

# CIFI 2015 Annual Environmental and Social Performance Report

*July 15, 2016*



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

## **CIFI 2015 Annual Environmental and Social Performance Report**

**For confidentiality 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*

This report was prepared for Corporación Interamericana para el Financiamiento de Infraestructura S.A. (CIFI) by Environmental Resources Management, Inc. (ERM). It constitutes CIFI's Annual Environmental and Social Performance Report (AESPR) for the 2015 fiscal year (January 1 through December 31, 2015). CIFI is a regional non-bank financial institution that began operations in July 2002. CIFI's total equity (share capital, additional paid-in capital, reserves, and retained earnings) was US\$89.6 million and net loans payable (funding through international bank financing) was US\$180.7 million as of December 31, 2015.<sup>1</sup> 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 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 reviews CIFI's implementation of their 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 (E&S) risk management

The AESPR also reviews CIFI's application of the ESMS for the projects that were active in 2015, including project loans disbursed in 2015 (new projects) and project loans retained from 2014 (carry over projects). In 2015, CIFI disbursed loans to six new projects and retained 29 carry over project loans for 27 separate projects. Of these 33 active projects, three are Category A and the remaining 30 are Category B, representing 9.1% and 90.9%, respectively, of CIFI's total exposure. None of the projects are Category C. Of the 33 projects, 14 were originated by CIFI, 17 by Multilateral Financial Institutions (MFIs) or Equator Principles Financial Institutions (EPFIs) other than CIFI, and two by other institutions.

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. In 2015, 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 E&S standards (i.e., the IFC Performance Standards and the Equator Principles). CIFI's ESMS was substantially updated in 2013, and the updates were fully implemented in 2014 and 2015. No major updates were made to the ESMS in 2015.

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(1) CIFI's 2015 Annual Financial Report.

It is ERM's opinion that CIFI's ESMS was aligned with applicable standards throughout the 2015 reporting period. The ESMS has been fully integrated into the investment cycle (pre-screening, screening and due diligence, and post-investment monitoring and oversight). 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 for different modes of project involvement (i.e., depending on the specific form and timing that CIFI's project involvement takes). In addition, during the reporting period, CIFI continued receiving strong support from its upper management in 2015 regarding the E&S 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. Finalize the process for publicly disclosing the ESMS via the publication of the ESMS overview, Exclusion List, and other elements to allow potential borrowers and stakeholders to better understand CIFI's E&S risk management approach and process.
2. Provide both new and existing clients with CIFI's E&S Monitoring Report template. Ensure (when CIFI is the arranger) or request (in coordination with the lead arranger, when CIFI is not) that it is adequately filled out to allow CIFI to assess the projects' E&S performance and alignment with lender requirements. If the client does not utilize the template, ensure or request that externally or internally produced reports covers all of the topics in the template and are otherwise adequate.
3. Continue to periodically evaluate the organizational capacity of the E&S Team to implement the ESMS;
4. Continue providing the E&S Team with training on the most relevant and high risk E&S issues for CIFI's transactions;
5. Continue prioritizing ESMS implementation efforts on projects where CIFI is the arranger, as well as on higher risk projects (e.g., Category A and B projects in higher risk sectors and new projects originated by non-MFI and non-EPFI entities), and continue retaining external due diligence consultants when necessary;
6. Continue utilizing the current tracking matrix to record information on the status of projects and the implementation of recommendations;
7. Continue working proactively with clients to obtain E&S monitoring information early during the fiscal year (e.g., October) to improve the

timing of information flow, especially if prepayment or repayment is expected in the near term; and

8. Continue to produce and improve the E&S Semi-Annual Reports.

In addition to reviewing CIFI's implementation of its ESMS, ERM also reviewed CIFI's application of the ESMS for each of its six new projects and 27 carry over projects for 2015. Project-specific recommendations are provided in Section 5 (which is not publicly disclosed). Most of the project-specific recommendations, however, fall into the following three categories:

1. Ensure (when CIFI is the arranger) or request (in coordination with the lead arranger, when CIFI is not) that the borrower submits an E&S Annual Monitoring Report (AMR), or more frequent E&S Monitoring Reports that cover the entire year, that is adequate for CIFI to assess the project's E&S performance and alignment with lender requirements.
2. Ensure or request that the borrower submits pending documents required by the project's Environmental and Social Action Plan (ESAP).
3. Request additional E&S information from borrowers regarding priority issues identified in the project's Environmental and Social Due Diligence (ESDD), ESAP, or most recent AMR or more frequent E&S Monitoring Report.