

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

CIFI 2014 Annual Environmental and Social Performance Report

For confidentially reasons, CIFI prepared this executive summary (a limited version of the full report). The full version of the AESPR was prepared by ERM.

EXECUTIVE SUMMARY

In July 2015, Environmental Resources Management, Inc. (ERM) prepared the Annual Environmental and Social Performance Report (AESPR) for CIFI's 2014 fiscal year (FY) (January through December 2013). CIFI presents the following executive summary addressing the main findings.

The AESPR reports on the performance of CIFI's Environmental and Social Management System (ESMS). It is an external and independent review that assesses alignment with applicable internal policies and identifies opportunities for continuous improvement and for increasing institutional effectiveness of environmental and social risk management.

CIFI is a regional non-bank financial institution that began operations in July 2002. Its net worth (paid-in capital plus retained earnings and reserves) is USD\$ 86.9 million (M) and it is funded through international bank financing (currently USD\$ 150.9 M). CIFI specializes in providing debt financing for private sector sponsored infrastructure projects in the Latin American and the Caribbean region. It participates in a limited number of infrastructure lending transactions and its business model is based on having an efficient organization with a lean and effective core staff.

The AESPR includes an analysis of the projects in which CIFI was involved during 2014, including projects retained from 2013, referred to as 'Carry Over' (CO) projects; and projects disbursed during 2014, referred to as 'New Projects' (NP). During this review period, CIFI's portfolio retained 26 CO projects from 2013 and disbursed 5 NPs. Of CIFI's 31 current projects, 3 are Category A the remaining 28 are Category B, representing 10% and 90% respectively of CIFI's total exposure. None of CIFI's projects were designated as Category C. Of these 31, 9 projects were originated by CIFI; 20 by MFIs or EPFIs (other than CIFI) and 2 by other institutions. As part of the review, ERM also conducted an office visit to CIFI on June 11, 2015 to better understand and assess the effectiveness of implementation of its ESMS. The visit focused on an extended interview with CIFI's EHS staff.

Since 2009, CIFI has gradually been taking a more active role in its transactions, and is more frequently taking the role of the lead arranger in syndications. During FY14, CIFI continued adopting the business development strategy of becoming a direct originator of projects. As appropriate for this leadership role, CIFI continues to be aggressively committed to making its portfolio sustainable and to fully reflect applicable environmental and social policies (i.e., IFC Performance Standards, IFC PS, and Equator Principles, EP). Accordingly, CIFI's ESMS was substantially updated in 2013; and in 2014 the updates were

fully implemented. No major updates were made to the ESMS in 2014, except for the development of a new E&S Policy document and the improvements in the project documentation (e.g., updates in the Semi-annual monitoring report, development of an E&S closing summary). Additionally, in 2014 CIFI:

- Increased the organizational capacity of its E&S team;
- Improved its tracking and reporting procedures for project monitoring;
- Incorporated more detailed covenant language in the project's contracts where CIFI is the lead arranger so as to increase its leverage in the implementation process;
- Completed training on IFC PS and EP with particular emphasis on high risk E&S impacts and the sector where CIFI usually participates; and
- Contracted several E&S consultants to support the E&S team during the Environmental and Social Due Diligence (ESDD) process.

In 2014, CIFI's ESMS was aligned with applicable standards. The ESMS has been fully integrated into the investment cycle (identification, pre-screening, screening and approval (or rejection) process and portfolio E&S monitoring). CIFI staff is well aware of this process and follow 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 the realistic needs associated with different modes of project involvement, i.e. depending on the specific form and timing that CIFI's project involvement takes. Moreover, during FY 2014 CIFI continued receiving strong support from its upper management regarding the environmental and social aspects of CIFI's portfolio risk management, and its goal of taking an E&S leadership role in more of its investments.

Based on ERM's review of CIFI's ESMS implementation, the following recommendations and observations are provided to assist CIFI in maintaining and further improving its E&S performance and risk management program:

1. Periodically evaluate the organizational capacity of the E&S team in terms of personnel dedicated to implementing the ESMS;
2. Continue providing the E&S team with training on the most relevant and high risk environmental and social issues for CIFI's transactions;
3. Continue prioritizing ESMS implementation efforts on projects where CIFI is the arranger, as well as on higher risk projects (e.g., A's and B's in higher risk sectors or new projects originated by non-MFI and non-EPFI entities) and reaching out to external due diligence consultants when necessary;

4. Continue utilizing the current tracking matrix to record information on the status of the projects and the implementation of recommendations;
5. Continue working proactively with portfolio clients requesting Environmental and Social monitoring information early during the fiscal year (e.g., October) to improve on timing of information flow, especially if prepayment or repayment is expected in the near term;
6. Continue adopting preventive measure to facilitate information flow to CIFI for new projects;
7. Continue the Semi-Annual ESMS Internal Compliance reviews;
8. Update the electronic documentation system to reflect the changes made in the ESMS in 2013; and
9. Finalize the process for publicly disclosing its ESMS via the publication of the ESMS overview, Exclusion List and other elements to allow potential borrowers and stakeholders to understand CIFI's E&S risk management approach and process.