

ENVIRONMENTAL & SOCIAL ANNUAL REPORT

Cifi

2018

CORPORACIÓN INTERAMERICANA
PARA EL FINANCIAMIENTO
DE INFRAESTRUCTURA, S.A





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“We look forward to transfer key actions implemented during 2018 into successful results to all the projects and initiatives in which CIFI participates”.

Cesar Cañedo-Argüelles
Chief Executive Officer

I am pleased to present the Annual Environmental and Social Performance Report (AESPR) 2018, as a great representation of how CIFI has integrated environmental and social (E&S) actions and policies in its investment cycle. Thus, achieving alignment with the identification and mitigation of environmental and social risks in all the projects that the organization grants financing.

Our market, the region and our society demand that we work comprehensively to address global fundamental issues such as climate change, indigenous consultation, gender equality, and the protection of biodiversity, to name a few. Consequently, CIFI has been growing and expanding its vision beyond risk to serve as a driving force creating positive impact in all our ventures.

In January 2018, as a natural step to continue the consolidation of a long-standing commitment, CIFI created the Environment, Social and Governance (ESG) Department joining our senior management. The decision is coherent with the global trend, and the organization's long-term vision, both having a holistic impact on our operations.

The present Annual Environmental and Social Report 2018, consolidates the management and results of actions carried out through the implementation and continuous improvement of the Environmental and Social Management System (ESMS).

We are convinced that this vision, which we strive every day to materialize, constitutes the backbone of our social license to operate in the Latin American and the Caribbean region, representing also our differentiating element in the financial sector.

This report reflects our commitment to the continuous improvement of our ESG strategy, since we look forward to transfer key actions implemented during 2018 into successful results to all the projects and initiatives in which CIFI participates.

ENVIRONMENT, SOCIAL, AND GOVERNANCE POLICY

CIFI is committed to mainstream sustainability in its operations by building environmental, social and governance factors into the investment process. CIFI will perform a comprehensive ESG risk assessment; propose mitigation strategies to minimize such risks and impacts; and guide our clients through its implementation.

CIFI is committed to fostering sustainable development in the region by maximizing positive environmental and social outcomes whenever possible. To contribute to this, CIFI forbids financing to any project or company whose primary business activities are listed in our Exclusion List.

CIFI recognizes Climate Change as a global challenge and anticipates any possible contribution from the private sector as key to sustain economic, environmental, and social wellbeing. To that end, CIFI applies IFC Performance Standards in all its financing, is committed to promote a low carbon economy, and to report GHG emissions accurately.

CIFI is a committed agent of progress in emerging markets of the Americas, understanding the value of respecting human rights and gender equality as key drivers of sustainable development in our region.

CIFI is committed to implementing principles to structure and process the direction and control of its performance, showing strong corporate leadership. To this end, CIFI will secure the necessary resources to constantly improve our E&S Management System and communicate its commitments to all its stakeholders.

EXECUTIVE SUMMARY

In 2018, CIFI consolidated its commitment with environmental and social matters by creating the Environment, Social and Governance Department (ESG) as a management unit within the organization. The newly created department had the ambitious goal of reviewing and updating all governance instruments, as well as developing the appropriate tools to implement the Environmental and Social Management System (ESMS). The process included updating the following: i) ESG policy, ii) ESMS V 8.0, iii) E&S Risk Scoring System, iv) E&S Term Sheet, v) E&S Protocol for Portfolio Monitoring and vi) ESG software.

In addition to developing a new ESG strategy with key partners such as responsAbility, the department took charge of communications. CIFI hired an international consultancy firm to design and develop a Communications and Public Relations Strategy that focused on the relationship with our stakeholders.

A Crisis Management Plan was developed to ensure that reputational impacts from projects and clients were addressed in a swift manner. Moreover, the strategy is part of broader efforts to improve transparency and accountability, especially in the environmental and social arena given the context and sector in which CIFI operates.

CIFI CONTINUES TO FOSTER SUSTAINABLE DEVELOPMENT IN LATIN AMERICA AND THE CARIBBEAN WITH A SOLID PERFORMANCE ON ESG, IDENTIFYING AND MITIGATING RISKS IN ALL ITS FINANCING.

The continuous improvement will lead the way for CIFI to become a successful example of responsible financing and impact investment.



ABOUT LAST YEAR

MOST RELEVANT ACTIONS DURING 2018

NEW ESG DEPARTMENT IN 2018.

The E&S unit within the Risk/Portfolio department separated to become the Environment, Social and Governance (ESG) department.

A comprehensive ESG Strategy at a corporate level is being developed with responsAbility and SustainAbility.



NEW ESG POLICY AND GENDER EQUALITY POLICY.

**AN INNOVATIVE TAILOR-MADE ESG
SOFTWARE IS UNDER DEVELOPMENT
AND IT WILL BE LAUNCHED IN 2019.**

GOVERNANCE POLICIES WERE REVIEWED AND IMPROVED FOR ROBUSTNESS.

The first Corporate Social Responsibility Report was published as part of our stakeholder engagement plan.

WHO WE ARE

CIFI is a regional non-bank financial institution currently based in Panama that began operations in July 2001 in Washington DC. The unique shareholders structure include: multilateral financial institutions, banks and funds.

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.

Furthermore, CIFI is committed to effectively and comprehensively, managing and minimizing E&S risk and ensuring that its projects are consistent with international standards. CIFI has adopted the IFC Performance Standards on E&S Sustainability and the Equator Principles.

TO DATE CIFI HAS PARTICIPATED FINANCING MORE THAN 191 TRANSACTIONS REPRESENTING A TOTAL INVESTMENT OF \$1.6 BILLION.

31.97%

Norfund

11.34%

CaixaBI

11.34%

Banistmo

11.34%

BCIE

7.94%

IFC International Finance Corporation
WORLD BANK GROUP

6.80%

Itaú

6.80%

FINNFUND

6.80%

CARIBBEAN DEVELOPMENT BANK

5.67%

BANCO PICHINCHA

OUR MANAGEMENT TEAM



CESAR CAÑEDO-ARGÜELLES
CHIEF EXECUTIVE OFFICER

25 years of experience in finance, infrastructure and investment banking.

Led the global development of CIFI, since its beginning, especially involved in consulting, finance and fund management.

Was appointed CEO in 2015, leading the company's growth in the region.

Master in Economics & Financial Management and Master in Finance.

CIFI's founding member.



JOSE SALAVERRIA
GENERAL COUNSEL

25 years of experience in cross-border investments and infrastructure.

Juris Doctor, Master in International Comparative and Commercial LAW (LL.M), and Master in Business Administration.

CIFI's founding member.

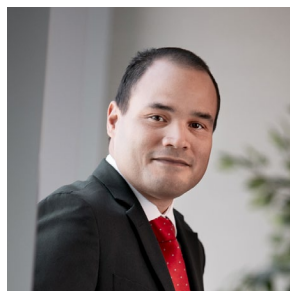
OUR MANAGEMENT TEAM



CARLA CHIZMAR
HEAD OF ENVIRONMENT,
SOCIAL AND
GOVERNANCE

15 years of experience in Latin America focused on environmental matters and sustainable development.

Master in Environmental Sciences.



ARTURO DE BERNARD
CHIEF FINANCIAL OFFICER

20 years of experience in finance, banking, capital markets and treasury operations in Latin America and Europe.

Master in Finance and Business Administration.

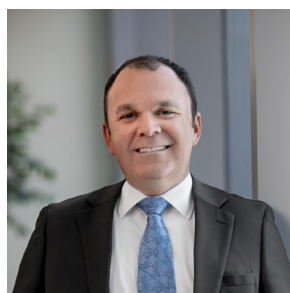


GARY GOMEZ
MANAGING DIRECTOR
STRUCTURED AND COR-
PORATE FINANCE

10 years of experience in Project Finance and Corporate Finance in Latin America.

USD 1.5 BN in closed deals.

Master in Entrepreneurship and Strategy.



FABIO ARCINIEGAS
CHIEF RISK OFFICER

25 years of experience in risk management for financial institutions and multilaterals in emerging markets.

Civil Engineer and PhD in Statistics.

MISSION AND VALUES



MISSION

CIFI is an advisor and provides financing for infrastructure and energy projects in Latin America and the Caribbean that promote sustainable development in the region.

BUSINESS MODEL

CIFI's business model is designed to give response to the client in an efficient manner by focusing on the assessment and mitigation of risks, aiming at a project that is technically, financially, socially, and environmentally viable.

MISSION AND VALUES

CORPORATE VALUES



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 reach the top in the sector.



TRUST

The experience accumulated since 2002 and the success achieved are the best guarantee for our customers.



RESPONSIBILITY

Fulfilling our obligations is an obsession. We work hard not to disappoint 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 SPECIALIZES IN THREE KEY AREAS:

INFRASTRUCTURE

MIDDLE-MARKET

LATIN AMERICA
AND THE
CARIBBEAN

PRODUCTS

Revolving
Credit Lines

Project
Finance
Loans

Bridge
Loans

Corporate
Loans

Financial
Acquisitions

Credit
Guarantees
and
Enhancements

Mezzanine
Loans

Subordinated
Loans

SERVICES

Structuring
and
Syndication

Advisory

Loans

INVESTMENT CYCLE

Our credits are subject to the highest evaluation standards.

During the due diligence stage, the team focuses on:

- Financial strength and shareholder character
- Repayment capacity, projected cash flow and its volatility
- Leverage
- Collateral package, structure of credits and financial covenants that protect CIFI
- E&S risks and impacts



RISK MANAGEMENT

In finance, risk is defined as the possibility of an event occurring that will have a negative impact on the institution's financial results, directly or indirectly, affecting business continuity and service quality as well as threatening its long-term sustainability.

The main risks identified are:

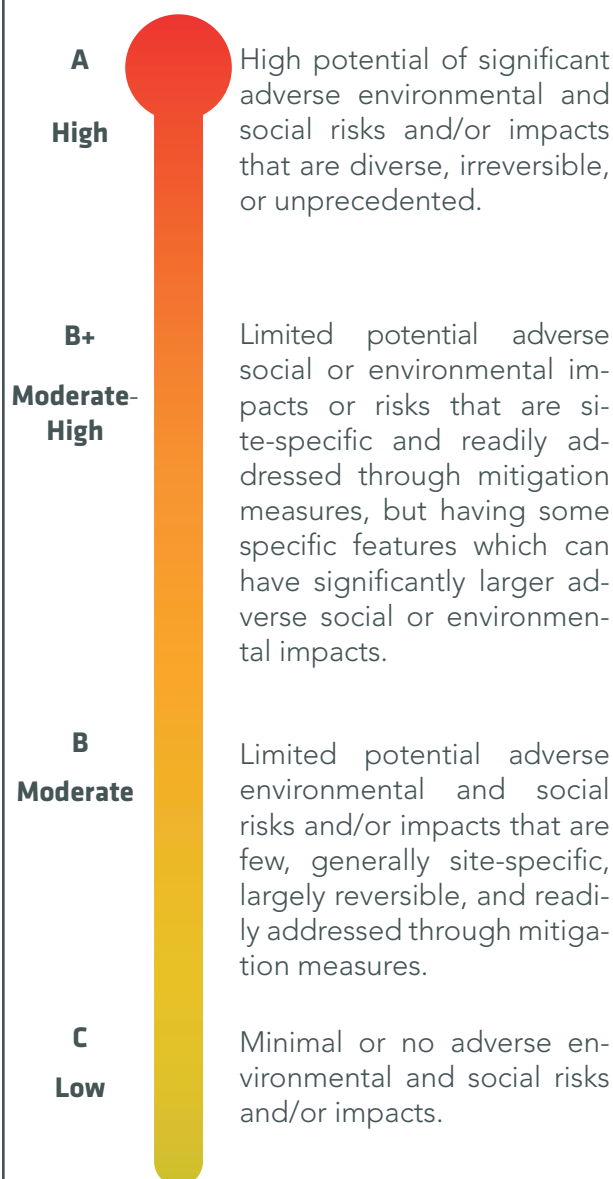
Environmental and Social - defined as the reduction in asset values due to environmental and social accountabilities, e.g. cleanup costs, lawsuits, fines, etc. that might result in credit risks where the client is not able to repay the loan;

Liability - legal complications, fees, and/or fines in rectifying social and environmental damages by virtue of taking possession of collateral;

Credit Risk - defined as the risk of default on a debt that may arise from a borrower failing to make required payments due to environmental and social events, e.g. construction and operations interruption;

Reputational - which is the risk of loss resulting from damages to a client's image in the media, with the public, with the business community, and the spillover effect of being associated with projects/clients that could cause environmental and social negative impacts.

The E&S risk categorization of a project/transaction is assigned by the scoring system prior to credit committee.



ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM

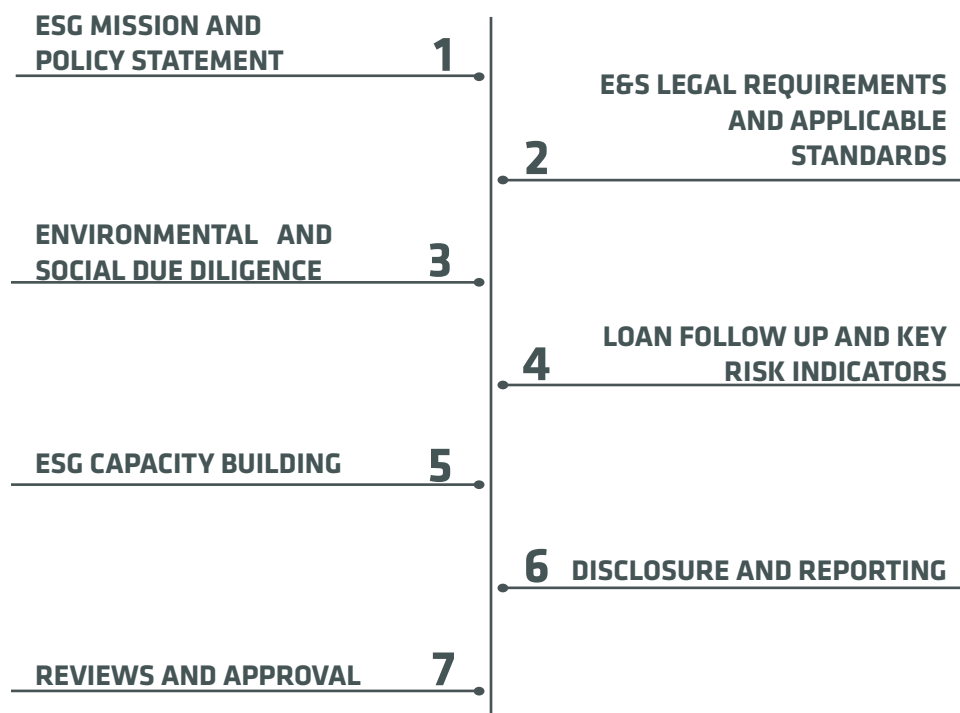
In finance, an Environmental and Social Management System (E&S Management System) is a set of policies, procedures, tools and internal capacity to identify and manage a financial institution's exposure to the environmental and social risks of its clients and investors.¹

CIFI's robust E&S Management System is fully integrated into the investment cycle. To contribute to an overall effective E&S performance, the responsibilities for oversight and implementation are integrated within five main teams: Senior Management team, Project & Structured Finance, Environment, Social and Governance, Portfolio, and Legal.

In January 2018 CIFI created an independent Environment, Social and Governance Department.

One of its main responsibilities is to identify and mitigate environmental and social risk throughout the operations.

The ESG department is keen on developing a culture of responsible investing and the creation of positive impact.



¹ https://firstforsustainability.org/risk-management/managing-environmental-and-social-risk-2_2/managing-environmental-and-social-risk-2_2_2/what-is-an-esms/

APPLICABLE STANDARDS

CIFI's ESG policies and guidelines state that all projects must comply with its Exclusion List, the Environmental Health and Safety (EHS) Guidelines of the World Bank (2005-2007), the IFC Performance Standards on Environmental and Social Sustainability (2012) and the Equator Principles III. In addition, applicable ESG policies might require compliance with several standards depending on CIFI's participation role, type of transaction, and involvement of other institutions, and environmental, social and labor laws in each country where CIFI finances projects.

As an Equator Principles Financial Institution, CIFI is committed to ensure that projects that are financed and developed through socially and environmentally responsible management practices. CIFI has committed to apply the Equator Principles per its Applicable Policy Approach to all its portfolio.



PORTFOLIO

Our portfolio is mainly concentrated in the Andean countries accounting for 41% of the projects, followed by Central America and Mexico with 36%, and the Southern Cone with 21%. As of December 2018, the Caribbean portfolio was only 2% of the projects. **To increment the participation in this region CIFI is managing a fund of US\$300 MM in the Dominican Republic, and building key partnerships with Caribbean banks. In addition, an office in Peru will be inaugurated by 2019 to increment origination efforts in the Southern cone.**

EXPOSURE BY REGION



PORTFOLIO

Exposure by Sector

26% 

Solar Power

15% 

Airports and
Seaports

9% 

Roads and
Railroads

6% 

Co-generation
(biomass)

6% 

Gas & Oil

5% 

Hydro Power

5% 

Wind Power

5% 

Construction &
Engineering

5% 

Infrastructure
Sector

4% 

Thermal
Power

4% 

Construction
Materials

3% 

Water &
Sanitation

3% 

Telecommunications

2% 

Geothermal

2% 

Logistical Centers
and Others

44% is renewable energy

IMPACT FINANCING

ENSURE HEALTHY LIVES AND PROMOTE WELL-BEING FOR ALL AT ALL AGES

Employee's Benefits Program focuses on health and wellbeing. The main initiatives of 2018 on this matter were: •Medical visits •Health talks •Disease control program •The Pink Ribbon and Blue Awareness Campaign •Vaccination days (all these initiatives were provided in-house to facilitate the access to those benefits to our staff) •Health and life insurances •Paid maternity and paternity leave.



QUALITY EDUCATION

CIFI staff invested 60 hours teaching classes on financial education and entrepreneurship to elementary students. The students were part of a school located at a community with high social risk within CIFI's area of influence. It is a joint program with Junior Achievement, a non-profit organization with presence in 124 countries.

ACHIEVE GENDER EQUALITY AND EMPOWER ALL WOMEN AND GIRLS

To guarantee gender equality, CIFI carried out several initiatives to strengthen the female role in the business environment:

- Women career paths were identified to improve their opportunities within the organization.
- Women's salary gap analysis was made in order to conduct adjustments if needed.
- A Gender Equality Policy was developed and approved.
- Currently, women are **50%** of our workforce



IMPACT FINANCING



ENSURE ACCESS TO AFFORDABLE, RELIABLE, SUSTAINABLE AND MODERN ENERGY

44% of the portfolio corresponds to clean energy. With 23 renewable energy projects including solar power, wind power, hydro power, geothermal and co-generation (biomass) power. Total installed capacity of the renewable energy projects financed is **732 MW**.

PROMOTE INCLUSIVE AND SUSTAINABLE ECONOMIC GROWTH, EMPLOYMENT AND DECENT WORK FOR ALL

50% of the portfolio reported 17,028 jobs generated and sustained in 2018.

REDUCE INEQUALITY WITHIN AND AMONG COUNTRIES

CIFI's investment process requires the implementation of an anonymous Grievance Mechanism that provides an opportunity for employees and community's stakeholders to express their grievances and obtain solutions.

15 projects in our portfolio reported **36% jobs for women in male-dominated sectors**, thus contributing to reduce inequality, economic dependence, while promoting women empowerment, and a better quality of life.

BUILD RESILIENT INFRASTRUCTURE, PROMOTE SUSTAINABLE INDUSTRIALIZATION AND FOSTER INNOVATION

Diversified sectors and development in multiple industries is part of CIFI's strategic business plan. As an example, telecommunications represented a total investment of USD \$37.5MM in 2018, contributing to improve connectivity and access to the latest technology in Brazil, Argentina and Bolivia.

IMPACT FINANCING

MAKE CITIES INCLUSIVE, SAFE, RESILIENT AND SUSTAINABLE

CIFI's headquarters are in a LEED® Gold Certified building, with a "Green Office Concept". CIFI is an active member of the Equator Principles Association since 2007 and is committed to apply the International Finance Corporation's (IFC) Environmental and Social Performance Standards in all projects. CIFI's financing contributed to:

- The construction of **347.8 km** of new roads.
- 1.7 million m3** of effluents were pre-treated in a Brazilian facility benefitting **1,148,000 clients** in the Sao Paulo Municipality.
- Immigrant farmers received land ownership titles in an agribusiness project thanks to the correct implementation of the local regulations.

TAKE URGENT ACTION TO COMBAT CLIMATE CHANGE AND ITS IMPACTS

During 2018, **1.2 million of tCO₂e** were avoided, this is equivalent to the CO₂ emissions from **150,000 homes'** energy use for one year. This positive contribution to the planet comes from renewable energy projects financed by CIFI.



IMPACT FINANCING

SUSTAINABLY MANAGED FORESTS, COMBAT DESERTIFICATION, HALT AND REVERSE LAND DEGRADATION, HALT BIODIVERSITY LOSS

CIFI participated in reforestation efforts with Panama's initiative Alliance for the Million Hectares where more than 1,000 trees were planted in one day.

CIFI's Exclusion List explicitly prohibits financing companies or projects that involve:

- International phase out or bans, such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, PCB's, wildlife or products regulated under the Convention on International Trade in Endangered Species of Wild Fauna and Flora;
- Drift net fishing in the marine environment using nets more than 2.5 km. in length;
- Commercial logging operations for use in primary tropical moist forest;
- Production or trade in wood or other forestry products other than from sustainably managed forests;
- Cross-border trade in waste and waste products, unless compliant with the Basel Convention and the underlying regulation;
- Destruction of High Conservation Value areas.

PROMOTE JUST, PEACEFUL AND INCLUSIVE SOCIETIES

CIFI's exclusion list prohibits:

- The production or activities involving harmful or exploitative forms of forced labor or harmful child labor;
- The production or trade in weapons and munitions;
- Pornography and/or prostitution;
- Racist and/or anti-democratic media.

Stakeholder consultations and social license to operate are part of CIFI's commitment. Free Prior and Informed Consent (FPIC) is mandatory for projects involving impacts to indigenous communities. In areas of social conflict, CIFI requires a Human Rights approach on the due diligence process, especially when vulnerable groups are identified.



IMPACT FINANCING

REVITALIZE THE GLOBAL PARTNERSHIP FOR SUSTAINABLE DEVELOPMENT

Strategic partnership with responsAbility and SustainAbility to develop a comprehensive ESG Corporate Strategy that positions CIFI as a leader in the application of best sustainable investment practices in the regional market.



CAPACITY BUILDING

The ESG team is encouraged to participate in environmental and social management courses especially designed for financial institutions. CIFI is also committed to train its employees continuously in all areas to promote professional development.

These training spaces are given internally between teams, and externally with local and international organizations. CIFI's priority is to provide opportunities and tools for its employees so they can develop to their fullest, in a highly competitive, specialized work environment with a global mindset.



Furthermore, given CIFI's expertise in financing infrastructure and energy, sharing value through knowledge, has been crucial since its foundation. Therefore, CIFI actively participates in national and international events to share its experience, success stories, opinions and expertise.

Considering CIFI's track record and years of work in the region, by participating in these events, the company fosters a vision that supports business sustainability and responsible financing. The following capacity building opportunities were offered to the staff in 2018:

OUR TRAININGS

- Mainstreaming ESG into Portfolio follow up.
- Corporate Governance: Overview and Revision of Origination/Investment Process.



MMG Tower, Costa del Este, 13th Floor, Office 13A
Roberto Motta Avenue
Panama, Republic of Panama
Telephone: +507-833-8580

www.cifi.com