This is a Category III project according to the IIC's environmental and labor review procedure because specific impacts may result which can be avoided or mitigated by adhering to generally recognized performance standards, guidelines, and design criteria. The primary issues associated with the Project include water usage, construction and operation workplace safety, and emergency response (including fire).

The Project will comply with Guatemalan laws and international guidelines, related to the environment, occupational health and safety and labor issues, with respect to the proposed use of the resources and the operations of the facilities. The Project is situated in a relatively remote location that has been extensively deforested by many years of agricultural use and fire wood collection. No resettlement of people will be required, as the project site, including the inundated zone, is remote, privately owned and uninhabited.

The Project will have a neutral, if not slightly beneficial, impact on the water quality of the Las Vacas River that is poor because of the significant contribution to its flow from the sewerage of Guatemala City. Accordingly, there is little aquatic life and the local population, when necessary, obtains water from natural springs. The dam's reservoir will be flushed periodically and monitored with respect to the effects of the accumulation of silt and sludge.

The Borrower has begun an extensive reforestation program, which will improve the highly degraded environment in the Project area. Additionally the Project's sponsors are investigating the potential of participating in carbon offset trading, an initiative established under the 1997 Kyoto Protocol Treaty that focuses on reducing emissions and reservoirs of greenhouse gases and protecting and enhancing greenhouse gas sinks.

The Project will operate using renewable resources, catchment from the Las Vacas river basin system and 60%-70% of the sewerage discharge of Guatemala City. Additionally the Project will benefit from the coincidence of the time of maximum daily sewerage discharge and the peak demand hours for electricity. As is typical with hydroelectric projects, there will be the environmental benefits derived from generating electricity without the accompanying emissions of nitrogen oxides, sulfur dioxide, or carbon dioxide associated with fossil fuel power generation.

During the construction and operations of the Project, the workers will receive instructions/training and be provided with adequate equipment to ensure worker safety. The Sponsors have been in business in Guatemala for 74 and 99 years, respectively and are significant employers who have well-developed personnel, and labor management practices that are consistent with the IIC's policies, and will be transferred to the construction and operations of the Project.