FMO
Entrepreneurial
Development
Bank

# Frequently Asked Questions

# on

# The Agua Zarca Run-of- -River Hydroelectric Power Generation Project

**What is the Agua Zarca project?**
The Agua Zarca Project is a proposed run-of-river hydroelectric plant, located on the Gualcarque River in the Department of Santa Barbara some 9 km southeast of the community named San Francisco de Ojuera in the North West of Honduras. The design capacity of this small-scale run-of-river hydroelectric scheme is 21.3MW with a projected annual energy production of 98.8GWh.

In 2014, the design of the project underwent a significant change; the civil works and construction areas of the project were moved to the left side of the river from the right, and the weir was moved upstream on the river. This was done in order to avoid any physical impacts on the community of La Tejera, which had opposed the project since 2013, after initially supporting it.

**Who owns the project?**
Desarrollos Energeticos S.A. de C.V. (DESA) is the owner and developer of the Agua Zarca Hydroelectric Project.

**What is FMO's reaction to the violent death of Mrs. Berta Cáceres?**
We mourn the violent death of environmental activist and indigenous leader Berta Caceres and we have called on the Government of Honduras to ensure a thorough investigation into the matter. We want the truth to be known and those responsible held accountable. We have also shared our concerns with our other contacts in Honduras. We reject any form of violence and strongly believe that our projects are best served when all voices are heard and understood; these voices should be protected.

**What steps has FMO taken since its announcement to seek a responsible exit?**

- FMO deployed, along with the other Lenders, a team of independent experts to undertake a fact finding mission to Honduras and the project site in order to provide an independent perspective of the project and also of FMO's processes and performance in funding and monitoring this project. This Independent Mission (IM) visited the project site and held interviews with key stakeholders between 23 and 28 May 2016. A draft report in English and Spanish was made available to all stakeholders in August 2016. Consultations were held in The Hague and in Honduras during the week of 22 August 2016 and all interested parties were invited to make comments orally or in writing. The final report was published on 7 September 2016. FMO welcomed the conclusions and recommendations and is using these findings in the development of our responsible exit.

FMO
Entrepreneurial Development Bank

- FMO and the other Lenders engaged an independent facilitator in October 2016 to assist them with exploring options for a responsible exit which would take into account the interests of all parties. The facilitator made several visits to Honduras between October and January 2016.
- FMO heard the views of directly affected communities around the project site through a number of channels including DESA, our facilitator, and through personal meetings, both in Honduras and in the Netherlands.
- FMO reached out to influential international bodies with a presence in the region, such as the EU embassy as well as other European embassies in the region.
- Together with the independent facilitator, FMO was in continuous discussion with the other Lenders, DESA and other stakeholders in order to realize a responsible exit from the project.

**Was FPIC obtained for the project?**
The Independent Mission (IM) finds that FMO and DESA undertook a "consultation process that fulfilled many elements of FPIC", referring to the 'cabildos abiertos' process and community-based decision-making bodies (the "patronatos"). These consultations fulfilled the requirements of IFC Performance Standards 1 and 7. However, a formal process invoking the FPIC principle should have been undertaken with the village La Tejera. This should have been done prior to construction, by FMO and the developer. FMO did not previously consider that this process was required since the new project design, on the left bank of the river, did not physically affect the village of La Tejera. But the IM report provides the clarification that since the community of La Tejera still perceived that there were impacts from the project on their resources, further consultation, ideally leading to FPIC, was required, and had not been undertaken.

The IM report clarifies that FPIC consultation prior to granting concessions is a government responsibility. However, where this is not done, private actors such as FMO and DESA need to take responsibility for FPIC consultations with indigenous communities, which is even more challenging when government-specified means of communicating with indigenous communities are lacking.

Up until September 2016, based on advice from two independent consultants as well as FMO's own judgement, we believed that FPIC had been obtained for this Project according to the requirements of IFC PS7. However, upon the publication of the findings of the Independent Fact Finding Mission (IM) to Agua Zarca, it was concluded that FPIC was not obtained in the village of La Tejera, and even though it had been obtained in all the other local communities within the area of influence of the project, there was a gap in full compliance with IFC PS7.

**Is this a large dam?**
No. This is not a dam but a run–of-river scheme. This scheme is also not a cascade but consists of one individual hydropower plant. Agua Zarca is technically designated a small

FMO
Entrepreneurial
Development
Bank

run-of-river with 21.3MW capacity and with no reservoir. Existing larger hydropower plants in Honduras include El Cajon Dam (300MW and a reservoir of 94Km2) and Rio Lindo Dam (80MW).

**What is a run-of-river hydropower project?**
Run-of-the-river hydroelectricity (ROR) is a type of hydroelectric generation plant where little or no water storage is provided. In ROR systems, running water is diverted from a river and guided down a channel, or penstock, which leads to a generating house. Here, the force of the moving water spins a turbine, which then drives a generator. After turning the turbine, the water is then fed back into the main river further downstream. The difference between ROR and large, conventional storage hydro's is the absence of a dam and reservoir. ROR relies on coursing rivers to generate electricity, as opposed to stored water. Most small hydro facilities (such as this one) use a weir to ensure enough water enters the penstock.

**Why does FMO invest in developing countries with weak governance? How does FMO ensure the companies they work with are trustworthy and will be adherent to FMO international standards?**
FMO focuses its investments in developing countries with weak governance because this is where we can make a difference. It is part of our mandate. FMO is also aware that in many cases, our clients do not possess the knowledge and/or experience in implementing projects to the international standards of best environmental and social practice that FMO requires. FMO adds value as a Development Finance Institute through supporting our clients in their journey to undertake their project in compliance to our standards. FMO uses various tools to provide this support and monitor the implementation of the standards, from an in-depth due diligence from both FMO staff and international independent E&S advisors, to quarterly monitoring trips by our independent E&S advisors (as well as annual monitoring trips by FMO staff) and capacity building grants. FMO strongly believes in accountability. Its own Environmental, Social and Governance Due Diligence is verified through the implementation of an internal Four Eye process. FMO also evaluates its projects and publishes these evaluations on its internet. FMO has an independent Complaint Mechanism in place to allow for grievances, including anonymous grievances, to be brought to our attention.

**If you have any further questions, please do not hesitate to contact us through info@fmo.nl.**