FMO
Entrepreneurial Development Bank

Frequently Asked Questions

on

FMO's exit from the Agua Zarca Project

Why did FMO exit the Agua Zarca project?

FMO's exit from the project intends to contribute to the creation of an enabling environment for the resolution of the situation in the area of the project and it does not respond to any specific allegation against DESA. After our initial decision to seek for an exit from the project, we had extensive consultations with a large number of local and international stakeholders both by FMO and Finnfund and through the work of an independent fact finding mission and an independent consultant. Through these processes, it became clear for FMO and Finnfund, that the complexity of the current situation required that our primary efforts focused on how to contribute to reduce international and local tension in the area of the project.

Are the three lending banks exiting the project together?

FMO (A lender) and Finnfund (B lender) made continuous efforts to realize a formal exit from the project with all lenders at the same time. When it became clear that this was not feasible within a reasonable time frame, FMO and Finnfund decided to continue with their exit of the project without CABEI.

Why does FMO think that its exit is responsible?

The exit process that we have now finalized was built on the conclusions of the Independent Fact Finding Mission Report and the recommendations of the independent facilitator. In a very complex situation, FMO's and Finnfund's criteria responded to three principles that in our mind make our exit a responsible one:

- At least, avoids additional escalation of disputes in the area and internationally and, at best, offer a path for peaceful coexistence of communities.
- Meets some of the development needs of communities in the area, regardless of whether they have supported or opposed the Project.
- Respects contractual obligations.

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How does FMO's exit contribute to a solution?
The process leading to the exit showed us that a full respect for the communities' right to decide about their own future is necessary in order to restore a peaceful coexistence in the project area and reduce international tension. Anyone who takes the time to visit each of the communities in the area and listen to what their members have to say will find that there is more than one position about the situation, the project and the solution going forward.

We agree with the recommendation that local communities, if they so wish, hold a dialogue process to determine what development options they have at hand and whether a hydroelectric project should be one of them or not. Accordingly, we expect that our exit from the Agua Zarca project helps to further reduce local and international tensions and serve as an enabling factor for such a dialogue. We do not expect nor plan to play any role after our exit. We can only encourage international institutions with the appropriate mandate to further look into this issue and consider supporting the communities to find common ground among themselves. Similarly, we would hope that the international community would be willing to support such an effort.

What kind of a dialogue process would be helpful after FMO's exit?
We believe a dialogue process should be completely voluntary, should be organized by a credible international institution that is acceptable to all parties, should allow for all the views of community members to be heard and respected, and should be free from any interference by the company, government or anyone else. Furthermore, we believe a credible international human rights institution should monitor the situation on the ground before any dialogue effort is initiated. This dialogue should only happen if the communities want it and, as mentioned before, FMO and Finnfund will not be involved.

What happens to the communities and their development needs once FMO has finalized the exit?
As a part of their agreements with local communities, DESA committed to a number of important social development projects. The report of the Independent Mission concluded that FMO's decision to withdraw from the project could negatively impact communities if all these social and economic development projects would cease and therefore recommended that FMO and Finnfund should see how some

of the expected local projects committed to by DESA could be honored. The findings of the independent facilitator, discussions with the local communities and DESA confirmed the above. This became an important consideration while designing the exit strategy.

In an effort to meet some of the development needs of communities in the area, FMO and Finnfund have committed certain funds to contribute to the completion of development projects prioritized by the communities that were mostly already underway.

Why did it take FMO so long to exit the Agua Zarca project?
We have made every effort to make both our exit and the process leading to it responsible. A process with so many actors, complex circumstances, sensitive elements and unexpected dynamics to consider cannot and should not be rushed. FMO and Finnfund have consulted independent experts on the design and the conditions of the exit to make sure it addresses the complexity of the situation around the Agua Zarca project. Even if it has taken longer than we had expected and the pressure to complete it has been intense at times, we have achieved our goal of exiting responsibly.

What is the role of FMO after the exit?
A consequence of the final and complete exit of FMO is that we will have no further involvement in the project or in any dialogue process that were to take place.

As mentioned before and following the recommendations, FMO and Finnfund committed certain funds in order to finalize certain community projects, which were underway. These funds, channeled through an independent trust, will distribute the monies to the contractors when the selected projects reach a specific milestone as confirmed by an independent engineer. As a result, FMO will have no further involvement in this, either.

What will happen at the site after the exit?
In terms of the construction site, DESA has assessed the immediate health and safety matters and environmental concerns, and it will address those.

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What changes in policy has FMO introduced lately that can help prevent negative impacts in projects where you face opposition?
At the beginning of 2017, FMO launched its updated Sustainability Policy. The launching of this policy was preceded by an extensive consultation process that provided valuable feedback from over 70 organizations. The new policy includes more intensive due diligence requirements for high-risk projects, with significant impact on local stakeholders. FMO already announced new position statements on human rights and land rights.

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