Early Warning System

IFC-30266

Zhaoheng Hydropower Holdings Ltd.

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Quick Facts

Countries	China
Specific Location	Yunna and Guizhou Province
Financial Institutions	International Finance Corporation (IFC)
Status	Completed
Bank Risk Rating	A
Voting Date	2013-05-09
Borrower	Zhaoheng Hydropower Holdings Limited
Sectors	Hydropower
Potential Rights Impacts	Housing & Property, Indigenous Peoples, Labor & Livelihood, Right to Food, Right to Health
Investment Type(s)	Equity, Loan
Investment Amount (USD)	$ 75.00 million
Loan Amount (USD)	$ 50.00 million
Project Cost (USD)	$ 400.00 million

Project Description

The investment by IFC will support the operational expansion of ZHAOHENG HYDROPOWER HOLDINGS LIMITED (ZHAOHENG) to expand its portfolio of hydropower assets in China through IFC's loan and equity financing. Equity will be invested in a corporate entity which may use the proceeds towards any existing and future projects, some of which are as-yet undefined. It is expected that loan proceeds will be used for financing the Menglang/Gaoqiao (Yunnan Province) and Banian (Guizhou Province) assets. These assets together comprise seven projects, arranged as cascade or stand alone projects, of which five are being constructed and two are awaiting start of construction.

Early Warning System Project Analysis

RISK CATEGORIZATION

The IFC reports that this is a Category A Project. While the majority of the Sponsor's existing projects -- as well as the seven projects that will receive IFC loan proceeds -- are small-scale hydropower projects located on small streams in upper catchments, medium-scale projects on larger rivers may be potentially acquired or developed by the Sponsor in future. These will be in rural areas potentially inhabited by ethnic minorities who may become adversely impacted by project activities, and some project locations may also be in proximity to biologically sensitive areas where potentially significant adverse environmental impacts may result from the Sponsor's projects.

EIAs have been prepared for projects for approval purposes, and most projects had been issued with environmental and social management approval conditions by the relevant Government authorities, while some projects are awaiting final EIA approval.

APPLICABLE IFC PERFORMANCE STANDARDS
PS 1 - Assessment and Management of Environmental and Social Risks and Impacts
PS 2 - Labor and working conditions
PS 3 - Resource Efficiency and Pollution Prevention
PS 4 - Community Health, Safety and Security
PS 5 - Land Acquisition and Involuntary Resettlement
PS 6 - Biodiversity Conservation and Sustainable Management of Living Natural Resources
PS 7 - Indigenous Peoples
PS 8 - Cultural Heritage

People Affected By This Project

ENVIRONMENTAL AND HUMAN RIGHTS RISK ASSESSMENT

RIGHT TO HEALTH

The following impacts, reported by IFC, may have implications for the right to health:

Operation Risks and Management: On most established projects, construction-related pollution has ceased, but pollution from operational activities has to be managed. Pollution risks related to project operation, include oil leaks from turbine/machinery, solid waste disposal of plant materials (such as oils, hydraulic fluid, machinery parts at Mangyahe I), and excessive operating noise received at nearby dwellings (at Mangyahe I).

Construction impacts: At Banian, Gaoqiao, Menglang and other visited projects, the primary construction-related risks to community health and safety were associated with traffic safety, the use of explosives for tunneling, noise, and dust generated by the transport of materials, equipment, and workers to and from the project site.

Noise impacts on communities: While most turbine halls are set well back from the nearest houses (i.e. in excess of 300 m), the turbine hall of a recently acquired plant (Mangyahe I) was delivering excessive noise levels in a nearby village located less than 150 m away. The side of the turbine hall facing the village consisted of glass windows, with some missing and many kept open during the warmer, dry months. Local villages were concerned about high noise levels from operating turbines, and the previous project owner had taken no action to mitigate this impact. No construction or operation phase community noise issues are reported at Gaoqiao, Banian and Menglang. ZHAOHENG will undertake necessary provisions to minimize noise from the Mangyahe I power house such as a solid wall, double-glazed windows, and noise dampening on the side of the buildings facing local communities.

The following survey questions should be raised by communities and individuals affected by ZHAOHENG's activities:

- Has your health been affected since the beginning of the investment project?
- Have you been informed of any potential public health problems that could be caused by the planned investment project?
- Are there mechanisms through which people can file a complaint and/or obtain a remedy when their right to health has been affected?
- Has the company (or any joint venture partners, subsidiaries or sub-contractors) been accused of causing public health problems or affecting people's right to health in other regions or countries?
- Does the company have a policy or programme to ensure that its activities do not cause public health problems or affect people's right to health?
- Does the company consider that the planned investment project could cause public health problems or affect people's right to health?

LABOR RIGHTS

The IFC reports that ZHAOHENG has a workforce of 670 full time staff and 20 part time or temporary workers, of whom 610 are located at project sites or hub offices, and 40 workers are hired by a labor intermediary. According to IFC, there is a worker's union at all except three power stations, and the Company ensures the right of workers to unionize or negotiate a collective bargaining agreement should they wish to.

ZHAOHENG has committed to take steps to address the following conditions at existing power stations that could pose a safety hazard to workers: i) oil residue found on turbine hall floors; ii) broken and/or missing man-hole covers in some turbine halls; and iii) missing safety grills/covers over moving generator parts.

The following survey questions should be raised by workers at Zhaoheng's projects:

Investment Description

- International Finance Corporation (IFC)

The total Project Cost is estimated at US$400 million including the construction of 125MW of hydropower projects and future acquisitions and expansions of hydropower projects. The proposed IFC investment consists of an equity investment of up to US$25 million, an "A" loan for IFC's own account of up to US$50 million, and potentially a "B" Loan of up to US$50 million if feasible subject to market climate and appetite.

Private Actor 1	Private Actor 1 Role	Private Actor 1 Sector	Relation	Private Actor 2	Private Actor 2 Role	Private Actor 2 Sector
-	-	-	-	AEP China Hydro Ltd.	Undisclosed	-
-	-	-	-	Olympus Capital Asia Mauritius, Ltd.	Undisclosed	-
-	-	-	-	Zhaoheng Hydropower Ltd.	Client	-

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CONSULTATION PROCESS

The IFC reported that:
A. At the Sanjiang project, on average there have been several cases of grievances each year since resettlement in the late 1980's, but no major incidents according to the Company. At project sites where ZHAOHENG directly acquired land from local communities, ZHAOHENG took a consultative approach to reach mutual agreement with transacting parties without resorting to compulsory means.

B. At Mangyahe I, the original developer did not prioritize relationship building with local communities and engagement was minimal, resulting in some local resentment. After taking over, Zhaoheng assigned the Bienaihe project manager to Mangyahe I with a goal of bringing his community development experience from Bienaihe to re-build local rapport.

C. At Menglang, the previous owner did not proactively engage with local ethnic communities, resulting in local concerns about project impacts.

ACCOUNTABILITY MECHANISM OF IFC

The Compliance Advisor Ombudsman (CAO) is the independent complaint mechanism and fact-finding body for people who believe they are likely to be, or have been, adversely affected by an IFC or MIGA- financed project. If you submit a complaint to the CAO, they may assist you in resolving a dispute with the company and/or investigate to assess whether the IFC is following its own policies and procedures for preventing harm to people or the environment. If you want to submit a complaint electronically, you can email the CAO at CAO@worldbankgroup.org. You can learn more about the CAO and how to file a complaint at http://www.cao-ombudsman.org/

Bank Documents

- Zhaoheng_ESAP_revised_final_2013.6.3.pdf