

3 • AGUA ZARCA HYDROPOWER PROJECT, HONDURAS

No dam imposed with violence against local opposition

ABOUT THIS SERIES

China is increasingly investing overseas, meeting with environmental and social challenges in the process. A detailed regulatory framework to guide Chinese overseas investment exists on paper. This series examines cases where environmental and social responsibility have been implemented in an

exemplary fashion, effectively contributing to the avoidance of harm and a positive image of China as a responsible global player. The series aims to encourage local groups to constructively engage Chinese investors with these best practice references in mind. It also aims to help Chinese authorities in their efforts to effectively guide Chinese overseas investors towards routinely achieving an excellent environmental and social responsibility performance.

OVERVIEW

From 2012 to 2013, Sinohydro was planning to build the Agua Zarca Hydropower Project on the Gualcarque river in Honduras. The project is opposed by the local indigenous Lenca population who according to international right have to be consulted and give their consent. In 2013 Sinohydro pulled back from the project due to increasing violent

conflict around the project, including deaths of local opponents. The local company continued to move forward with the project. In 2016, prominent opponent of the project and indigenous leader Berta Cáceres was murdered in her home, elevating the case to an international icon of violence against environmental defenders. By having left the project in time, Sinohydro avoided major reputational damage to its company and to China in consequence.



Localization of Agua Zarca in Honduras. Image: World Politics News

Chinese institutions involved

- Sinohydro

Key actors in Honduras

- Consejo Cívico de Organizaciones Populares e Indígenas de Honduras (COPINH)
- Desarrollos Energéticos, S.A. (DESA)
- Honduran military
- National Police
- Secretaría de Recursos Naturales y Ambiente (SERNA)
- Empresa Nacional de Energía Eléctrica (ENEE)
- Financiera Comercial Hondureña S.A. (FICOHSA)

International actors

- FMO (Netherlands Development Finance Institution)
- Finnfund (Finnish Fund for Industrial Cooperation)
- Central American Bank for Economic Integration (CABEI)
- COPRECA (Costa Rican contractor)

THE PROJECT

The proposed Agua Zarca hydropower project on the Gualcarque river in Honduras was a relatively small hydropower plant: 22MW, a 5 meter high dam, 3 kilometers of canals and tunnels and a reservoir the size of two football fields (Hidroeléctrica Agua Zarca website). It required an investment of 64 million US dollar. Since the sudden arrival of construction machinery at the site, local indigenous Lenca communities have been opposed to the project. They consider the Gualcarque river sacred.

Substantial social conflict and violence has surrounded the project. After a member of the local opposition was killed during a peaceful protest, Sinohydro withdrew from the project. The project received some international attention when local indigenous leader Berta Cáceres won the prestigious Goldman Environmental Prize for her leadership of the resistance against the dam in 2015. In March 2016, Berta Cáceres was murdered in her home by men with links to the local construction company (GAIPE 2017). An international outcry ensued ("Berta Cáceres + murder" gives 144.000 results on Google). Finally the Finnish and Dutch financiers of the project as well as the company providing the turbines withdrew as well.

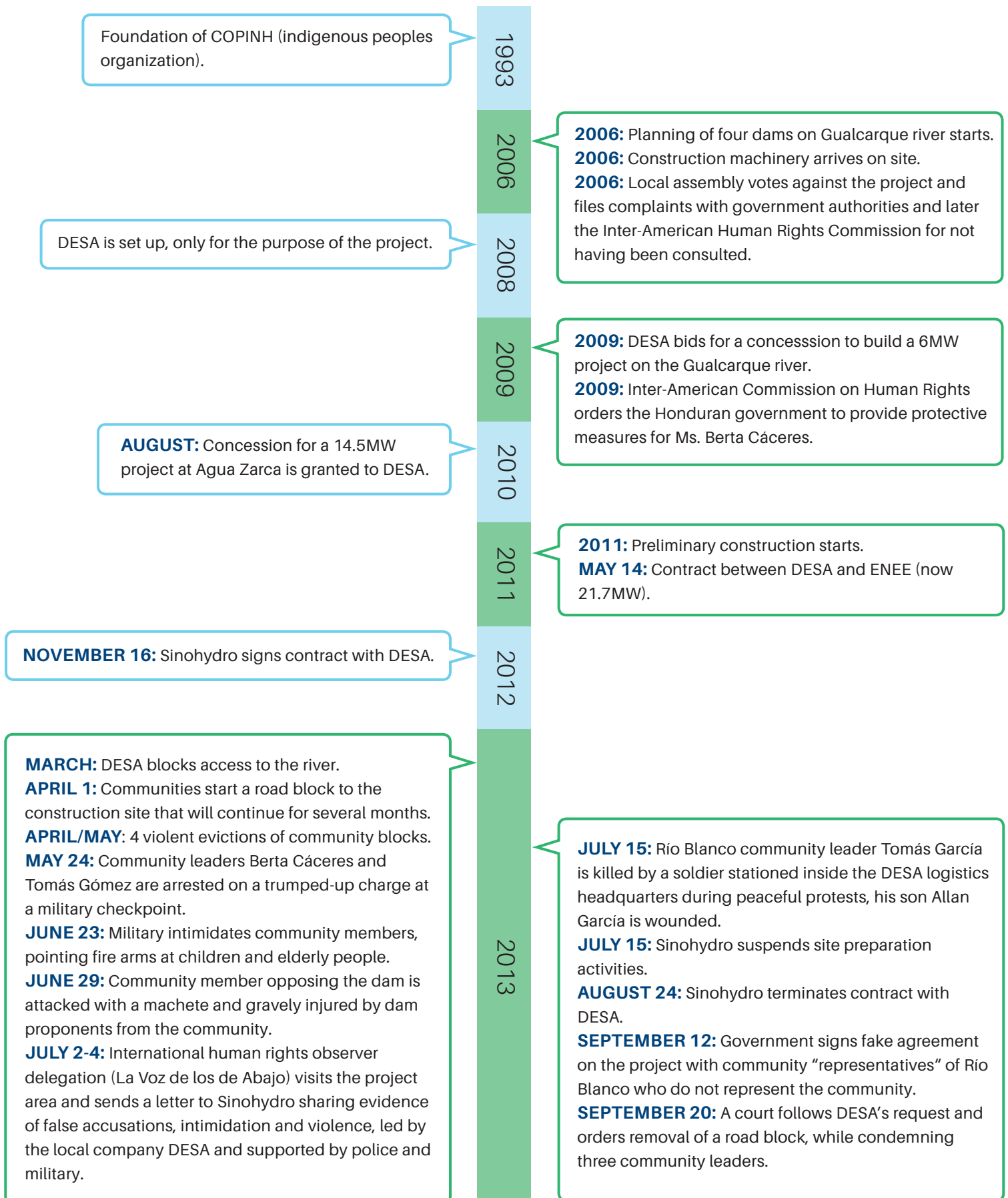


Rio Blanco community members blocking the access road to the project site. Image: El Diario

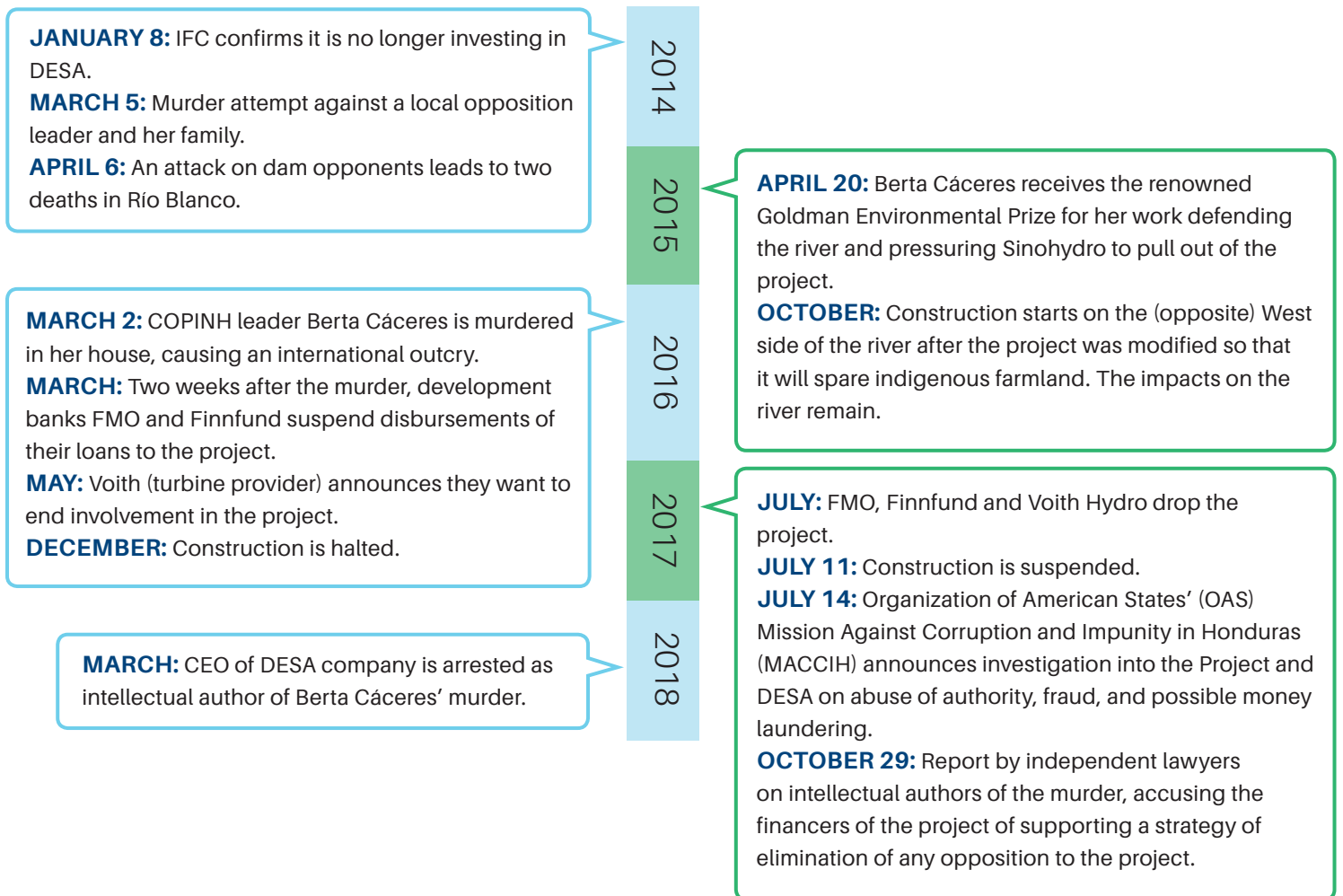


Community members from Rio Blanco with a document with their falsified signatures of their supposed consent to the project

TIMELINE



TIMELINE



POLICY RELEVANCE

Responding to community opposition

When local communities oppose a project, investors should listen closely. As long as no dedicated mechanism exists to facilitate this communication, the impression of Chinese institutions to be 'black boxes' will persist. Communication should flow freely between the company and the local community. Local concerns should be taken seriously.

Corruption

Honduras is plagued by corruption. Operating in such a context requires proceeding in a very cautious fashion. In the case of the Agua Zarca project, staff of the implementing firm (DESA) have been investigated for a number of crimes, including corruption and

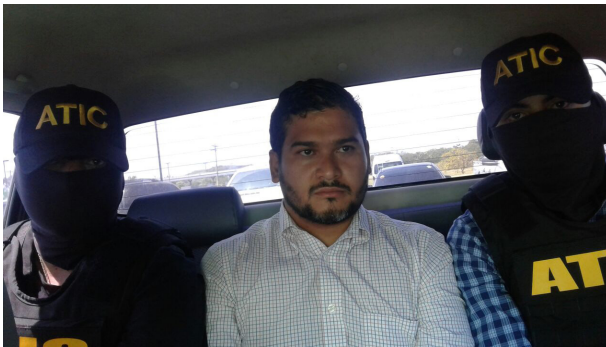
murder. Local partners should be selected based on complete information and a track record of correct behaviour. This was clearly not the case with DESA.

Relying on government information

The Honduran government has clearly not been a reliable source of information in this case. Unfortunately the implementation of international conventions such as the one on the Rights of Indigenous Peoples (UNDRIP) is lagging behind in many countries. They are nevertheless binding. When a company, lured in with promises by the local government, breaks the law of the host country, it also violates Chinese law. This is a serious risk which should be mitigated by looking for additional sources of information (e.g. NGOs, academics), independent from the promoters of the project in the local government.

Canceling a project as best choice

In a case like Agua Zarca, withdrawing from the project altogether is the best way forward – and the sooner the better. Sinohydro is a huge company with many projects in many countries. Just one small and controversial project can ruin the reputation, because there are many forces out there waiting to discredit Chinese efforts and using bad examples as if they were the norm.



Detention of the CEO of Honduran company DESA in charge of the project in March 2018

POLICY RECOMMENDATIONS

- Establish an independent grievance/complaints mechanism, independent from local/national government influence.
- Make respecting all relevant national and international legal obligations such as free, prior and informed consent part of due diligence before green light is given to an investment/contract by the embassy.
- Require a background check of the track record of business partners which includes corruption and human rights violation allegations.

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International protests following the murder of Berta Cáceres