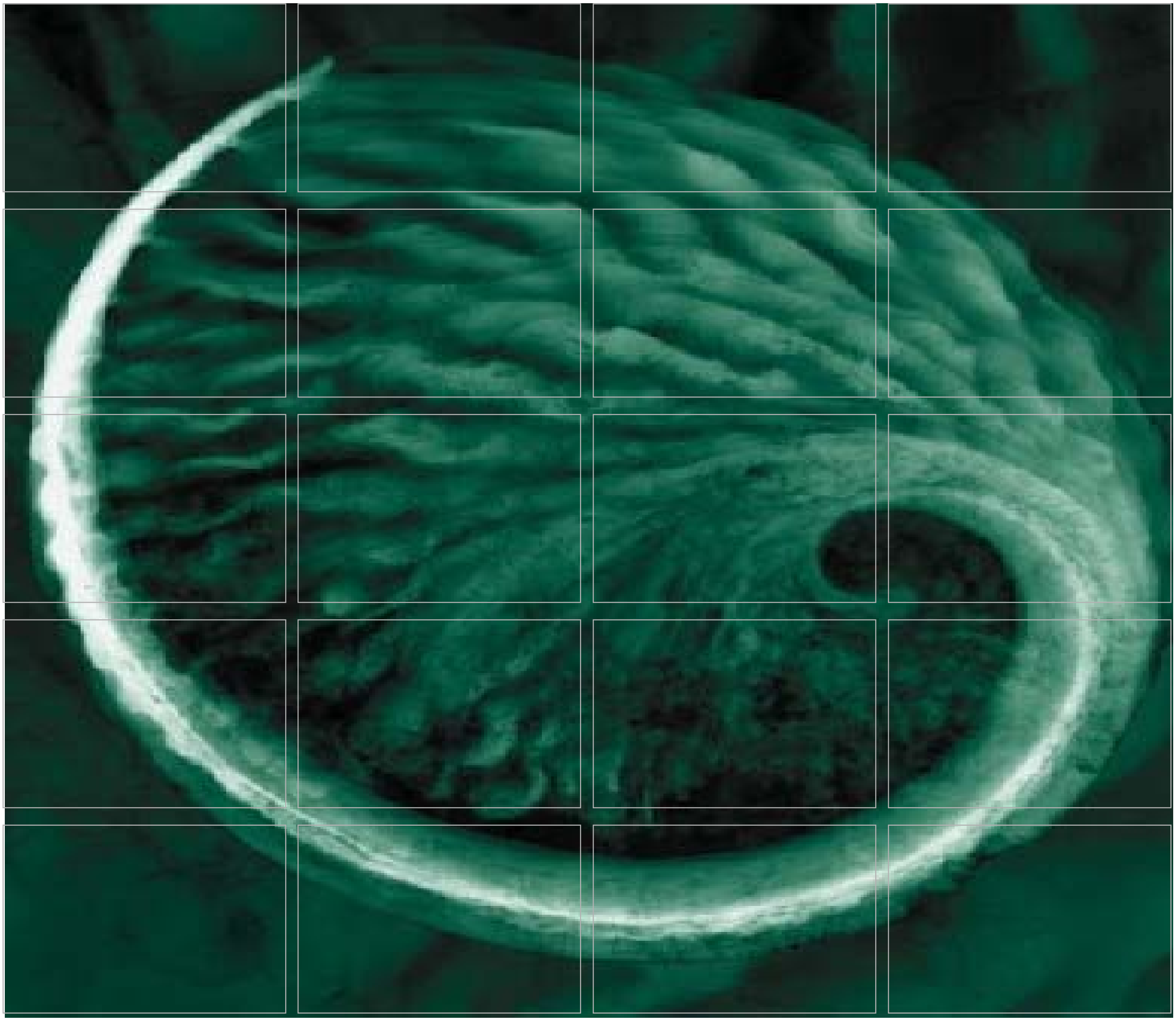

CIFI 2005 Annual Environmental Performance Report

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

March 2006

Delivering sustainable solutions in a more competitive world

ERM

REPORT

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

CIFI 2005 Annual Environmental Performance Report

For and on behalf of
Environmental Resources Management

Approved by: Reed Huppman

Signed:

Position: Partner

Date: March 3, 2006

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EXECUTIVE SUMMARY

BACKGROUND

This report, prepared for Corporación Interamericana para el Financiamiento de Infraestructura, S.A. (CIFI) by Environmental Resources Management (ERM), represents the Annual Environmental Report for CIFI's 2005 financial year (January through December). CIFI's 2005 portfolio retained nine of the eleven portfolio projects from 2004. Five new projects were added to the portfolio in FY 2005, and there are three projects awaiting loan agreement signing.

CIFI is a regional non-bank financial institution incorporated in Costa Rica with its operating headquarters in Washington, DC. CIFI was organized August 10th, 2001, and began operation in July 2002. CIFI's authorized shareholders equity is US$85 million, with committed capital of US$54.5 million.

CIFI's lending guidelines state that all projects must comply with its environmental guidelines, which incorporate those of the Inter-American Investment Corporation (IIC) and the Inter-American Development Bank (IDB). Companies whose projects are financed with funding from CIFI are subject to environmental and labor review consistent with internationally recognized and national environmental and labor laws, regulations, and standards (e.g., IDB, International Finance Corporation). CIFI also applies the IIC's project categorization scheme which assigns all projects one of four categories based on likely environmental and related effects. IIC also sits on the CIFI board and is involved in all investment decisions, and CIFI receives investment review support from the IIC's environmental unit. Additionally, the IIC must separately clear any Category IV (potentially high risk) projects proposed by CIFI.

CIFI's business plan calls for CIFI to act as an arranger of financing or as a participant in transactions arranged by others. Within this range, CIFI expects to be involved in a limited number of transaction types, which can be integrated with CIFI's environmental risk categorization of projects to produce a relative risk screening of potential project types (CIFI's Environmental Management System or EMS).

As noted in prior years, CIFI's investment strategy incorporates an environmental, social, health and safety, and labor risk management tool based on transaction type, the IIC risk category and the policies of its co-investors. When not acting as an arranger, CIFI can reduce its reputational and environmental risk by:

- participating in transactions arranged by multilateral or bilateral development institutions or major private sector banks; or
- by investing in local bank originated projects which are fully constructed or fully operational; and
- to the extent necessary and feasible, directly or indirectly undertake reviews, site visits, and/or studies to confirm and manage ESHSL issues as necessary.

CIFI believes that there is relatively lower risk, in both financial and ESHSL terms, in a fully constructed and operating project than in a greenfield development project during the construction phase, as construction impacts generally have the potential to greatly exceed operational impacts. Therefore CIFI preferentially seeks projects in the operational stage as possible.

CIFI's 2005 portfolio now contains eight projects which were originated under multilateral institutions, and nine projects originated with regional banks. The investments are in the following infrastructure sectors ranked in order of frequency:

- Energy (9);
- Transport (4);
- Pipeline (1);
- Infrastructure Services (1);
- Water Supply (1); and
- Social/Educational Infrastructure (1).

CONCLUSIONS AND RECOMMENDATIONS

General

- Overall, there has been an improvement in CIFI's portfolio regarding documentation of compliance with the environmental, social, health, safety and labor (ESHSL) requirements of CIFI's environmental policy as well as those that would be applied under the CIFI Environmental Management System developed in conjunction with IDB PRI in FY 2005.

- In addition, CIFI hired Mr. Agustin Zamora, Financial Analyst, in the spring of 2005 to support monitoring and supervision of projects in general with a parallel focus on the monitoring and supervision of ESHSL issues. Mr. Zamora has a university degree in Biology and an MBA.

- Particularly while acting as Arranger, CIFI's environmental appraisal is usually conducted by engineering firms under contracts for turn-key feasibility studies. This has been the traditional approach in project finance transactions for many years and has functioned well for CIFI. However, with the application of more stringent ESHSL standards (e.g., IFC's Policy and Performance on Social and Environmental Sustainability, IDB's), traditional engineering firms may not have the appropriate capacity, and specialist consultants may be required. This need will vary by sector, project type, and transaction, but it is recommended that CIFI places increased scrutiny in this aspect of their due diligence in the future.

- Going forward, and due in part to the policies and procedures of the IDB and IFC launched in early 2006, we recommend that CIFI be more conservative in their classification of projects.

Project Specific

- Ecoelectric: the Lenders commended CIFI for their role in Ecoelectric. This represents a good model for other project when CIFI is the arranger. However, in order to better assure compliance, the corrective action plan should be a part of the loan agreement, which CIFI's management indicates would be the case once CAF and DEG draft their respective loan agreements.

- Ferrovias: the corrective action plan for Ferrovias, that DEG incorporated into its loan agreement, is not particularly robust. CIFI's understanding is that the EMS and monitoring plan required under the loan agreement will address this issue.

- Magdalena: the Environmental Impact Assessment review, included in the Information Memorandum received by CIFI from the arranger, was not of very good quality, and did not include an EMP or corrective action plan. In response to this, CIFI succeeded in incorporating wording in the Loan Agreement requiring environmental compliance with World Bank Guidelines.

- Belcogen: the company has not yet implemented Mott MacDonald's recommendations at the time of this report. Project documents are still under preparation, and CIFI indicated that FMO's legal documents will require compliance with the recommendations.

- Fluviomar: the due diligence work to date has consisted only of a desk study (Darby's) and prior to a series of acquisitions. It is recommended that CIFI carry out an updated due diligence which incorporates a site visit, at minimum to company headquarters, to evaluate the companies ESHSL management philosophy and system, and one of the company's terminal facilities to gain a sense of how effectively ESHSL management is being implemented.