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School of Americas Watch, Friends of the Earth US, Honduras  
Delegation, International Rivers)  
Attn: Mr. Johan Frijns  
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Subject: FMO's reply to BankTrack's 3<sup>rd</sup> Letter to FMO dated the 20<sup>th</sup> of December 2013 regarding FMO's decision to finance the Agua Zarca dam project in Honduras and latest email dated 16<sup>th</sup> of January 2014

Dear Mr. Frijns,

Thank you for your letter received on the 20<sup>th</sup> December 2013 reflecting your joint feedback from the meeting held with FMO on 26<sup>th</sup> November 2013, and for your email, dated 16<sup>th</sup> of January, containing additional questions in relation to the withdrawal of CAMIF and statements made by Sinohydro. In addition we refer to your email dated the 29<sup>th</sup> of January 2014, in response to which we would like to express that we were sorry to be confronted with its tone-of-voice, which in our view does not contribute to the constructive dialogue we seek to maintain. Rest assured that when a response from our side takes more time than envisaged, it is not because we don't take the matter seriously, but it is because we want to be diligent and accurate, given the importance of the matter.

We understand that BankTrack and its partner organizations still have many concerns regarding the Agua Zarca Dam Project, particularly in relation to the communities and associate impacts such as FPIC; the existence of widespread support (or lack of) for the project by all communities; the land acquisition process; access to the river and the presence of military.

FMO is aware that Honduras is a fragile country, with a difficult past both politically and economically, sometimes resulting in weak processes and procedures and a violent environment. As such, and given this context, FMO is even more aware of the necessity for the project to comply with IFC Performance Standards to ensure that this project achieves its development impact in its fullest. As previously explained during FMO's meeting with BankTrack and partners, FMO takes both the social and environmental issues very seriously and these have been looked at during FMO's due diligence process and will continue to be monitored.

FMO also recognizes that contractor communication with the local communities and the execution of local benefit sharing initiatives (such as local electrification and employment opportunities) have shown room for improvement. We have not found any signs of this being caused by bad intent, and we are of the opinion that the improvements are achievable and that the DESA is showing commitment to take this up.

Within this setting, FMO undertook another due diligence visit, the results of which were shared with you during our last meeting, but will be addressed again in this letter. During the visit the FMO social specialist was accompanied by the independent advisory team FMO has assigned for this project. FMO feels confident that the issues presented in your letter among others were looked at adequately, and that FMO has been speaking with a representative sample of the interested and affected parties, providing FMO with a good understanding of the issues affecting the communities.

Nevertheless FMO does recognise that it did not succeed in receiving a response from some of the opponents to the project, with the exception of the founder of COPINH (understanding he has currently left COPINH), and therefore has not been able to have a meeting with them during the visit. FMO continues to welcome BankTrack's contacts in the area and will ensure that during the next monitoring visit, these contacts will be invited to meet with the monitoring team.

Through this letter FMO would like to, once more, reiterate the factors that enable FMO to be comfortable in going ahead with the financing of this project. For ease of reference we will quote statements from your letter (in italics) where this is helpful to provide context to our response.

1. "FPIC has been obtained by DESA" –

Free and prior informed consent (FPIC) is to be obtained in case indigenous peoples will be removed from their lands (as per ILO Convention 169) or relocated from their customary or traditional lands (as per IFC Performance Standard 7), or forcefully removed from their lands (as per UN Declaration on the Rights of Indigenous Peoples). In addition, the latter requires from governments to obtain FPIC prior to approving a project affecting their lands, territories or resources. Please note that this project will not involve relocation of indigenous peoples from their lands or territories. The FPIC process takes place before the start of the project as you mentioned: "The applicability of this Performance Standard is established during the environmental and social risks and impacts identification process (IFC)". It is correct that DESA had already obtained the concession however this does not warrant the FPIC they obtained as void since DESA continued moving forward, to obtain this FPIC through the process of Informed Consultation and Participation, called in Honduras as "proceso de socializacion", prior to the start of the project. This process for Rio Blanco communities was undertaken in 2011 and finished with the signature of a commitment letter between DESA and the communities of Rio Blanco on 14<sup>th</sup> October 2011. We do not agree with your statement that indigenous communities have been deprived of the opportunity to provide or withhold consent 'prior' to the project taking off. Construction of preliminary works such as improvement of access roads and dam tunnel only started after this FPIC was obtained.

Please also see the process of public consultation in more detail as per below:

#	Event	Date	Media/Place
1	Publicación informando al público en general que se someterá a autorización ambiental el PHAZ	2010	Anuncio en periódico de circulación nacional.
2	Reunión del SINEIA en San Francisco de Ojuera. Inspección junto a Municipalidad y comunidades al sitio del proyecto	8, 9 Dic./10	Actas de asistencia, visita sitio de presa y casa de máquinas.
3	Reunión con líderes de la comunidad de Río Blanco.	6, 7 Ene./11	Entrevistas en Río Blanco.
4	Reunión informativa del proyecto a las comunidades de Valle de Ángeles y La Tejera de Río Blanco.	16 Ene 2011	Reunión en escuela/ Sin registro por petición
5	Presentación a la Corporación Municipal Intibucá.	5 Abr. 11	Municipalidad/Acta de reunión
6	Reunión de información y consulta con comunidades de Río Blanco para la socialización del PHAZ.	11 Abr. 11	Reunión Esc. Tejera/Lista fotos
7	Visita casa por casa en La Tejera junto al líder de Río Blanco	12 Abr. 11	Entrevista con pobladores
8	Nueva reunión de consulta y socialización en Río Blanco. Cada comunidad hizo sus peticiones a DESA.	5 Jul. 11	Reunión La Tejera. /Ayuda Memoria
9	Nueva reunión de consulta y socialización en Río Blanco. Participa el Alcalde Municipal, patronatos, pobladores y DESA. Se llega al acuerdo de los compromisos sociales de DESA.	21 Jul. 11	

10	Cabildo Abierto con los patronatos y comunidades. Se da el consentimiento de las comunidades al PHAZ y se formalizan los compromisos de DESA	1 Oct. 11	Acta de Cabildo Abierto/La Tejera.
11	Firma en la Alcaldía del Acta de compromisos de DESA para Río Blanco.	14 Oct. 11	Acta Municipal / Certificacion

*"The Mayor then left the meeting and, together with DESA representatives and a few supporters, went to the home of a private individual where documents were signed falsely stating that the people had voted in favor of the project.<sup>2</sup> Numerous of the signatures of community members that accompany this document have been shown to be falsified, with some 'signatures' appearing from people who cannot even write their own name.<sup>3</sup>*

<sup>2</sup> *The Public Ministry has filed a case against the Mayor of Intibuca for abuse of authority for his failure to consult the Lenca people before issuing the construction permit for the project.*

<sup>3</sup> <http://vimeo.com/78375391>

"

For FMO to consider this statement proof this alleged malpractice from the Mayor's part would need to be evidenced from credible sources (e.g. judicial system in Honduras). FMO cannot and will not accuse government officials from malpractice just from hearsay. We would welcome to receive a concrete reference to the details of the alleged filing of a case by the Public Ministry against the Mayor, so we can review it.

*"DESA started to build their infrastructure in the project zone, and proceeded using methods such as intimidation, death threats, militarization of the indigenous territory, shots fired by their security guards, arbitrary house searches, and the buying off of opponents or their criminalization, to weaken the ongoing resistance of the Indigenous Lenca people. If now, after years of such intimidation and repression, several people have been silenced and authorities have been corrupted, this is exactly the contrary of what the principle of FPIC seeks to ensure."*

These again are very serious accusations for which we did not find evidence, even after speaking to the founder of COPINH. There were however accounts of intimidation by a COPINH supporter to Lenca people that were in favour of the project. We became aware of this through the meeting and hearing the story of a family (randomly) that was thrown out of their house and was lodged temporarily in a completely different community. Other interviews that ranged from other Indigenous organizations to people in the different communities supported this account. FMO however does recognize it was unable to speak to members of the opposition in La Tejera, even after many tries. As stated before, we welcome additional contacts to be provided to us, so we can include interviews with these contacts in our monitoring visits of the project.



Finally it is important to restate that DESA has changed their designs so that La Tejera will no longer be directly impacted by the project through the use of the access road or the quarry. Also, the access to the river will remain open, and the lands that were acquired from members of La Tejera community were acquired on a willing buyer, willing seller basis. Therefore, the community of La Tejera will no longer be affected. Having said this, DESA is still committed to engage with the community of La Tejera to execute the community development program and help to realize community benefits such as rural electrification, if the community is still interested to accept that engagement,

*"Nevertheless, despite intense repression, death threats, the murder of a community leader, and offers of money, the majority of Indigenous Lenca people in Río Blanco continue to oppose the project, especially in La Tejera, the community most affected by the project"*

This statement implies that all communities from Rio Blanco (El Barreal, La Union, La Tejera, Valle del Angeles and San Bartolome) were against the project. Besides from the fact that of these communities only El Barreal and La Tejera are actually impacted by the project, we spoke to the presidents of the patronatos (the community elected representatives) and some members of the community of all these communities of Rio Blanco (approximately 20 people) and this sentiment of opposition was only mentioned regarding La Tejera. As such FMO believes this statement is incorrect.

2. "COPINH is not a legitimate representative but an external organization".

*"During the meeting and in your presentation you questioned the legitimacy of COPINH to speak on behalf of the affected communities, suggesting that any opposition of COPINH to the project does not need to be taken into account. You also displayed a very odd understanding of what COPINH is and how it functions."*

This statement mixes a loose quote with a selective interpretation. It is true that FMO questions the claim that COPINH is the sole legitimate representative of all the affected communities. FMO never stated COPINH was not a legitimate organization, and does not suggest that any opposition of COPINH to the project does not need to be taken into account. We did, and continue to feel that we've not seen evidence of the broad representation basis that you explain but not substantiate in your letter. We do however welcome any real evidence being presented to us that can help to improve our understanding of this organization.

*"DESA has made great efforts to sever the links between the COPINH leadership and local Lenca communities. Berta Cáceres, Aureliano Molina and Tomás Gómez, all leaders in COPINH, have been criminalized by DESA -with the collusion of the Honduran government- with the goal of silencing them from speaking out against the Agua Zarca Dam. They have not yet been found guilty of anything, but they have been prohibited from accessing the Río Blanco territory. As a result, DESA has isolated the local COPINH members of Río Blanco from the COPINH leadership,*

*making it harder to document and expose the death threats and violence faced by the people of Río Blanco”*

We feel this is a grievous accusation to the Honduran Government and DESA. For such serious statements to be made, please do provide evidence from an independent and recognized party such as the Judicial System of Honduras for FMO to consider. It is not enough that COPINH makes these statements. In addition, our meetings with community members, the founder of COPINH and some of his current members, government officials, other indigenous groups and a religious institution have not confirmed this. It is also relevant to restate that there is evidence of protests that, while having been described as peaceful by COPINH, involved participants damaging and destroying equipment and other company property; therefore the legal claim by DESA and the punitive actions taken by the authorities cannot be simply dismissed as criminalizing actions without any just ground.

*“Furthermore, on November 20, 2013, people connected with DESA in collusion with the police, blocked an international delegation of human rights and electoral observers from reaching Río Blanco, trying to further prevent the outside world from finding out about the opposition to the dam and the severe repression the Lenca people are facing as a result of their resistance. Despite this isolation and intense pressure, many of the local communities are still clear in their opposition against the dam”.*

Again this statement mixes a verifiable reference (to the event) with quite serious insinuations and accusations without providing evidence or substantiation. We would welcome to be presented with evidence that this blockade was organised by people connected with DESA, as we do not accept that such ties would already be indicated by the mere observation that these people were in favour of the project. Also, when you state *“prevented the international delegation of human rights and electoral observers to reach Río Blanco”*, we would be interested to know which community are you referring to (The first Río Blanco community coming from Zacapa is El Barreal) and which community was blocking them. Again, you generalised that many of the local communities are still clear in their opposition against the dam but you do not specify. Again FMO did not encounter this opposition except in La Tejera.

3. There is widespread support for the project by all communities but one.

*"We suspect that this perception is a result of you meeting only with people invited by DESA, as the conclusion you draw directly contradicts the evidence on the ground."*

FMO met with representatives of 9 communities and in their respective communities, with the exception of the Rio Blanco, where the meeting was held in El Barreal for the five communities. This totalled around 70 people as participants of the meetings. Although DESA did make the logistical preparations for the meetings to take place, there was ample opportunity for community members to step in and we have had random interviews in addition to the organized interviews. During the interviews it was observed that there were many other simply looking from the opened windows and doors, who would surely have spoken out any opposition to the project.

*"After several years of intimidation and bribery, there are some people in a number of communities that DESA has bought off. However, this does not necessarily reflect the majority opinion [etc]".*

Again, this statement and the next two paragraphs that follow contain serious accusations which we feel are inappropriate if expressed without any credible supporting evidence. As said, FMO randomly spoke to people that were not in an agenda and sometimes without the presence of DESA. Our site-visit included interviews with representatives of various indigenous organizations in Honduras and their accounts did not support the accusations made in your letter.

*"Furthermore, La Tejera is by far the most negatively affected community by Agua Zarca. Therefore, their opposition is extremely important to take into account, rather than dismissed."*

FMO did not dismiss the opposition from La Tejera as explained during our meeting. Several attempts were made to meet with COPINH's leaders during our time there, without receiving a response. Following the visit, our local independent consultant continued to try and reach them but was again unsuccessful.

*"DESA's installations have been built on the communal lands of Río Blanco, destroying the corn, beans and other crops of members of La Tejera, without asking permission or compensating the communities. Being subsistence farmers, those lands and their harvests are essential for their living. Also the river is indispensable, since its water is used for irrigation of the fields, as well as for fishing and bathing".*

As explained earlier we agree that destroyed crops and damaged property should be properly compensated. Our due diligence showed that DESA's grievance mechanism functioned inadequately in terms of accessibility and structure. At this moment actions are being taken to ensure a more accessible, wider reach grievance mechanism where all complaints are recorded, categorised and there are procedures for investigation and resolution of these complaints. In addition the grievance mechanisms will be disseminated in all communities and mayor's offices. For community members that have suffered damage to their property and/or their crops, the grievance mechanism is there to ensure these are taken into account and adequately compensated for.

With regard to land-use acquired permanently, we restate that these plots were either private property or Municipal property at the time they were acquired by DESA. As was announced during our conversation, we have assigned an independent reputable party (a Honduran law firm selected by the lenders) to undertake a 'tracto sucesivo' of purchased land, in order to provide evidence of this statement. The outcome of this investigation is expected in the coming weeks.

The river will continue to have water as we mentioned already. Access to the river will continue, however during construction time, access to certain parts around the dam area might be temporarily limited during construction, for safety reasons. We will monitor that information will be disseminated timely and properly to all affected communities through the new stakeholder engagement plan and communication action plan.

FMO maintains that La Tejera will no longer suffer from project impacts due to the new access road design and the discontinuation of the quarry in the vicinity of La Tejera.

*"Furthermore, attempts were made to privatize water sources in La Tejera, necessary for drinking water, washing clothes, etc., in order to supply the construction site with water. A road was built in Indigenous territory despite efforts by residents to stop it, a hill was torn down and used as a quarry, and in March*

*2013, the necessary access to the river was being prohibited by security guards and signs, prompting the*

*Lenca people of Río Blanco to start blocking the newly built road to prevent further construction of the project."*

According to our information DESA has at no time utilized the water source of La Tejera for their campsite. The water from the campsite is obtained through a well that was drilled inside the limits of the campsite. We are aware that a conflict of the water source occurred between members of El Barreal and members of the old town council of La Tejera because the municipality authorized El Barreal to utilize this same water source to supply water to their community. DESA had no participation in that conflict except as a collaborator between the people of La Tejera and the municipality to reach an agreement on this issue and avoid legal repercussions to them.



Regarding the construction of the access roads towards the dam site and powerhouse, these were authorized during the socialization of the project that was finalized in the townhall meeting of the 1st of October 2011 which took place in the community of La Tejera. During the construction of the access roads the limits of the landowners were always respected.

Regarding the quarry, it is located between La Tejera and Valle de Angeles and before its utilization a permit was obtained from the Municipality of Intibuca, which is the legal owner of the property, who compensated the holders of the land for their crops. This permit was authorized because the material extracted from this quarry was used to improve the access road from La Tejera to Valle de Angeles and the access road from el Barreal to La Tejera. All the communities benefited directly from the use of this quarry and according to our information DESA never encountered opposition to the use of it.

Regarding the restriction of access to the river in the dam site with signs and security guards, this was done as a safety measure for the members of the community, only in the surroundings where construction was taking place. Construction activity had already begun in the dam site and these measures were necessary to avoid accidents.

On a more general level we can say that we are aware of inadequate impact management and community communication by the EPC contractor, which has led to impacts and frictions that could have been avoided. In this context it is good to note that this contractor is no longer involved in the construction of the project, and also that DESA is committed to ensuring that the adverse impacts are being mitigated and the community development program is being implemented. It is very much hoped for that the La Tejera community expresses willingness to re-opening the dialogue to kick-start this.

*We understood from your briefing that DESA organized the meeting for FMO in the community of El Barreal. Most of the inhabitants of El Barreal who are supporting the Agua Zarca project are not native to Río Blanco and do not identify themselves as indigenous. In fact, they have been in conflict with other Río Blanco communities because of their violent grabbing of indigenous land (as detailed below). DESA has further caused conflict in the zone by turning people in El Barreal and the neighboring community of Santa Ana (which is not part of Río Blanco and not very affected by the project) against those in La Tejera who oppose the project. There are reports that within El Barreal, people are offering large sums of money for the murder of leaders in La Tejera.*

As explained before, FMO met with people from El Barreal including the presidentes del Patronato that are elected by the community to represent them, independently if they are Lencas or not Lencas. FMO also met with the presidentes del Patronato as well as members of their community from the remaining Río Blanco communities. From La Tejera, there were some community members including the former president del Patronato until he was deposed recently, according to him, for no longer supporting COPINH.

In conclusion FMO believes that DESA still maintains broad community support as further evidenced in the Agreement signed as recently as September 2013 with the communities and the Government of Honduras,

**4. The land has been obtained voluntarily**

FMO has requested that a reputable and experienced law firm to look into the land issues to verify once more the land title history through a tracto sucesivo. The conclusions of these investigations are still pending.

**5. There are only small impacts on the communities and there will be very little impact on La Tejera.**

*"The chart on negative physical impacts in the Río Blanco communities does acknowledge that the dam will negatively impact La Tejera through a tunnel and the reservoir (which still have not been built) but it does not include the impact of the quarry, even though your map in the same presentation shows a quarry right next to La Tejera. Furthermore, the chart leaves out the negative impact of the dam site, camp site, and roads on the people of La Tejera, given that DESA's installations have been built on their ancestral land and a road was carved right through the territory where the Lenca people have their harvests."*

For our response on this, reference is made to earlier sections of this letter. In addition, please see the table below providing an overview of the project's impact before 2014 and from 2014 (thus reflecting the new design).

Characteristics of communities	Neighbouring communities	Project Impacts before 2014									
		Physical negative impacts							Non physical negative impact		Positive direct impact
		Reservoir	Dam site	Campsite	Tunnel	Powerhouse	Roads	Quarry	Noise	Aesthetical	Employment
Rio Blanco communities (RHS) Lenca ethnicity	La Tejera	x	x	x	x		x		x	x	x
	Barreal						x		x	x	x
	Valle del Angeles										x
	La Union										x
	San Bartolome										
RHS river - lenca ethnicity and - non lenca ethnicity	Sanf Ana						x		x		x
	Plan Encima						x				x
On the LHS of river Gualcarque, non lenca ethnicity	San Ramon	x					x	x	x	x	x
	La Leona										x
RHS river - non lenca ethnicity	Agua Caliente						x				x

It is FMO's understanding that by naming the campsite and the reservoir, you are referring to the impacts related to the land acquisition where your organization states this is a communal land and therefore the willing buyer willing seller deals are void. If this understanding is correct than this issue is being dealt through the tracto sucesivo as mentioned in point 4 above. If this understanding is incorrect please do provide more details.

7. There is no repression and militarisation, quite the contrary, security

Finally on security, please note that FMO did not mean to imply that using Honduran Military Police is part of the culture in Honduras and as such acceptable. What we meant to say was that this is currently the manner in which the Honduran Government organizes national security and it is not a project specific approach but a more general country approach, As such, it is outside the sphere of influence of either project proponents or financiers. And whilst we are aware of these challenging circumstances by enhancing private investments in these types of countries FMO hopes to contribute to sustainable economic growth and inclusive development.

*"Eye witnesses explain that the military and police are directly cooperating with DESA's private security and the military has been living, eating, and sleeping at DESA's installations since May."*

*"The number of police and military deployed to the zone varies, but it has frequently been much higher than the number you were told".*

We have also been informed that at a certain time, due to the level of aggression at the protests organized by COPINH (that not only involved a road blockade but also severe property damage), the authorities decided to send police and military personnel to establish security in the region also helping to ease tension surrounding the construction of the project. We understand that due to the lack of barracks and housing facilities in the region, the police and military at that time indeed stayed in the DESA campsite. Currently the number of police officers has been reduced considerably and there is no military personal in the region. In the community of El Barreal a Police station has been established on request by the Rio Blanco communities during their visit to the Presidential House in September 2013, as an attempt to control the acts of vandalism that were occurring in the region. In addition, from our interviews with the Rio Blanco Communities in the meeting with El Barreal, the message that the communities were satisfied with the police and military presence in the area was very clear. Some members of La Tejera stated they would like to have the police force physically based in their community instead of just patrolling it during the daytime.

*"Police and military forces were deployed to Río Blanco specifically in reaction to the Lenca people's peaceful defence of their territory in April 2013. During April and May, police forces arrived on at least five occasions to evict the Lenca people from their resistance to the dam".*

Characteristics of communities	Neighbouring communities	Project Impacts from 2014									
		Physical negative Impacts							Non physical negative impact		Positive direct impact
		Reservoir	Dam site	Campsite	Tunnel	Powerhouse	Roads	Quarry	Noise	Aesthetical	Employment
Rio Blanco communities (RHS) Lenca ethnicity	La Tejera	x	x	x	X				x	x	x
	Barreal						x		x	x	x
	Valle del Angeles										x
	La Union										x
	San Bartolome										
Rio river - Lenca ethnicity and - non Lenca ethnicity	San'Ana						x		x		x
	Plan'encima						x				x
On the left of river Guacarque.	San Ramon	x					x	x	x	x	x
	La Leona										x
RHS river - non Lenca ethnicity	Agua Caliente						x				x

*“Finally, you do not include cultural or spiritual impacts in your overall assessment, since you claimed during the meeting that the “the Lenca population does not have any cultural and spiritual relation to the river”. It does not surprise us that you could not find out about those aspects on your brief field trip organized by DESA. If you had had the opportunity for in depth genuine conversation with local people, especially with women, you would have learned that there are indeed strong spiritual ties to the river, and that there is a belief with them that spirits live in the river, which might die or be disrupted in their flow if the river is dammed.”*

During the meetings at Rio Blanco, FMO asked the participants, among them the presidents of the Patronato elected by the people and assumed to be representative, about spiritual believes related to the river. None of the participants mentioned any spiritual believes. It was only later that the spirit of the girl that lives in the river was mentioned as being a belief from the Lenca group. Further verification will be necessary to establish whether the local alterations to the characteristics of the river would potentially constitute a spiritual impact in relation to the mentioned accounts on spirits in the river.

## 6. There is free access to the river

FMO maintains there is free access to the river, with the exception of temporary limitations at certain locations and during certain construction periods, due to safety reasons. These periods and locations will be disseminated around the communities in area of direct influence (including La Tejera) as established in the Stakeholder Engagement Plan and Communication Plan. FMO believes there may have been cases of miscommunication between the EPC contractor and the communities regarding access to the river. As stated before, this EPC contractor is no longer involved in the project. Our periodical monitoring during the construction phase will continue to verify this. As indicated before, we are open to obtain factual information from your side as to this point.

As stated before, FMO believes that there is evidence of at least some of the protests not being as peaceful as claimed. There is video evidence of COPINH members vandalizing equipment of DESA and of the EPC contractor (including incinerating a bulldozer, a power generator and two air compressors).

*DESA's inexperience with social issues* – FMO recognizes that DESA, through their various social commitments to the communities, has created high expectations that were not always managed properly particularly in La Tejera. This has resulted in a mistrust of the company from some of the communities. Actions to ensure that DESA will, in the future, manage these expectations more accordingly have been taken, as well as to ensure that DESA will continue to fulfil its existing commitments. Nevertheless it is important to note that a big part of these commitments have already been honoured by DESA which is likely to have contributed to the broad community support we have noted during our site-visit. What should also be recognized is the fact that DESA has already provided electricity for six communities in the jurisdiction of Santa Barbara and Intibuca within Rio Blaco. These communities include Plan de Encima, Santa Ana, El Barreal, Tejera, San Ramon and La Leona.

FMO recognises the need for strengthening the social expertise in DESA's management team and for a proper dissemination of a grievance mechanism, Proper attention to timeframe and form of such and better monitoring of EPC Contractor actions. FMO is convinced of DESA's commitment, and actions have been taken to strengthen their in-house capacity and to ensure communities are not only provided with a well-structured grievance mechanism but are well informed of project activities. In addition, monitoring of EPC Contractor's activities is being intensified.

*Contractor* – FMO and DESA recognise that working with EPC Contractors can be challenging and careful monitoring must be undertaken. The EPC Contractor did not manage all E&S issues adequately, including involvement with the community. With regard to the point mentioned by you in your email of the 16<sup>th</sup> of January, FMO nor DESA can speak for Sinohydro. However, what can be said is that DESA dismissed Sinohydro's services, and that in our view it would be unwise to base any opinions or conclusions on their accusing statements in the direction of DESA.

*In conclusion* - Given the fact that this project will generate 22MW renewable energy, creating additional access to clean energy, and that the actual magnitude of the dam impact and the steps taken to strengthen the project's proponent's social team and tools to properly inform and engage communities in a more open manner, the project's proponent willingness to learn and implement best practices, FMO is comfortable further pursuing our involvement in the project. FMO will also continue to monitor this project closely amongst others through quarterly independent monitoring visits, particularly during the phase of construction. It will also provide the project proponent with any support it needs to implement the action items established and continue to be compliant with our standards.

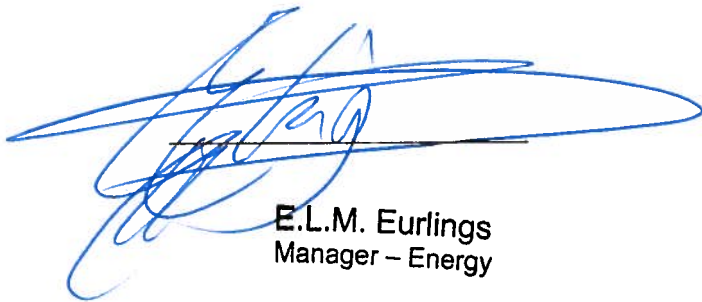


In this setting, FMO would like to once more express that it continues to value BankTrack and its partner's organization's monitoring efforts and here FMO would like to request that BankTrack and partners be proactive in sending us the contacts of the community members and COPINH members FMO's independent advisors should contact during their monitoring visits and FMO will continue to take their concerns on board.

Your sincerely,

NEDERLANDSE FINANCIERINGS-MAATSCHAPPIJ  
VOOR ONTWIKKELINGSLANDEN N.V.

Authorized Representative



E.L.M. Eurlings  
Manager – Energy