity of approximately 29 MW and an estimated annual power production of 135,000 MWh per year. The company developing the project is named Genisa. It is situated in the Tabasará River, in the Chiriqui province, close to the Panamerican Highway. It consists of a 55 m high dam (61m including the foundation) with an integrated powerhouse and will result in a reservoir of 235 ha (=2.35 km²) at 103m above sea level. The maximum flood level during extreme conditions (once in 100 year probability) will be 106m to 107m above sea level (temporarily increasing the reservoir to 258 ha). At some places the Tabasará River forms the border of the annex area of the Ngäbe Buglé traditional territory (Comarca). No part of the hydropower plant, nor any road or other project facility is located within this Comarca or its Annex area.

The dam will cause the water level to rise and the river to broaden along an approx. 13 km stretch upstream of the dam. Within this stretch there are three areas where the river borders the Ngäbe-Buglé Comarca annex area, causing inundation along this border. The total inundated area along the border of the Comarca annex area will be 6.7 ha. The width of the inundated area will vary locally. At the three affected areas within the Annex to the Ngäbe-Buglé Comarca, the width of the inundated river bank is typically in the order of tens of meters.

2. What is the status of the project?

Construction of all components has been completed. Test-filling of the reservoir is in progress. Test-filling is not a part of the operation of the plant, but is a necessary milestone to end the construction stage. Currently, a dialogue is ongoing between the Panamanian government and representatives of the Ngäbe community, among whom are the Cacique Local and the Cacica General (traditional indigenous leaders). The United Nations Development Program (UNDP) is also involved. Genisa and the lenders, including FMO, have offered their support and assistance to the table and continue to do so. The Panamanian Government has stated that the filling is temporary, and commercial operation won't start until there is a consensus in the dialogue table.

2a. Why is the reservoir being filled?

The reservoir is currently being filled for testing purposes only. Test-filling is a necessary step to finish the construction stage, in order to inspect the project's structure and all its components, as well to determine how well it connects to the National Electricity System. The reservoir is gradually being filled to the capacity it has been designed for, in measured and controlled steps. The level of the reservoir reached 74masl on 24th May, it is planned to rise to 98masl on 16th June and finally 103masl on 21st June, after which it will subside in stages and will reach 74masl by 3rd August.

2b. What support is being offered to residents during the test-filling process?

According to the Government of Panama, local residents have been informed of the test-filling operation through communication campaigns as well as through the dialogue table. SINOPROC (the Panamanian national disaster relief agency), ASEP staff, as well as the Fire Brigade and National Police are working with

local communities to provide food, other necessities and temporary shelter during the test-filling, as well as ensuring that no persons are left under the 103m level, for their own safety. The Ombudsperson Office is also overseeing the process.

3. Who will benefit from the project?

Panamanian households and companies will benefit from the 135,000 MWh of reliable electricity the project will produce annually. This is equivalent to over 1.5 % of total consumption and to the electricity consumption of approx. 64,000 inhabitants, and save the import of approx. 220,000 barrels of fuel oil per year). The project also brings benefits to the local communities in the form of employment and of a variety of local community development programs. Besides this, the government of Panama has, on the basis of dialogue and negotiation, committed to various benefit sharing community investments in the Ngäbe-Buglé Comarca.

4. Can the project still be cancelled? If so, what will happen then?

The project has been completed, except for the filling of the reservoir and the testing of the facilities. It can only be cancelled if the government decides so. The client will then be unable to earn the income necessary to fulfill the requirements to its lenders. It is unclear what will happen then, but according to Panamanian law the government would have to indemnify the concession holder and the dam-structure would likely remain.

5. Why is this project of national interest to the Panamanian society?

This project is seen as a national interest to Panamanian society, because it will deliver reliable and clean energy, contributing to: (i) the reduction of greenhouse gas emissions, (ii) the availability of reliable and affordable electricity to households and industry, and (iii) reduced reliance on the import of fuel and electricity from abroad.

Alleged broader effects of project

6. Will the project restrict access to the river?

No, access will change due to the rising of the level, but it will not be restricted.

7. Will the project restrict the possibility for community members to cross the river?

The project will cause the river to broaden locally, which will influence the options for river crossing. Both the government and the company are committed to engage with the communities to explore solutions for river crossing where needed. In addition, free passage will be allowed through the dam's crown in order to pass from one side of the river to the other.

8. Will the project compromise the livelihood of local communities (such as fishing, crop growing)?

Most of the crop growing takes place at higher altitudes, but some limited crop growing appears to currently take place in the area that will be inundated. Fishing opportunities may change due to the filling of the reservoir, but the new situation may actually improve fishing-based livelihood perspectives. Both the government and the company are committed to engage with the communities to explore and develop livelihood opportunities related to crop growing, fishing and other viable options.

9. Are large numbers of members of the Ngäbe or the Buglé communities threatened by eviction and/or relocation?

No, the Barro Blanco hydropower project will imply the relocation of six buildings located in the Ngäbe community land, affecting a limited number of individuals (the UNDP has estimated their number to be 40 to 50, including the indirectly impacted extended family members). Both the company and the government have consulted the community and offered to discuss both compensation and livelihood restoration options as well as community development assistance options.

10. Will schools and homes be flooded?

In the current situation six small houses are present in the parts of the Annex area to the Ngäbe-Buglé Comarca that will be flooded by the reservoir. There is a small school in one of the affected areas, but this school is located 5m above the operational water level and 1 to 2m above the maximum flood level. This is now subject of the dialogue mentioned under 9.

11. Will religious, cultural, and/or historical sites be demolished?

There are two petroglyphs found in the area to be flooded. The National Directorate for Cultural Heritage of Panama has established the following solution in relation to these petroglyphs: a replication, at a new dignified place, of the petroglyph which is located at the river level, and options for a protection structure for the petroglyph which is located at the higher level. Execution is pending.

12. Are the environmental and social risks neglected?

FMO and the other lenders have been taking environmental and social risks and impacts very serious and continue to do so. Both in the investment decision phase and in the monitoring phase we review the environmental and social performance of the project - including the process of community consultation and engagement - with the help of periodic site-visits by independent experts. This has led us to conclude that the project company is taking environmental and social matters very seriously as well, and is making genuine efforts to engage with communities and to contribute to community development programs. This has led to successful development programs being implemented everywhere in the area impacted by the reservoir, except for the 6.7 ha area where the protest movements have so far prevented the company from reaching out.

13. Was Genisa fined for and sanctioned for failing to reach an agreement with the affected stakeholders?

Genisa and the main contractor have been fined and sanctioned by the Panamanian environmental agency of for a number of alleged environmental non-compliances at the construction site and the alleged non-delivery of evidence for agreements with the affected communities. Following the notice, the independent expert hired by the lenders has performed a site-visit, revealing no persistent major non-compliances. In August 2015 the Ministry of Environment has lifted the sanctions and allowed the company to resume construction works. The fine and the underlying allegations have been contested by Genisa and the Contractor in the Supreme Court of Panama and are currently under review.

14. Was free, prior and informed consent (FPIC) secured before and during the project?

A review on FPIC was not an explicit part of the review preceding the investment decision, as FPIC was not a requirement under FMO's investment criteria in force at that time, based on the IFC Performance Standards issued in 2006. A formal agreement was reached between the company and the formal Ngäbe-Buglé representative bodies in December 2008 and August 2011.

15. Are the Ngäbe intimidated and repressed?

Although we have seen this being stated in the media, we have not been presented with any credible reports or evidence for Ngäbe or Buglé community members having been intimidated or repressed in the context of the Barro Blanco project. In the past, protests on the Pan-American Highway and in other parts of Panama have escalated into a violent situation in which protestors have been hurt and one person died. The right of speech for those who speak up for their rights and the livelihoods of people are of very high value to FMO. Every individual should be safe when defending their position. FMO rejects and condemns any violence against those individuals or groups. It is important to emphasize that in none of these situations Genisa staff or persons hired by Genisa were involved.

On FMO's role

16. Why does FMO invest in Barro Blanco?

FMO invests in different sources of renewable energy. Hydro power is one of those sources. It provides a clean, low cost and stable source of energy. Panamanian households and companies will benefit from the 135,000 MWh of reliable electricity the project will produce (equivalent to over 1.5 % of annual total consumption and equivalent to the electricity consumption of approx. 64,000 inhabitants). The project also brings benefits to the local communities in the form of employment and of a variety of local community development programs. Besides this, the government of Panama has, on the basis of dialogue and negotiation, committed to various benefit sharing community investments in the Ngäbe-Buglé Comarca.

17. How much money is involved?

The total investment for the project is around 140 million USD.

18. Is all money disbursed?

The project is almost completed, and all disbursements have been made.

19. Who are the other partners in the project, besides FMO and Genisa?

The co-lenders are DEG (the German development institution) and CABEL (Central American Bank for Economic Integration).

20. How did FMO determine the environmental and social risks?

FMO applies the International Finance Corporation (IFC) Performance Standards in its due diligence procedures. In relation to this project, the 2006 version was used. Together with the other lenders, FMO appraises the risk level of each project, and tailors its risk-assessment procedures to that risk-level. In this case the environmental and social risk level assigned was A (highest level), as defined in the IFC Performance Standards. Following this classification FMO together with the other lenders have undertaken an in-depth appraisal of environmental and social risks and impacts, making use of both in-house experts and independent consultants. The same goes for monitoring the situation after the investment decision, which involves multiple monitoring visits per year.

21. What was wrong with FMO's approach according to your own independent complaint expert panel?



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The independent expert panel investigating the formal complaint (issued by Mr. Manolo Miranda on behalf of the M10 movement and by the Cacica General Silvia Carrera) concluded that at the time of credit approval the lenders did not have sufficient information (not the right level of analysis) available regarding consultation and the impacts on indigenous peoples. However, the panel also concluded that this information gap was adequately filled in at a later stage, and was adequately reflected in a revised environmental and social action plan. In addition, the panel concluded that lenders should have performed a more thorough legal opinion on the two agreements signed between the company and the formal Ngäbe-Buglé community representatives.

22. What happened after the panel published its conclusion?

As expressed in the FMO Management Response to the report, FMO has committed to strengthen elements of its approval process for very high risk projects, notably regarding the level of analysis available at the time of credit approval and at the moment of finalizing the environmental and social action plan. Also, FMO has committed to offer the services of an independent mediator to help establish and implement a process of dialogue between the Ngäbe-Buglé communities, the government, the company and other relevant stakeholders. This offer still stands and encompasses helping identifying acceptable persons and helping to provide the funding for these services.