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Frequently Asked Questions

on

The Agua Zarca Run-of-the-River Hydroelectric Generation Project

This FAQ is published in light of recent questions raised to FMO on the abovementioned project. We hope this information helps our stakeholders to formulate their views. If you have any further questions, please do not hesitate to contact us through info@fmo.nl.

Q.1 What is the FMO reaction to the violent death of Mrs. Berta Cáceres?

We deeply regret the violent death of 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 shared our concerns also with our other contacts in Honduras. We reject any form of violence. We strongly believe that our projects are best served when all voices are heard and understood, and these voices should be protected.

Q. 2 What is the Agua Zarca Project?

The Agua Zarca Project is 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 Northwest of Honduras. The capacity of this small-scale run-of-river hydro-electricity generation scheme will be 21.3MW with an annual energy production of 98.8GWh.

The project consist of the following principal elements:

1) Intake Works
    a) Weir
    b) Intake
    c) Desander
2) Headrace Tunnel
3) Penstock
4) Powerhouse
5) Discharge Channel
6) Transmission line

In 2014, due to safety issues surrounding social issues and construction costs the initial project based on the right hand side of the river Gualcarque was modified to the left side of the river with the weir located in a location more upstream of the project.

Left: The Agua Zarca weir will be similar to the above example
Right: Intake (weir) location (view from upstream)

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Q.3 What are the benefits arising from the project?

This project will bring social and economic benefits at four levels:

- At the regional level, it will strengthen the existing energy grid allowing for a more stable supply of energy and enabling new connections. It will further diminish the country's reliability on coal and support emission reductions.
- At a department level, the project will pay taxes and provide employment during the construction phase to the nearby communities.
- At a local community level, the benefits differ depending on the neighbouring community's needs and wants. The project will prioritize local recruitment and will provide school materials to all students of the 11 communities. Furthermore, DESA is developing strategic alliances with other organizations such as USAID in order to train a group of farmers to improve their farming techniques, develop some irrigation projects and training in rural savings (caja rurales).
- At the individual community level, the table below shows the main social commitments agreed with each community as part of DESA's corporate social responsibility program.

Community	Social commitment
San Ramon	100% electricity, access routes
La Estancia	Drinking water system, Access routes
La Leona	100% electricity, access routes
Valle de Angeles	100% electricity, drinking water system, access route, new bridge
El Aguacatal	100% electricity
El Barreal	100% electricity, access routes
Santa Ana	100% electricity,
Plan de Encima	100% electricity, access routes
La Tejera	100% electricity
Chorrera Aspera	Access route
Santa Fe	Drinking water system, streets sewers where water accumulates

Q.4 Why is hydro power important for a country as Honduras?

Hydro power provides for a clean, low cost and stable source of energy. In Honduras the total primary energy offer is around 53,730.6 GWh. The main source of energy is petroleum (53%) followed by combustible renewable and waste (44%), and coal (3%). The residential energy consumption is around 47% of the national consumption, of which 86% are provided by biomass, primarily firewood.

Gross electricity generation of the national grid (Sistema Interconectado Nacional –SIN) is currently around 6,539 GWh, of which 53% are petrol power plants, 42% hydro power plants, 1% coal power plants, 1% gas

and 3% co-generation. The overall electricity coverage is 69%. In rural areas, it reaches only 45%, which contrast with the 94% coverage in urban areas (2006). Currently the supply of energy does not meet demand and this gap is expected to widen with economic and population growth.
Given the context of high dependency on fossil fuels and the increase in energy demand, Honduras' energy policy revolves around reducing dependency on fossil fuels for generating electricity by promoting the generation of renewable energy such as hydro's, wind, solar and biomass.

Q.5 WHO OWNS AND DEVELOPS THE AGUA ZARCA PROJECT?

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

Q.6 WHAT IS THE RELATIONSHIP OF AGUA ZARCA PROJECT WITH FMO?

DESA as borrower has entered into a financing agreement with FMO (Financierings Maatschappij voor Ontwikkelingslanden) (in coordination with Finnfund) and CABEI (Central American Bank for Economic Integration). FMO is financing the project with USD 15 million.

Q.7 WILL FMO EXIT FROM THE AGUA ZARCA PROJECT?

Considering the current circumstances, this question is a legitimate question to ask. It is also a question that we ask ourselves. We strongly believe that all concerns raised in the protests around the project have been met through a thorough redesign. Yet, unrest continues. We constantly monitor the situation, also through independent advisors. At the same time, given the current circumstances, we have decided that our CEO and FMO's director for the Energy Sector will travel to Honduras and visit the communities around the project to get a complete understanding of the situation. We will bring along internal and external independent experts. We will undertake this mission, as soon as safety requirements allow us.

Q.8 WHAT IS A RUN-OF-RIVER HYDRO POWER PROJECT?

Run-of-the-river hydroelectricity (ROR) is a type of hydroelectric generation plant whereby 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. Used water is fed back into the main river further downstream. The difference between run-of-river and large, conventional storage hydro, is the absence of a dam and reservoir. Run-of-river relies on coursing rivers to generate electricity, as opposed to stored water. Most small hydro facilities use a weir to ensure enough water enters the penstock.

Q.9 IS THIS A LARGE DAM?

No. This is not a dam but a run of the river scheme. This scheme is also not a cascade but consists of one individual scheme. Agua Zarca is considered a small run of the river with only 21.3MW and with no reservoir. Existing larger hydro power plants in Honduras alone include El Cajon Dam (300MW and a reservoir of 94Km2) and Rio Lindo Dam (80MW).

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Q.10 HOW MUCH LAND WILL BE USED FOR THE DEVELOPMENT OF THE AGUA ZARCA PROJECT?

The project components will require a total of 35 hectares.

Land take	ha	%
Intake works	2.33	7
Channel	20.88	60
Penstock	1.4	4
Powerhouse	3.38	10
Weir	7	20
Total	34.99	100

Q.11 HOW WAS THE LAND OBTAINED?

The land required for the project on the left hand bank was purchased from 16 individuals through the willing-buyer-willing-seller approach. There was no communal land acquired. The land purchase followed the following process:

- Step 1: Sales agreement – The actual transfer of property between the parties, which defines the compensations. As part of the sale agreement, DESA pays the totality of the land to the previous owners and depending on the agreement defines some other types of compensation.

- Step 2: Title deed – The title deed is the sale agreement validated by a notary public prior to registering the title deed. The notary public reviews the sale agreement and validates the will of the parties.

- Step 3: Registered title deed – This is the process by which the land registered under the previous owner is registered to belong to the DESA in the local land registry. This is a bureaucratic process to be completed and paid for by DESA with the required authorities.

- Step 4: Registered with the PHAZ trust - With the land under DESA's assets they are often transferred to the project trust as part of the guarantee package. This is also a bureaucratic process to be completed and paid for by DESA with the required authorities.

The table below shows the villages affected by the project per area provided and their ethnic background.

Villages	Acquired Land (ha)	Indigenous People Territory?
Valle del Angeles	1.09	Yes
San. Ramon	10.98	No
La Estancia	18.53	No
La Leona	5.09	No

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Q.12 HAS FPIC BEEN OBTAINED?

Yes. FPIC was and still is in existence.

Free, Prior and Informed Consent (FPIC) is to be obtained in case indigenous people (ILO Covention 169) will be removed from their lands, or (UN Declaration on the Rights of Indigenous People) will be forcefully removed from their lands, or (IFC Performance Standard No. 7) indigenous people will be adversely impacted by the project. For the Aqua Zarca project, no reallocation of indigenous people from their land is required. The project also has no major adverse impacts on their livelihoods or any communal land. FPIC therefore is not formally required for the Aqua Zarca project.

FPIC was nevertheless obtained through a public consultation process that started in the Right Bank communities in 2011 and with Left Bank communities in 2014. Both processes terminated with the signing of a commitment letter between the company DESA and the communities with government and community leaders as signatories of the letter. The dissemination of the grievance mechanism, the social economic surveys and the continuous public engagement regarding project timelines, recruitment and the rollout of the social programs for the communities continue to confirm that FPIC is still maintained by the majority. This is further confirmed by FMO's monitoring visit, FMO's independent advisors and more recently a hand-written letter from the community of San Francisco de Ojuera, whose mayor represents 21 communities in the area as well as individual community letters including Valle del Angeles.

Q.13 HOW MANY COMMUNITIES ARE AFFECTED BY THE PROJECT?

After the change in location of the project in 2014, the affected communities of the previous design were no longer affected but are still being involved due to the existing social commitments in place. The new communities affected by the new location have also been involved in line with the FMO international standards.

- 4 Communities are positively affected only by the implementation of the social commitments of the Agua Zarca Project plan including: El Barreal (212); Santa Ana (282); Plan de Encima (250); La Tejera (600).
- 4 Communities are affected by providing access to the project (they are on route to the project site) or have had their roads improved as part of the social commitments are: El Aguacatal (88), Chorrera Aspera (405); Santa Fe (511)
- 4 Communities are affected by sale of land for the project structure, providing access to the project site and as beneficiaries of the social commitment include: La Leona (140), Valle del Angeles (364), San Ramon (144) and La Estancia (313).

Q.14 WILL THE COMMUNITIES HAVE FREE ACCESS TO THE RIVER?

Yes. Communities on both sides of the river will continue to have free access to the river. However, during construction times, there will be specific spots near the river outside the purchased land, where access from that spot will be temporarily restricted due to health and safety reasons resulting from the construction activities. This will mainly affect, on an intermittently period Valle del Angeles, San Ramon, La Leona and La Estancia, and as soon as construction is finished, these areas will revert to allow free access.

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Q.15 WILL THERE BE ANY RESETTLEMENT AND/OR LOSS OF LIVELIHOODS?

No, this project will not result in any involuntary resettlement or loss of livelihoods. All land that was acquired was acquired free of physical structures and through the willing-buyer-willing-seller approach. The land previously bought by the company from the communities on the right side including La Tejera, belongs to the company but has been left unattended and unfenced since the project moved to the left side.

Q.16 WILL THERE BE ANY FLOODING OF COMMUNITY AGRICULTURE PRODUCE, FOREST RESOURCES OR PHYSICAL STRUCTURES?

No. Due to the nature of this type of hydro, there will be no flooding of community and/or individual land, of forest resources or physical structures. There will be no reservoir on the river.

Q.17 IS THERE ANY RISK FOR THE FISH POPULATION OR AQUATIC ENVIRONMENT?

Aquatic monitoring conducted over a period of two years encompassing two dry seasons and two wet seasons showed no IUCN Red List fish species. In addition, the run of the river design calls for an Environmental Flow of at least 10% of the median flow of the driest month to mitigate any potential impacts to the fish population. This was further mitigated by moving the weir upstream and allowing the Rio Blanco river to flow into the Gaualcarque River thus improving the aquatic and flow environment. Furthermore, the Agua Zarca project has developed a Biodiversity Management Plan to ensure minimal disturbance during construction.

Q.18 SANCTITY OF THE RIVER?

The river is considered sacred by the community of La Tejera. A Social baseline study undertaken by the company, including Due Diligence visits by FMO staff and FMO independent advisors concluded that for the remaining communities of the Rio Blanco community and from Valle del Angeles, La Leona, San Ramon and La Estancia, the river is not considered sacred and the company has their consent to build in that location. By moving the weir to the territory of Valle del Angeles, the project is no longer building in La Tejera territory and the Rio Blanco is left untouched as well as the river Gualcarque in la Tejera territory.

Q.19 HOW DOES FMO TAKE SECURITY ISSUES INTO ACCOUNT?

FMO takes security issues into account in line with the IFC performance standards in its due diligence. FMO follows performance standard 4 to address our responsibility to avoid or minimize the risks and impacts to community health, safety, and security that may arise from project related-activities, with particular attention to vulnerable groups. Through the FMO Capacity Development Programme, FMO provided capacity training to the Agua Zarca project on security and and coordination mechanisms with all relevant security providers in place.

Q.20 EXIT OF SINOHYDRO?

In 2013 DESA and Sinohydro decided to replace Sinohydro as main contractor. Current contractor is COPRECA, a Guatemalan company, familiar with local culture and conduct.

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Q.21 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. In reference to DESA, FMO undertook two due diligence trips before contracting to better understand the environmental and social impacts of the project as well as support the client in devising mitigation measures; it has also undertaken annual monitoring trips and has relied on very frequent independent E&S advisors visits.

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 to be brought to our attention.