

CIFI 2010 Annual Environmental and Social Performance Report

Corporación Interamericana para el Financiamiento de
Infraestructura, S.A. (CIFI)

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Corporación Interamericana para el
Financiamiento de Infraestructura, S.A.

CIFI 2010 Annual Environmental and Social Performance Report

For and on behalf of
Environmental Resources Management

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Date: June 2010

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TABLE OF CONTENTS

1	EXECUTIVE SUMMARY	1
1.1	BACKGROUND.....	1
1.2	CIFI'S PORTFOLIO.....	3
1.3	SUMMARY.....	4
1.4	SCOPE OF REVIEW.....	5
2	CORPORACIÓN INTERAMERICANA PARA EL FINANCIAMIENTO DE INFRAESTRUCTURA	10
2.1	CIFI BACKGROUND.....	10
2.2	MISSION.....	10
2.3	PRODUCTS AND SERVICES.....	10
2.4	ENVIRONMENTAL POLICIES AND PROCEDURES.....	11
3	COMPLIANCE WITH APPLICABLE POLICIES AND GUIDELINES	12
3.1	COMPLIANCE WITH CIFI'S ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM.....	12
3.1.1	<i>CIFI's Environmental Policy and Environmental and Social Management System</i>	12
3.1.2	<i>Organizational Structure</i>	14
3.1.3	<i>CIFI's Business Plan</i>	15
3.1.4	<i>Compliance with CIFI's Environmental and Social Management System</i>	15
3.2	COMPLIANCE WITH THE EQUATOR PRINCIPLES.....	18
3.2.1	<i>Equator Principles</i>	18
3.2.2	<i>Compliance with the Equator Principles</i>	19
4	CONCLUSIONS AND RECOMMENDATIONS	22
4.1	CONCLUSIONS.....	22
4.2	PROJECT-SPECIFIC CONCLUSIONS.....	22
4.2.1	<i>Carry-Over Projects, 2010</i>	22
4.2.2	<i>New Projects, 2010</i>	24
4.3	RECOMMENDATIONS FOR 2011.....	25
ANNEX A:	PROJECT OVERVIEW	1
1	PORTFOLIO PROJECTS CARRIED OVER FROM 2009	2
1.1	<i>Aerodom, Dominican Republic</i>	2
1.2	<i>Bahia Las Minas, Panamá</i>	2
1.3	<i>Belcogen, Belize</i>	3
1.4	<i>Belize Natural Energy (BNE), Belize</i>	4
1.5	<i>Caucedo Port, Dominican Republic</i>	9
1.6	<i>Celtel, Honduras</i>	11
1.7	<i>Columbus, Barbados</i>	12
1.8	<i>Delba, Brazil</i>	13
1.9	<i>Desalcott, Trinidad</i>	16
1.10	<i>Digicel, Caribbean</i>	18
1.11	<i>Dinasa, Haiti</i>	20
1.12	<i>EMCE, Honduras</i>	21
1.13	<i>ENERSA, Honduras</i>	22
1.14	<i>Favorita, Ecuador</i>	23
1.15	<i>Ferrovias Central Andino, S.A./Ferrocarril Central Andino (FCCA), S.A., Perú</i>	26
1.16	<i>Hidroabanico, Ecuador</i>	28

1.17	<i>Loma Negra, Argentina & Brazil</i>	30
1.18	<i>Metro CC, Dominican Republic</i>	30
1.19	<i>PAE LLC, Argentina</i>	34
1.20	<i>Petroterminal de Panama (PTP), Panama</i>	36
1.21	<i>SOBOCE, Bolivia</i>	38
1.22	<i>Termoflores, Colombia</i>	40
1.23	<i>TGI, Colombia</i>	42
1.24	<i>Transredes, Bolivia</i>	43
2	NEW PORTFOLIO PROJECTS 2010	46
2.1	<i>Abengoa, Peru</i>	46
2.2	<i>BRASKEM, Brazil</i>	50
2.3	<i>CAPSA, Argentina</i>	52
2.4	<i>Energía Pacífico, Chile</i>	53
2.5	<i>Lima Airport, Peru</i>	57
2.6	<i>Magdalena, Guatemala</i>	58
2.7	<i>Nextel, Peru</i>	61
2.8	<i>Odebrecht, Brazil</i>	62
2.9	<i>Petrotemex, Mexico</i>	64
2.10	<i>PetroTrin, Trinidad and Tobago</i>	65
2.11	<i>San Jacinto (Phase I), Nicaragua</i>	67
2.12	<i>TACA, El Salvador</i>	70
2.13	<i>TCBUEN, Colombia</i>	72
2.14	<i>Terminal Zárate S.A., Argentina</i>	75

Figures

Figure 1	CIFI E&S Risk Categorization Matrix	2
Figure 2	CIFI's Portfolio by Infrastructure Sector	3
Figure 3	CIFI's Environmental and Social Management System	13
Figure 4	CIFI ESMS Implementation Organizational Chart	14

Tables

Table 1	CIFI 2010 Portfolio – Carryover Projects	6
Table 2	CIFI 2010 Portfolio - New Projects	8
Table 3	Updates to the ESHS Questionnaire for Implementation in 2011	17

ACRONYM	NAME	ACRONYM	NAME
ARCOS	Americas Region Caribbean Ring System	EPs	Equator Principles
bbls/d	barrels per day	EPFIs	Equator Principles Financial Institutions
BELCOGEN	Belize Co-Generation Energy, Ltd.	EPM	Empresas Publicas de Medellín
BLM	Bahia Las Minas Corp.	EPR	Environmental Performance Report
BNE	Belize Natural Energy	ERM	Environmental Resources Management
BSI	Belize Sugar Industries, Ltd.	ESAP	Environmental and Social Action Plan
CABEI	Central American Bank for Economic Integration	ESHSL	Environmental and Social, Health and Safety and Labor
CAF	Corporación Andina de Fomento	ESIA	Environmental and Social Impact Assessment
Caminosca	Caminos and Canales, Ltda	ESMP	Environmental and Social Management Plan
CAP	Corrective Action Plan	FINNFUND	Finnish Fund for Industrial Cooperation, Ltd.
CDB	Caribbean Development Bank	FVCA	Ferrocarril Central Andino to Ferrovial Central Andina, S.A.
CDM	Clean Development Mechanism	FY	fiscal year
CELTEL	Telefonica Celular, S.A. de C.V.	FMO	The Netherlands Development Finance Company
CEMPRO	Cementos Progreso, S.A.	gpd	Gallons per day
CHx	CHx Capital, LLC	GSA	Gas Supply Agreements
CIFI	Corporación Interamericana para el Financiamiento de Infraestructura, S.A.	GSM	Global System for Mobile Communications
CII	Caucedo Investments, Inc.	GTA	Gas Transportation Agreements
CNRH	Consejo Nacional de Recurso Hidricos	ha	Hectares
CO	Carbon Monoxide	HR	Human Resources
CONAMA	Comisión Nacional de Medio Ambiente	HSES	Health and Safety and Environment and Social Management System
CONELEC	Consejo Nacional de Electricidad, Ecuador's Electricity Authority	IBAMA	Instituto Brasileiro de Meio Ambiente
DD	Due Dilligence	IDB	Inter-American Development Bank
DEG	German Investment and Development Company	IDB PRI	Inter-American Development Bank's Private Sector Department
DR	Dominican Republic	IFC	International Finance Corporation
E&E	Environment and Ecology	IIC	Inter-American Investment Corporation
E&S	Environmental and Social	IMSA	Ingenio Magdalena, S.A.
EHS	Environmental, Health, and Safety	kV	Kilovolt
EIA	Environmental Impact Assessment	LNG	Liquefied natural gas
EMCE	La Empresa de Mantenimiento, Construcción y Electricidad	LPG	Liquefied petroleum gas
EMP	Environmental Management Plan	m	Meters
ESMS	Environment and Social Management System	m ³	Cubic meters
ENERSA	Energía Renovable, S.A de C.V.		
EPC	Engineering, Procurement Construction		

<i>ACRONYM</i>	<i>NAME</i>
MARPOL	International Convention for the Prevention of Pollution from Ships
Metro CC	Metro Country Club, S.A.
MTY	Million tons per year
MW	Megawatt
N/A	Not applicable
Nm ³	Normal cubic meters
NORFUND	Norwegian Investment Fund for Developing Countries
O&M	Operations and maintenance
PDD	Project Design Document
PEMA	Plan of Environmental
PPA	Power Purchase Agreement
PPAH	World Bank Pollution Prevention and Abatement Handbook
PRC	People's Republic of China
PS	Performance Standard
PTP	Petroterminal de Panama, S.A.
RoW	Right of way
SBM	Single Buoy Mooring, Inc.
SEMARN	Environmental and Natural Resources Secretariat
SEMARNAT	Mexican Federal Environmental Authority
SERNA	Secretaria de Recursos Naturales y Ambiente
SFECO	China Shanghai (group) Corporation for Foreign Economic and Technological Cooperation
TGI	Transportadora de Gas del Interior
TGP	Transportadora de Gas del Perú, S.A.
tpy	Tons per year
TSS	Total suspended solids
UAE	United Arab Emirates
WASA	Water and Sewerage Authority of Trinidad and Tobago

BACKGROUND

This report, prepared for Corporación Interamericana para el Financiamiento de Infraestructura, S.A. ("CIFI") by Environmental Resources Management, Inc. ("ERM"), represents the Annual Environmental and Social Performance Report for CIFI's 2010 financial year (January through December). CIFI's 2010 portfolio retained 24 of 33 portfolio projects from 2009, and 14 new projects were added in fiscal year ("FY") 2010. The portfolio is presented in Table 1 below.

In 2005, CIFI adopted and implemented an Environmental and Social Management System ("ESMS") for review, categorization and supervision of prospective and approved loans. Under this ESMS, CIFI applied the policies and procedures of the Inter-American Investment Corporation ("IIC"). On April 6, 2007, CIFI adopted the Equator Principles ("EPs"). Accordingly, CIFI's ESMS is now based on the Equator Principles, which incorporate the International Finance Corporation ("IFC") Performance Standards on Social and Environmental Sustainability and applicable IFC Environmental, Health and Safety (EHS) Guidelines. These policies and guidelines address environmental, social, health and safety, and labor aspects (which will be referred to as 'E&S' throughout this report). In addition, CIFI's ESMS also requires that all projects meet the E&S requirements of the host country.

Under CIFI's ESMS, all projects are categorized in accordance with the EP/IFC project categorization scheme, which assigns all projects a Category A, B, or C designation based on likely environmental and related effects (i.e., Category A projects are larger and in higher risk sectors while Category C projects are generally smaller and in low risk sectors). All current CIFI loans are mapped using CIFI's E&S Risk Categorization Matrix, which is based on sector risk (e.g., A, B or C) and the concept of relative transaction risk (See *Figure 1*).

The transaction risk concept is based on the understanding that not all transactions carry the same degree of risk for CIFI. For example, a Category A greenfield (e.g., new development) project for which CIFI is the arranger is the highest risk type of transaction given associated sector risk (e.g., Category A projects are often extractive industry projects) and the reality that new projects typically involve significant construction phase impacts (e.g., site clearance, earthworks, roads and associated infrastructure, workers camps) and therefore present greater potential risks than existing operations. Conversely, a Category C asset purchase is considered the lowest risk (e.g., low risk sector and existing operation).

Figure 1 CIFI E&S Risk Categorization Matrix (red denotes highest risk, yellow intermediate, and green lowest)

CIFI E&S Risk Categorization Matrix				
Transaction Type		Project Category		
		A	B	C
		Relative E&S Risk		
Reputational Risk		High	Moderate	Low
	CIFI Arranger/Originator			
	1. Greenfield*		Belcogen; Hidroabanico	
	2. Expansion*		Favorita; Metro CC	
	3. Refinancing*		[Ferrovias/FCCA]	
	Local Bank Syndicate			
	1. Greenfield		Desalcott	
	2. Expansion			
	3. Refinancing		EMCE	
	Inter. bank Syndicate			
	1. Greenfield		Caucedo; Abengoa	
	2. Expansion	BNE	[Aerodom A&B]; Digicel; Celtel; PTP; Magdalena 2020	
	3. Refinancing		TACA	
	Asset Purchase – Local Bank			
	1. Greenfield			
	2. Expansion			
	3. Refinancing			
	Asset Purchase – Inter. Bank			
	1. Greenfield			
	2. Expansion		[Bahias Las Minas A&B-1]; Columbus; Odebrecht	
	3. Refinancing		TGI; Loma Negra; BRASKEM; Lima Airports; Petrotemex; PetroTrin	
	MFI A/B Loan			
	1. Greenfield	TCBUEN	Delba; Energía Pacifico; San Jacinto	
	2. Expansion		Dinasa; ENERSA; PAE; SOBOCE; Termoflores; Transredes; CAPSA; Nextel; Terminal Zarate	
	3. Refinancing			
Asset Purchase - MFI				
1. Greenfield				
2. Expansion				
3. Refinancing				

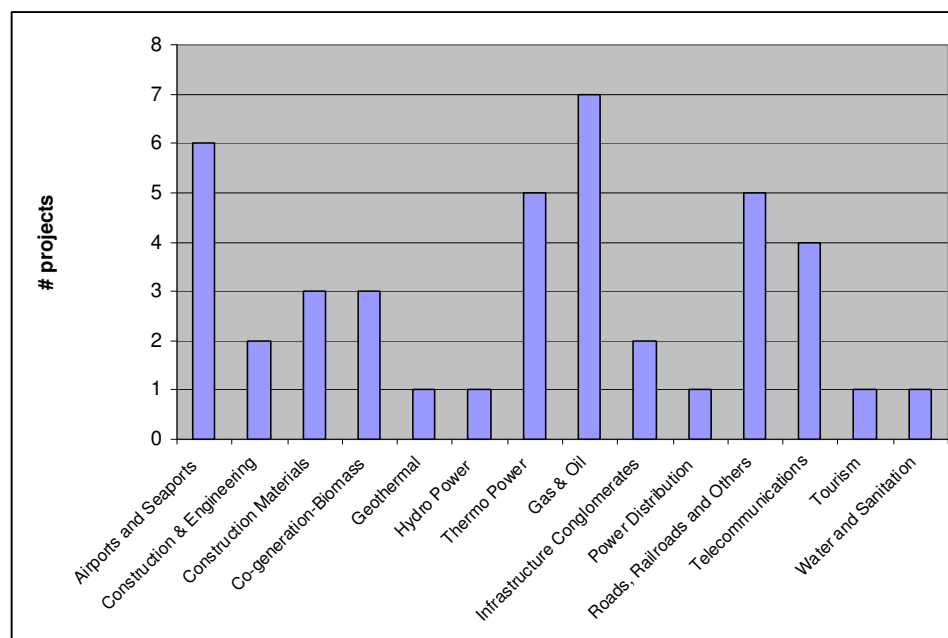
CIFI's 2010 portfolio consisted of 41 loans and bonds to 38 projects:

- 27 loans were originated with commercial banks (most of whom have adopted the Equator Principles) or involved multilateral or bilateral institution participation,
- 6 loans were directly originated by CIFI, and
- 8 were publicly traded bonds.

In addition, 5 projects were repaid or prepaid from January 2011 to May 2011.

The 2010 portfolio (see *Tables 1* and *2* for a complete list of projects) was spread across various infrastructure sectors as follows:

Figure 2 CIFI's Portfolio by Infrastructure Sector



The 5 repaid or prepaid projects corresponded to the following sectors: Co-generation – Biomass; Construction Materials, Hydro Power; and Telecommunications.

Of the 2010 portfolio, 2 loans were Category A and 39 loans and bonds were Category B, respectively representing 5% and 95% of CIFI's total exposure. No projects were designated as Category C.

CIFI has a robust ESMS, which has been fully integrated into the investment cycle (identification, screening and approval (or rejection) process). Responsibilities for ESMS oversight and implementation have been assigned within CIFI, contributing to an overall effective ESMS performance. During 2010, CIFI reviewed its ESMS and identified key updates and major improvements, which will be rolled out and implemented in 2011. These include implementing Environmental and Social Pre-Screening and Screening Forms and expanding the Environmental and Social Questionnaire. Going forward, CIFI will also develop a process for an internal semi-annual review process of its ESMS.

The overall quality of E&S reporting across CIFI's portfolio has improved in the past few years, presumably a result of CIFI's increased diligence as well as the increasing application of E&S requirements in international infrastructure financing. In 2010, one borrower prepaid the loan in view of critical social and environmental non-compliances.

The projects in CIFI's portfolio comply with local national regulation and standards, and the E&S monitoring is done against national standards (for level of emissions for example). Excluding bond investments, 83% of projects are monitored against IFC standards, EPs or IDB requirements. As stated in *Section 3*, it has been challenging for CIFI to apply the EPs to projects that are not new project finance transactions and/or when CIFI is not the arranger.

CIFI's portfolio includes 8 publicly over the counter traded bonds that were bought in the secondary market. Typically, the terms and conditions of bond offerings are prepared by underwriters in advance of marketing any bond issuance. CIFI did not underwrite any of these bonds and couldn't include specific E&S requirements on bond indentures, such as compliance with IFC PS or Equator Principles. However, before a bond investment is made by CIFI, an environmental and social risk assessment of the issuer is conducted with available information. CIFI relies on relevant environmental information released in offering memorandums and public information, which is not necessarily updated on a regular basis. This limitation affects the depth at which CIFI can assess certain information from issuers in terms of E&S aspects. However, on the plus side, high risk bonds (e.g., Category A) are avoided by CIFI.

Over the last several years, CIFI has demonstrated that the E&S Risk Categorization Matrix (see Figure 1) is an appropriate approach for ESMS application. In 2010, CIFI rejected and modified potential projects based on E&S risks identified during the pre-screening process. One thermal power project

was rejected due to the high level of E&S risk and failure or unwillingness to comply with environmental standards.

CIFI should focus increased attention on those projects where CIFI is the arranger or originator as well as on higher risk projects (e.g., Category A and B in higher risk sectors or “big B”). Higher risk sectors would include oil and gas, mining, power generation including hydro, large industrial projects, and major new infrastructure projects with a significant footprint (e.g., new ports or major expansions, high voltage electrical transmission lines, pipelines, roads, airports). Simultaneously and in keeping with its business model, CIFI should expend less effort on the application of the ESMS to those transactions where risk is relatively low and experience has shown the likelihood of influencing outcomes and/or obtaining sufficient monitoring information is low (e.g., corporate and asset/bonds purchases).

1.4 SCOPE OF REVIEW

This report is based on a review of CIFI project files as well as meetings and interviews with CIFI’s portfolio officers. Documentation review included:

- Loan agreements;
- CIFI’s credit proposals (pre-approval project analysis documents);
- Associated environmental background information (e.g., environmental impact assessments/audits and/or environmental management plans, where available);
- Annual monitoring reports and compliance-related data supplied by projects;
- EHS questionnaires; and

ERM also conducted an office visit/audit to assess effectiveness of implementation of CIFI’s ESMS. ERM staff familiar with CIFI’s ESMS and operations visited CIFI offices on May 24, 2011 to assess CIFI’s capacity to identify and manage critical social and environmental risks associated with its investments. This assessment consisted of an interview with CIFI staff and a discussion of the preliminary findings from the document reviews for the 2010 CIFI Annual Environmental and Social Performance Report.

Overall effectiveness and performance of the CIFI ESMS was assessed on the basis of project documentation review. The Executive Summary presents the main findings, and a detailed review of CIFI’s portfolio for FY 2010, including conclusions and recommendations specific to every project, can be found in *Annex A*.

Table 1 CIFI 2010 Portfolio – Carryover Projects

	Company	Country	Sector	Borrower	MFI, Bilateral Syndicate members and EPFI	Structure	CIFI Environmental Category
1	Aerodom Tranch A & B	Dominican Republic	Airports and Seaports	Aeropuertos Dominicanos Siglo XXI, S.A.	Scotiabank/ING/ Export Development Canada	Corporate Finance	B
2	Belcogen	Belize	Co-generation (Biomass)	Belize Co-generation Energy Limited	FMO/CDB/IIC	Project Finance	B
3	BLM bond serie A & B-1	Panama	Thermo Power	Bahia Las Minas Corp.	West LB/HSBC	Project Finance	B
4	BNE II Senior	Belize	Gas & Oil	CHx Belize LP & BNE JV	FMO	Corporate Finance	A- Highest Risk
5	Caucedo Port	Dominican Republic	Airports and Seaports	Caucedo Investments Inc.	IFC/DEG/Scotiabank	Project Finance	B
6	CELTEL	Honduras	Telecommunications	Telefonica Celular, S.A. de C.V.	Banco Industrial S.A./ Westrust Bank	Corporate Finance	B
7	Columbus II	Barbados	Telecommunications	Columbus International Inc	Public offering	Corporate Finance	B
8	Delba	Brazil	Gas & Oil	Delba Drilling International Cooperatie U.A.	IDB/Dexia/KfW/We stLB/Itau	Project Finance	B
9	Desalcott	Trinidad and Tobago	Water and Sanitation	Desalination Company of Trinidad and Tobago Limited	Republic Finance/ Merchant Bank	Project Finance	B
10	DIGICEL	Saint Lucia	Telecommunications	Digitel International Finance Limited	Citibank	Corporate Finance	B
11	Dinasa	Haiti	Gas & Oil	Distributeurs Nationaux S.A.	IIC	Corporate Finance	B
12	EMCE	Honduras	Thermo Power	Empresa de Mantenimiento Construccion y Electricidad, S.A. de C.V.	HSBC Honduras/ HSBC Panama/ Scotiabank/ Banrural	Corporate Finance	B
13	ENERSA	Honduras	Thermo Power	Energia Renovable, S.A. de C.V.	CABEI/FMO/DEG/ Citibank	Corporate Finance	B
14	Favorita Fruit Company	Ecuador	Construction & Engineering	Favorita Fruit Co. Ltd.	IFC/DEG	Corporate Finance	B

	Company	Country	Sector	Borrower	MFI, Bilateral Syndicate members and EPFI	Structure	CIFI Environmental Category
15	Ferrovias/ FCCA	Peru	Roads, Railroads and Others	Ferrovias Central Andina, S.A.	DEG	Project Finance	B
16	Hidroabanico	Ecuador	Hydro Power (mini)	Hidroabanico, S.A.	IIC	Project Finance	B
17	Loma Negra	Argentina	Construction Materials	Loma Negra Compañía Industrial Argentina S.A.	Public offering	Corporate Finance	B
18	Metro Restructured	Dominican Republic	Tourism	Metro Country Club	Direct	Corporate Finance	B
19	PAE LLC	Argentina	Gas & Oil	Pan American Energy LLC	IFC/Korea Development Bank/BNP Paribas/Banco do Brasil	Corporate Finance	B
20	Petroterminal II	Panama	Roads, Railroads and Others	Petroterminal de Panama, S.A.	HSBC/BNP Paribas/Bancolombia /Scotiabank/Export Development Canada	Corporate Finance	B
21	SOBOCE	Bolivia	Construction Materials	Sociedad Boliviana de Cemento, S.A.	CAF	Corporate Finance	B
22	Termoflores	Colombia	Thermo Power	Termoflores S.A. E.S.P.	IFC/CAF/DEG	Corporate Finance	B
23	TGI	Colombia	Gas & Oil	TGI International Ltd.	Public offering	Corporate Finance	B
24	Transredes	Bolivia	Roads, Railroads and Others	Transporte de Hidrocarburos, S.A.	CAF/IDB	Corporate Finance	B

Table 2 CIFI 2010 Portfolio - New Projects

	Company	Country	Sector	Borrower	MFI, Bilateral Syndicate members and EPFI	Structure	CIFI Environmental Category
1	Abengoa	Peru	Power Distribution	Abengoa SPV	CAF/ HSBC/ Bancolombia	Project Finance	B
2	BRASKEM	Brazil	Infrastructure Conglomerates	Braskem Finance Ltd	Public offering	Corporate Finance/Bond	B
3	CAPSA	Argentina	Gas & Oil	CAPSA	IFC/ Banco Itau	Corporate Finance	B
4	Energía Pacífico	Chile	Co-generation (Biomass)	Energía Pacífico, S.A.	IIC	Project Finance	B
5	Lima Airport	Peru	Airports and Seaports	Lima Airport Partners	Public offering	Corporate Finance/Bond	B
6	Magdalena 2020	Guatemala	Co-generation (Biomass)	Ingenio Magdalena Sociedad Anonima	Bancolombia/ Citibank/ HSBC/ Scotiabank	Corporate Finance	B
7	Nextel	Peru	Telecommunications	Nextel del Peru S.A.	FMO/ DEG/ Multibank/ TowerBank/ Banco de Credito del Peru	Corporate Finance	B
8	Odebrecht	Brazil	Construction & Engineering	Odebrecht Finance Ltd.	Public offering	Corporate Finance/Bond	B
9	Petrotemex	Mexico	Infrastructure Conglomerates	Petrotemex S.A. de C.V.	Public offering	Corporate Finance/Bond	B