



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

**CIFI's 2017**  
ANNUAL ENVIRONMENTAL AND  
SOCIAL PERFORMANCE REPORT  
(AESPR)

FINAL SUMMARY REPORT

[www.cifi.com](http://www.cifi.com)

---

Costa del Este, MMG Tower, 13th floor, office 13 A. Panama City, Republic of Panama.

## EXECUTIVE SUMMARY

The AESPR was prepared by the Environmental and Social (E&S) Team of *Corporación Interamericana para el Financiamiento de Infraestructura S.A.* (CIFI). It constitutes CIFI's Annual Environmental and Social Performance Report (AESPR) for the 2017 fiscal year (January 1 through December 31, 2017). CIFI is a regional non-bank financial institution that began operations in July 2001. CIFI specializes in providing debt financing for private sector-sponsored infrastructure projects in Latin America and the Caribbean. It participates in a limited number of infrastructure lending transactions and its business model is based on having an efficient organization with an effective core staff. Per CIFI's 2017 Financial Annual Report, CIFI's total equity (share capital, additional paid-in capital, reserves, and retained earnings) was USD\$98.8 MM, and net loans payable (funding through international banks and development financial institutions) was USD\$291.2 MM as of December 31, 2017.

The AESPR reviews CIFI's implementation of its Environmental and Social Management System (ESMS). The AESPR is an assessment of CIFI's alignment with applicable environmental and social (E&S) internal policies which identifies opportunities for future improvement and for increasing institutional effectiveness in environmental and social risk management. This report encompasses projects that were active in 2017, including project loans disbursed in 2017 (new projects) and project loans retained from 2016 (carry-over projects). In 2017, CIFI disbursed loans to 14 new projects and retained 30 carry-over project loans. Of these 44 active projects, six are Category A and the remaining 38 are Category B, representing 14% and 86% of the total, respectively.

None of the projects are Category C. Of these 44 active projects, 20 were originated by CIFI, 20 by Multilateral Financial Institutions (MFIs) or Equator Principles Financial Institutions (EPFIs), and four by other financial Institutions

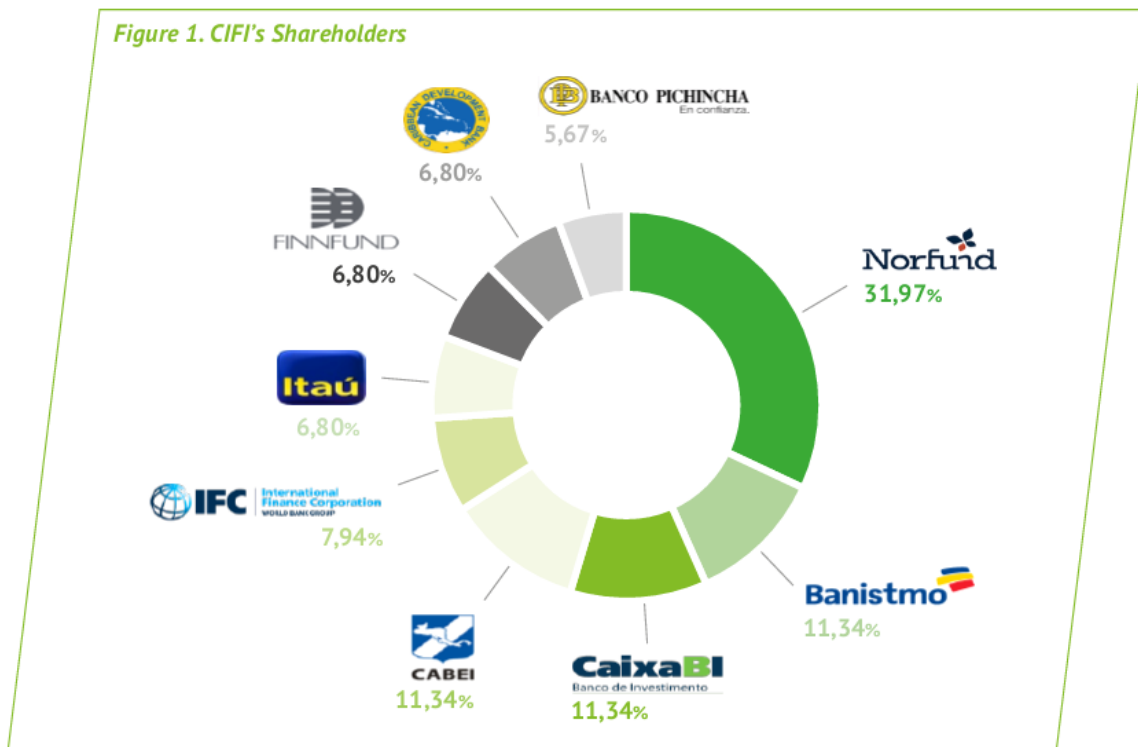
CIFI's ESMS was substantially revised in 2017, and is currently under approval process by the Management, the Risk Committee, and the Board. The main changes to the ESMS include: 1) The creation of an ESG department, 2) a scoring system replacing the current risk matrix, 3) update of the E&S policy, 4) Included Principles of Responsible Investment (PRI-UN) as core values for Asset Management, and 5) inclusion of an E&S term sheet reviewed and agreed among Management.

The ESMS has been fully integrated into the investment cycle (pre-screening, screening and due diligence, and post-investment monitoring and oversight). CIFI's staff is aware of this process and follows the ESMS requirements, which are embedded in the credit review process. While there are specific checkpoints to ensure that the process is met, there is also enough flexibility to account for various levels of project involvement, depending on the specific form and timing that CIFI's project involvement takes. In addition, during the reporting period, CIFI continued receiving support from its upper management regarding E&S aspects of portfolio risk management and its goal of taking an E&S leadership role in more of its investments. As a result, CIFI increased its staff fully dedicated to E&S assessment (hiring an E&S Analyst), and in 2018 has created the Environment, Social and Governance (ESG) Unit at management level. The ESG team oversees ESMS's implementation and updates its procedures.

## CIFI BACKGROUND

CIFI FI was originally constituted in Costa Rica in June 2001 and started operations in April 2002 with headquarters in Washington DC. In April 2011, CIFI migrated its country of incorporation to Panama and in 2016 moved its headquarters to this country. According to CIFI’s 2017 Financial Annual Report, CIFI’s total equity (share capital, additional paid-in capital,

reserves, and retained earnings) was USD \$98.8 MM, and net loans payable (funding through international banks and development financial institutions) was USD \$291.2 MM as of December 31, 2017. CIFI’s shareholders include multilateral financial institutions, banks and funds details in Figure 1.



In CIFI’s current shareholding scheme, multi-lateral financial institutions (MFIs) hold 26% of shares while private banks and funds hold 74% of shares. The major shareholder of CIFI is the Norwegian Investment Fund for Developing Countries.

CIFI specializes in providing debt financing for private sector-sponsored infrastructure projects in the Latin America and the Caribbean

region. It participates in a limited range of infrastructure lending transactions and its business model is based on having an efficient organization with a lean and effective core staff. At the same time, it is committed to effectively and comprehensively managing and minimizing E&S risk and ensuring that its projects are consistent with international standards, including the IFC Performance Standards and Equator Principles, which CIFI has adopted.

## MISSION AND VALUES

CIFI is a Panamanian Corporation whose mission is to provide advice and financing for infrastructure and energy projects in Latin America and the Caribbean that promote sustainable development in the region with a focus on serving small and mid-size infrastructure projects.

CIFI's business model is designed to respond to the client in an efficient manner by focusing on the assessment and mitigation of risks, aiming for a project that is technically, financially, socially, and environmentally viable. To date CIFI has evaluated over 500 transactions of which it has financed over 180, representing a total investment of more than \$1.5 billion.

CIFI's corporate values are the following:

- **Quality:** We add value to our customers through a service that combines deep knowledge and extensive experience.
- **Integrity:** We act per certain essential principles. This code of values has enabled CIFI to reaching the top in the sector.
- **Trust:** The experience accumulated since 2001 and the success achieved are the best guarantee for our customers.
- **Responsibility:** Fulfilling our obligations is an obsession. We work hard to fulfill the expectations placed in our company.
- **Professionalism:** has been instrumental in the success of CIFI and in the recognition it generates amongst its audiences.
- **Teamwork:** We offer creative and dynamic solutions that are only attainable through a fully attuned team.

## PRODUCTS AND SERVICES

### CIFI products include:

- Short and long-term senior loans;
- Subordinated loans as a form of mezzanine financing;
- Bridge financing;
- Revolving credit lines;
- Financial acquisitions;
- Credit guarantees and enhancements;
- Leasing transactions;
- Investment securities;

### CIFI services include:

- Structuring and syndication;
- Advisory services;
- Identification of investment opportunities; and
- Development of Public-Private Partnerships

## CIFI'S PORTFOLIO

In 2017, CIFI disbursed 14 new project loans and retained 30 carry-over project loans. Of the 44 projects of our portfolio, six are Category A and the remaining 38 are Category B, representing 14% and 86%, respectively, of CIFI's

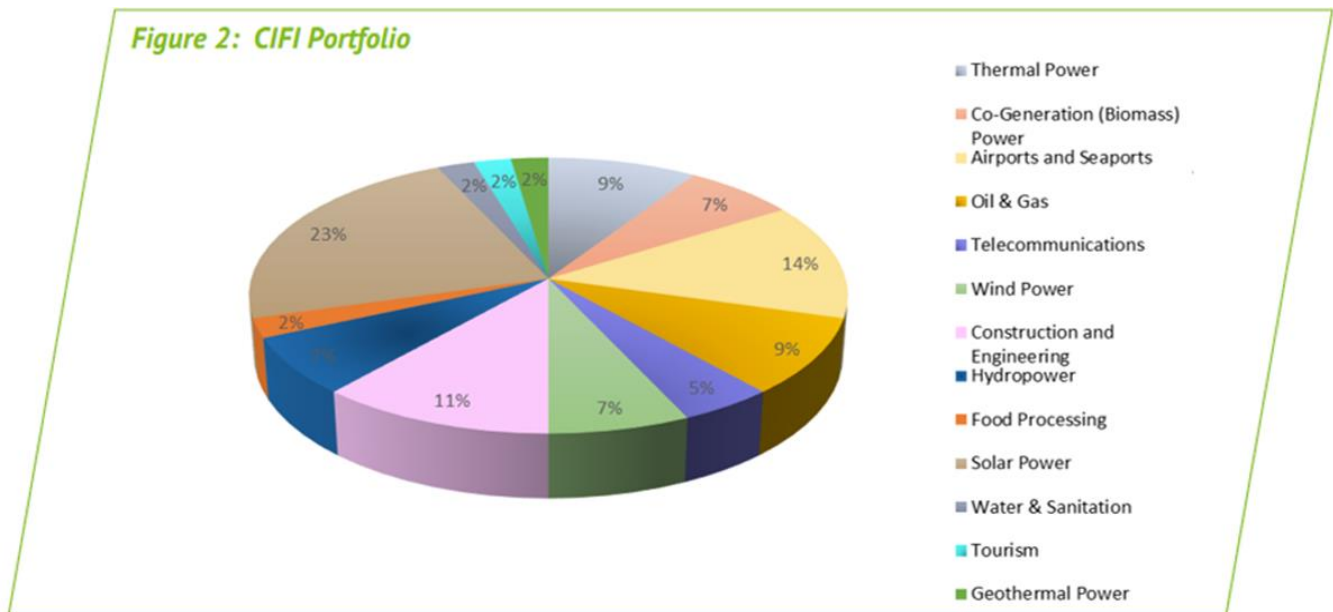
total exposure. None of the projects are Category C. Of the 44 projects, 20 were originated by CIFI, 20 by Multilateral Financial Institutions or Equator Principles Financial Institutions and four by other Financial Institutions.

**Table 1: Risk Categorization of 2017 Projects**

Classification	Category A	Category B	Category C	Total
Carry Over	3	27	0	30
New Project (New Loan)	3	9	0	12
New Project (Bridge Loan)	0	2	0	2
<b>Total</b>	<b>6</b>	<b>38</b>	<b>0</b>	<b>44</b>
Percent	14%	86%	0%	100%

CIFI's highest percentage of investment is in solar power (23%), followed by airports and seaports (14%), construction and engineering

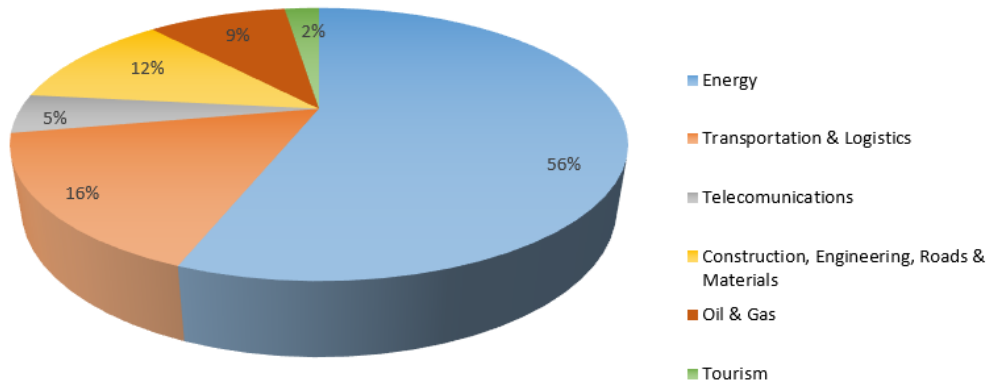
(11%), thermal power (9%), wind power (7%), hydropower (7%), and a co-generation and biomass power (7%) among others (Figure 2).



When grouped by infrastructure sector, 56% of CIFI's portfolio is energy investments, followed by transportation and logistics (16%) and 12% among construction, engineering, roads and

materials. The less dominant sectors in CIFI are oil and gas (9%), telecommunication (5%), and tourism (2%). (Figure 3).

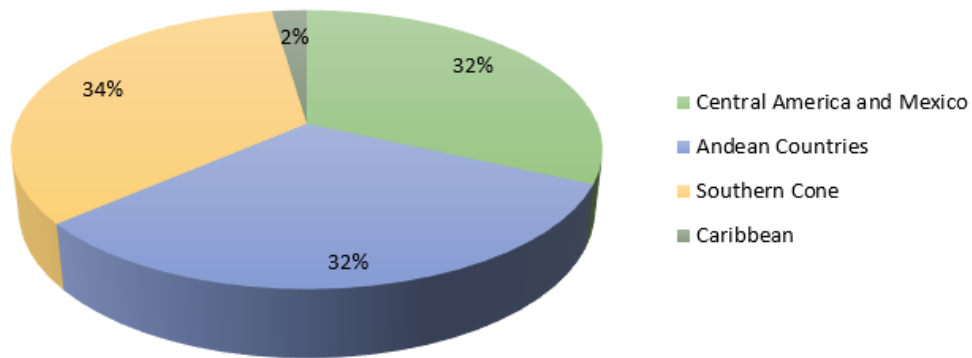
**Figure 3: CIFI Portfolio by Infrastructure Sector**



CIFI's investments are Southern Cone (34%), followed by lending in Andean countries (32%) and Central America and Mexico (32%).

In 2017, investments in the Caribbean region represented only 2%.

**Figure 4: CIFI Portfolio by Country and Region**



## OBJECTIVES OF THE AESPR

The Annual Environmental and Social Performance Report (AESPR) assesses CIFI's environmental and social (E&S) performance and compliance with its Environmental and Social Management System (ESMS) for the 2017 fiscal year (January through December). For the first time, the report has been prepared internally by CIFI's E&S team as a self-assessment of CIFI's alignment with its policies and to identify opportunities for continuous improvement and effectiveness in E&S risk management.

The review includes an analysis of the projects that CIFI was involved in during 2017, including new projects (i.e., loans disbursed during 2017), carry-over projects (i.e., loans retained from 2016), and closed projects (i.e., loans that ended in 2017). Please note that project loans that were appraised, approved by the Credit Committee, and reached financial closure, but were not disbursed in 2017 are not included in the AESPR.

## SCOPE OF REVIEW

The review is based on documented information collected and analyzed for all CIFI's projects, including new, carry-over and closed projects. The documentation reviewed for the AESPR includes the following for each project:

- Annual Monitoring Report (AMR);
- CIFI's Investment Summary and Environmental Review;
- Credit Proposal (CP);
- Executed Loan Agreement (ELA);
- Environmental and Social Action Plan (ESAP);
- Environmental and Social Due Diligence (ESDD) report;
- Environmental and Social Impact Assessment (ESIA);
- CIFI's Environmental and Social Questionnaire (ESQ);
- Manual, Policies, and Procedures (MPPs) of the client;
- Corrective Actions and Progress (SACAP) documents;
- Miscellaneous (MSC); and
- CIFI's Screen Form (SF).

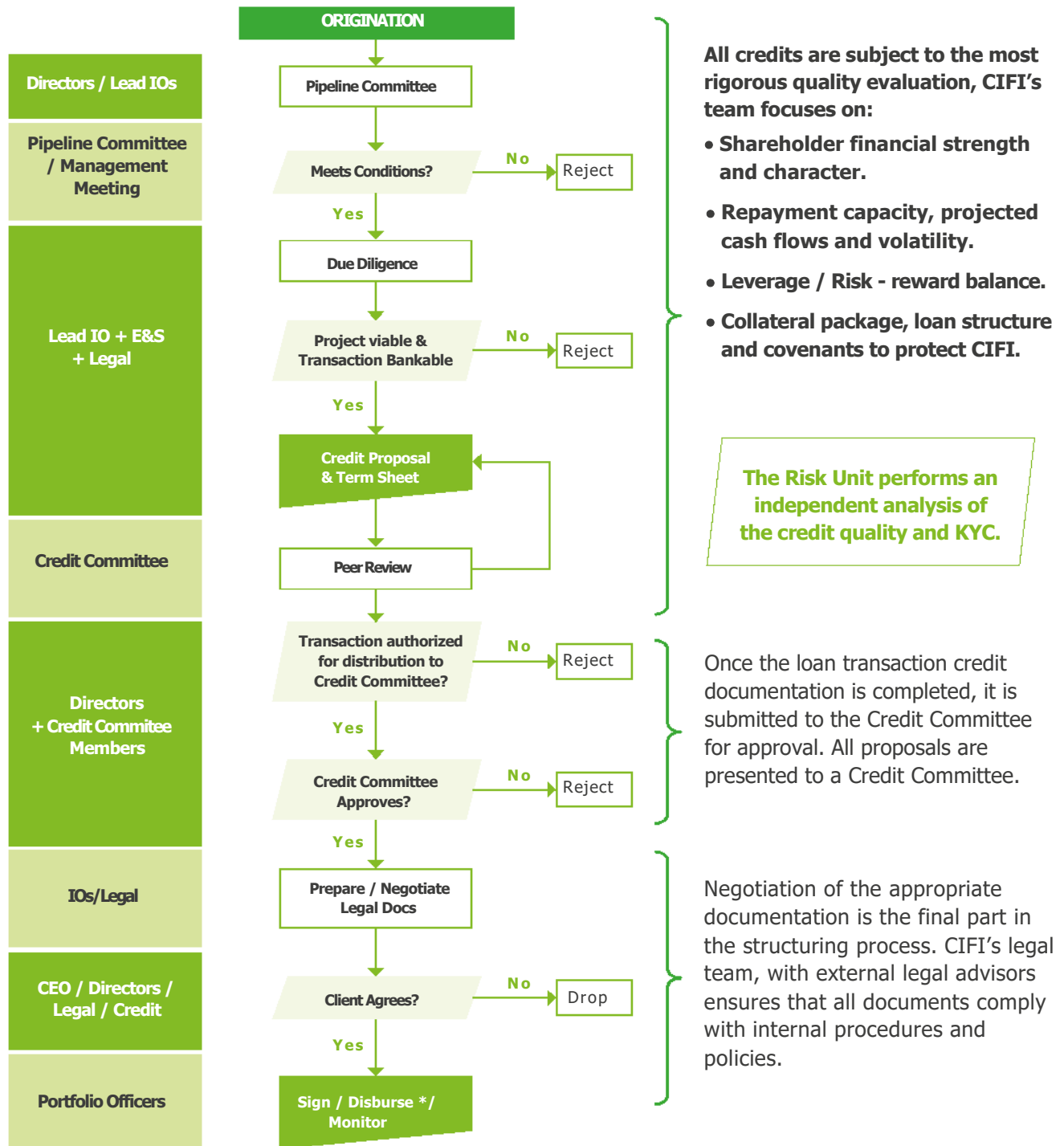
## PREVIOUS YEAR'S REVIEW

The ESMS has been integrated into the investment decision process, which includes the following steps: identification, pre-screening, screening and approval (or rejection) and portfolio E&S monitoring (See Figure 5). CIFI staff is aware of this process and follows

the ESMS requirements, which are embedded in the credit review process. While there are specific checkpoints to ensure that the process is followed, there is also enough flexibility to account for the realistic needs associated with different levels of project involvement (i.e.,

depending on the specific form and timing that CIFI’s project involvement takes). Moreover, CIFI continues receiving strong support from its upper management for E&S aspects of its portfolio risk management, and for the goal of taking an E&S leadership role in more of its investments.

**Figure 5. Investment Decision Process**



\*Only if all conditions precedents are fulfilled



Throughout 2017, CIFI conducted the following actions to improve its ESMS implementation:

- Increased the organizational capacity of its E&S Team from one to two staff members, and budgeted the hiring of an additional E&S Analyst for March 2017;
- Improved its tracking and reporting procedures for project monitoring;
- Standardized detailed covenant language in project contracts for which CIFI is the lead arranger (and in syndicated loans) to increase its leverage in the implementation process;
- Continued to hire several independent high level international E&S consultants to support the E&S Team during the environmental and social due diligence (ESDD) processes.
- CIFI's E&S team continue its proactive role within the Equator Principles Latin American Network to engage in new trainings, preparation of Terms of Reference for Consultants, and other important tasks to support the regional banks in their efforts to comply with the EPs standards.

Regarding the specific activities of E&S coordinators, we have:

- Both E&S coordinators have participated in three training opportunities that enabled them to have exchanges with other financial institutions. The first was the participation of the sustainability week organized by the IDB. The second, was the annual meeting of the Equator Principles Association. The third, was the IFC Community of Learning Workshop.

- CIFI's E&S Team, provided a half-day workshop in November 2017 for all CIFI staff (including administrative personnel) on CIFI's ESMS, E&S risk identification and management, E&S processes and procedures.

Table 2 summarizes the recommendations and observations received in the 2016 AESPR, which was prepared internally to assist CIFI in maintaining and improving its E&S performance and risk management through 2017. Most of the recommendations were fully implemented. Some recommended changes in CIFI's procedures regarding revisions of the ESMS were considered yet not implemented during 2017, while others are still under development, such as the public disclosure policy.

In addition, in the 2016 AESPR it was provided specific recommendations for new and carry-over projects, as well as general recommendations regarding CIFI's Annual Monitoring Reports to be completed by CIFI's clients. CIFI fully incorporated these recommendations – and other suggestions provided by lenders, shareholders, and independent consultants – in each of the new and carry-over projects.

Specific descriptions on actions taken for each project are embedded in the project reviews section for each project.

## CIFI ESMS PERFORMANCE REVIEW

### DEVELOPMENT OF THE ESMS

In 2005, CIFI adopted and implemented an ESMS framework 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), which was one of its shareholders until October 2013.

On April 6, 2007, CIFI adopted the Equator Principles and the ESMS was revised to reflect its requirements, which incorporate the IFC Performance Standards on Social and Environmental Sustainability and applicable World Bank Group Environmental, Health and Safety (EHS) Guidelines. These policies and guidelines address environmental, social, health and safety, and labor (ESHSL) concerns. In addition, CIFI's ESMS requires that all projects meet the E&S requirements of the host country.

In 2012 and 2013, CIFI made improvements to its ESMS, including revisions to fully align with the updated IFC Performance Standards (effective January 1, 2012) and Equator Principles III (effective June 4, 2013). This process included training on the revised IFC Performance Standards and Equator Principles, and the incorpo-

ration of updated review criteria applicable for appraisal in 2012 and going forward. In 2014, CIFI updated its E&S Mission and Policy and developed an overview of its ESMS to be disclosed to the public. The updates made to the ESMS in 2013 were implemented from 2014 to 2017. In 2017, CIFI revised its ESMS and in 2018 is undergoing the approval process. This updated version of the ESMS (version 8.0) includes revisions to the ESMS due diligence process and categorization matrix. Revisions to the ESMS derived from: i) Portfolio variations; ii) E&S organizational capacity; iii) new Shareholder's agreement; and iv) CIFI as lead arranger position.

Since 2009, CIFI has gradually been taking a more active role in transactions and is more frequently taking the role of the lead arranger in syndications. In 2017, CIFI continued adopting the business development strategy of becoming a direct originator of projects. Befitting its active role, CIFI continues to be committed to making its portfolio sustainable in addition to fully complying with E&S policies.

### ESMS OVERVIEW

Table 3, presents an overview of CIFI's ESMS as approved in February 2013 and implemented from 2014 to 2017. The credit review process examines the E&S aspects of a project, applying environmental and social due diligence (ESDD) to ascertain if the proposed project is likely to

meet CIFI's E&S requirements. Projects with serious environmental and related concerns and/or sponsors who show unwillingness to meet underlying E&S responsibilities are rejected. Where gaps are identified, the due diligence, as necessary, details specific corrective actions

with an implementation schedule designed so that the project achieves compliance with the applicable policies, guidelines, and standards in

a reasonable time frame. CIFI then conducts supervision/monitoring of projects to verify compliance with the loan requirements.

**Table 3: CIFI's Environmental and Social Management System**

Phase	Responsibility	E&S Activities
<b>PRE-SCREENING</b>	Pipeline Committee	Verify eligibility with CIFI's Exclusion List Determine Applicable Policy Approach Determine Transaction Type and preliminary Risk Category Initial review of E&S information Go/ no-go decision
<b>SCREENING AND DUE DILIGENCE (DD)</b>	Transaction Managers E&S Coordinator E&S Manager Managing Director	Provide E&S Questionnaire to client Review of E&S information Assign Project Category Confirm Transaction Type and Risk Category Determine <b>CIFI ESMS Screen (Risk)</b> <div style="display: flex; justify-content: space-around; margin-top: 10px;"> <div style="border: 1px solid red; padding: 5px; text-align: center;"> <b>High risk:</b> external DD                     </div> <div style="border: 1px solid orange; padding: 5px; text-align: center;"> <b>Medium risk:</b> internal / external DD                     </div> <div style="border: 1px solid green; padding: 5px; text-align: center;"> <b>Low risk:</b> internal DD                     </div> </div> Detail corrective actions and schedule (Environmental and Social Action Plan) Proposed E&S Covenants in Credit Proposal
<b>PEER REVIEW</b>	Origination, Supervision, Legal, Credit, and E&S	Review E&S information and proposed E&S Covenants
<b>APPROVAL</b>	Credit Committee	Approval/rejection by Credit Committee
<b>DISBURSEMENT</b>	Transaction Managers Corporate Attorney Managing Director E&S Manager E&S Coordinator	Prepare disbursement checklist Verify compliance with E&S conditions and covenants
<b>SUPERVISION/ MONITORING</b>	Portfolio Officers E&S Manager E&S Coordinator	Track E&S requirements per loan agreement Review client's Annual Monitoring Report Independent review of Category A (and some B) If non-compliant, CIFI takes actions based on Transaction Type (i.e., arranger) Procures independent AESPR

### 2.1.1. APPLICABLE POLICIES

CIFI's E&S Policies and Guidelines state that "all projects must comply with its Exclusion List, the Environmental Health and Safety (EHS) Guidelines of the World Bank (20052007), the International Finance Corporation's Performance Standards on Environmental and Social Sustainability (2012) and the Equator Principles." In addition, CIFI's Applicable Policy Approach/Applicable E&S Policies require compliance with several standards depending on CIFI's participation role, type of transaction, and involvement of other institutions.

As an Equator Principles financial institution (EPFI), CIFI is committed to following the Equator Principles to ensure that projects that are financed "*are developed in a manner that is socially responsible and reflect sound environ-*

*mental management practices.*"<sup>1</sup> CIFI has committed to apply the Equator Principles per its Applicable Policy Approach/Applicable E&S Policies. This practice is now aligned with the updated Equator Principles III. As per the Equator Principles, CIFI's E&S Policies and Guidelines require that their clients with projects in non-designated countries comply with the requirements of the IFC Performance Standards when CIFI is the arranger.<sup>2</sup>

Moreover, as CIFI collaborates in its transactions with both MFIs or Multilateral Development Banks (MDBs) and a range of other financial institutions, the relevant E&S policies for a project are, in part, dependent upon the partners in the deal and on the financial product that is being used.

### 2.1.2. CIFI'S RISK MANAGEMENT

CIFI's ESMS is designed to manage two main areas of risk exposure from transactions and underlying projects: environmental and social risk (i.e., risks to CIFI's financial sustainability resulting from reduction in asset value of underlying securities due to E&S liabilities, or increased probability of non-repayment of loans due to E&S issues); and reputational risk (i.e., potential damage to CIFI's reputation resulting from association with projects that

have significant public opposition or concerns, or projects with material E&S non-compliance that are not properly resolved).

Under CIFI's ESMS, all projects are categorized in accordance with the EPFI/IFC project categorization scheme, which assigns all projects a Category A, B, or C designation based on likely E&S risks and/or impacts. Table 4 presents a definition of each project category.

<sup>1</sup> The Equator Principles are 10 principles that lay out a process for EPFIs and the borrowers to follow. See full publication at: <http://www.equator-principles.com/index.php/ep3> [retrieved on May 18, 2017]

<sup>2</sup> Non-designated countries are those countries not included in the Equator Principle Association's list of countries deemed to have robust environmental and social governance, legislation systems and institutional capacity designed to protect their people and the natural environment. In Latin America and the Caribbean, only Chile is included in the list of designated countries.



**Table 4: Project Categorization**

Category A	Category B	Category C
Projects with potential significant adverse environmental and social risks and/or impacts that are diverse, irreversible, or unprecedented	Projects with potential limited adverse environmental and social risks and/ or impacts that are few, generally site-specific, largely reversible, and readily addressed through mitigation measures.	Projects with minimal or no adverse environmental and social risks and/or impacts.

In addition to the project categorization, which is intrinsic to the type of project, CIFI evaluates risk exposure based on transaction type, involvement in the transaction or partner financial institution, and development stage of the underlying project.

CIFI maps its transactions using an E&S Risk Categorization Matrix or “ESMS Screen,” which combines the E&S risk based on the project category (e.g., A, B or C) and reputational risk based on the perceived level of exposure to CIFI in the transaction and the development stage of the underlying project.

In 2017, CIFI as lead arranger, disbursed 1 corporate loans, 2 bridge loan, 1 project related corporate loan and 5 project finance loan. As participant, in the same year, CIFI joined Banks/MFI in 2 corporate loans and 3 projects

finance loan. As of December 31, 2017, 20 of CIFI’s outstanding loan portfolio projects were greenfield, representing 45% of all projects, 13 projects were expansions (30%), and 11 projects were refinancing (25%).

In 2017, CIFI’s Credit Committee approved 20 transactions, from which only three were classified as Category A, and 17 were categorized as B. Table 5 summarizes the status of loans in 2017.

**Table 5: Status of Loans Approved by the Credit Committee in 2017**

CIFI Risk Category	Loans Approved	Loans Disbursed
A	3	3
B	17	11
C	0	0

## TRAINING

CIFI’s staff responsible for E&S issues are required to attend environmental management courses specially designed for financial institutions, or other equivalent training, to educate them regarding the relevance and need for procedures for managing E&S issues in the project appraisal and supervision process.

In 2017, both E&S Coordinators were given three training opportunities which included professional development opportunities with other financial institutions. The first was the participation of the sustainability week organized by the IDB.

The second, was the annual meeting of the Equator Principles Association. The third, was the IFC Community of Learning Workshop.

In addition, in 2017, CIFI's E&S team conducted an afternoon training on E&S process and ESMS

revisions (including the categorization matrix) for all its staff. This training was also mandatory and had the participation of CIFI's upper management.

## DISCLOSURE AND TRANSPARENCY

CIFI's E&S disclosure and transparency requirements are achieved through its website ([www.cifi.com](http://www.cifi.com)) and through direct reports to its shareholders. CIFI's discloses its AESPR publicly on the website, except for sections that include confidential client information.

In addition, CIFI discloses its Equator Principles (EP) Report annually. Some aspects of the current disclosure and transparency policy are under review. CIFI is adapting its procedures to the needs of shareholders, the market and its portfolio.

## CONCLUSIONS

According to the internal environmental and social assessment, in 2017 CIFI has improved its E&S performance compared to calendar year 2016. This improvement is related to the following factors:

- An increase in organizational capacity of the E&S team with the hiring of an Environmental and Social Analyst;
- CIFI's dedication to improve its ESMS, its categorization matrix, revised and replaced for the first time since 2005. The entire revision was done by E&S team in consultation with staff and experienced personnel. A sign of the expertise strength of the E&S team
- CIFI's E&S personnel continued prioritizing site visits, especially during Due Diligence. Follow up efforts, such as virtual meetings, increased compared to 2016;

- CIFI E&S team has organized an annual training for all its staff.
- CIFI's active role in the Equator Principles Association, leading the working group on Cross Sector Biodiversity Initiative, actively participating in the Climate Change Working Group, and remaining part of the Latin American Financial Institutions cluster.

The intensive work that the E&S team conducted in 2017 resulted in the following improvements that will begin in 2018: i) the creation of the Environmental, Social and Governance (ESG) Department as a management unit, ii) the allocation of resources for an additional E&S specialist, and iii) the development of an ESG Software to improve efficiency on the new department processes.

