

## Annex V

### Environmental and Social Strategy (ESS)

#### ISOLUX CORPORATE LOAN

##### I. Overview

- 1.1 Grupo Isolux Corsán (“Isolux” or “the Company”), a leading Spanish infrastructure development company with a strong Latin American presence, has requested an unsecured corporate loan from the IDB to support the financing of Isolux’s equity contribution in the *Majes* and *Repartición* solar plants in Arequipa, Peru, which represent the first large scale solar installations in Latin America, as well as to finance their equity contribution in other infrastructure concessions in their pipeline.
- 1.2 In addition to the two solar plants in Peru, Isolux is currently in the process of developing a number of Latin American infrastructure concession projects which it has won through international public bidding, including a road concession and transmission lines in Brazil. The Investment Program (“IP”) contemplated by Isolux over the next 3 years totals in excess of US\$534 million in equity investments.
- 1.3 Isolux has asked the IDB to consider providing appropriate corporate financing (“the Financing”) to contribute to the funding of the IP. The proposed structure consists in an up to US\$100 million and up to seven year A Loan financing (size to be adjusted by the IDB) designed as a senior unsecured financing supported by the full faith and credit of Isolux. The repayment structure would contemplate a grace period of up to two years.
- 1.4 Isolux has a large portfolio of existing and future operations spread over 30 countries with a focus in seven countries (Brazil, Mexico, Peru, USA, Spain, Italy, and India) encompassing various sectors, primarily transmission, solar electricity generation, highways, and parking systems within infrastructure development. The Company looks to expand its future operations, both geographically, throughout Central and South America, and sectorally, to include wind farm development and biofuels.
- 1.5 Given that not all of the potential underlying projects to be supported by the corporate loan have been identified at this time, the Team proposes that this loan be classified for its environmental and social impact as a flexible lending instrument for which ex-ante impact classification is not feasible (as projects are unknown) as per the provisions of Directive B.13 of the IDB’s Environment and Safeguards Compliance Policy (OP-703). Any additional proposed projects will be subject to eligibility in terms of environmental and social aspects, and ultimately to the Bank’s customary environmental and social due diligence, which scope and process will be commensurate to the potential impacts and risks and will follow the typical environmental and social requirements of operations as if

these would have been presented for individual financing (i.e. conditions for closing, disbursement, etc.). Projects unlikely to comply with the Bank's environmental and social policies will be excluded from the Financing.

## **II. Environmental and Social Impacts and Risks**

- 2.1 *Environmental and Social Risk:* At this time, the two solar plants in Peru which were awarded to Isolux to undertake the development, construction and operation for a total of 40 MW in the Arequipa region have been identified as potential beneficiaries of the corporate loan. Potential environmental and social impacts typically associated with a solar array project may include loss of natural habitat, land use issues, water use issues, soil erosion or compaction, aesthetics (alteration of natural landscape), risk of soil or waterway contamination due to poor storage, handling and use of hazardous materials and waste products, and social effects from an influx of workers, among others. These potentially small negative environmental, social, health, safety, and labor (ESHSL) impacts and risks will be duly assessed during the environmental and social due diligence associated with the structuring of the corporate loan.
- 2.2 Other projects feasible to be financed under the Facility have not been confirmed. See Table 1 with an indicative list of potential financing opportunities based on Isolux's existing portfolio. Depending on the setting where the projects are being developed and the works involved (refurbishment, rehabilitation or expansion) the road and the transmission line could have from moderate to significant impacts and therefore could potentially be classified as environmental impact category B or category A projects. In any case, either the road, the transmission line or any other project proposed to be supported by the Financing will be subject to IDB's environmental and social due diligence, which scope and process will be commensurate to the potential impacts and risks (i.e. environmental impact categorization), the stage of the project and ultimately will follow the customary environmental and social requirements of operations as if these would have been presented for individual financing (i.e. conditions for closing, disbursement, etc.).
- 2.3 Isolux will be ultimately responsible for screening, assessing, and managing the environmental and social aspects of each project in a manner that is satisfactory to the IDB and consistent with IDB's Policies and Directives. Isolux's institutional capacity and existing systems of environmental management will be an integral part of their ability to successfully safeguard the use of proceeds of the IDB loan. This will be instrumental in tracking Isolux's environmental performance throughout the construction phases of these projects and into long-term operations. Initial investigation indicates Isolux has a Corporate Social Governance Policy in place including an environmental component and has obtained ISO 9001(Quality), ISO 14001 (Environmental Management) and OHSAS 18001 (Health and Safety) certifications.

2.4 Based on the Directive B.13 of the Environment and Safeguards Compliance Policy (OP-703), the Project had been classified by the Bank as a Category B.13 operation. The two solar projects in Peru will likely trigger the following directives of IDB's OP-703 Environmental and Safeguards Policy: B.1, Bank Policies; B.2, Country Laws and Regulations; B.3, Screening and Classification; B.5, Environmental Assessment Requirements; B.6, Consultations; B.7, Supervision and Compliance; and B.9 Natural Habitats and Cultural Sites; B.11, Pollution Prevention; and B.12 Projects Under Construction. The OP-702, Disclosure of Information Policy also applies for this Project. Based on available documentation, it is not expected that OP-710 on involuntary resettlement or OP-765 on Indigenous Peoples will be triggered for this Project. However, the Due Diligence will examine if land acquisition, economic displacement or impacts on indigenous people will occur in relation to the proposed projects. Subsequent proposed projects will be categorized for their environmental and social impact at the time for consideration for the Financing.

### **III. Strategy for Environmental and Social Due Diligence**

3.1 As part of the Bank's due diligence and structuring of the proposed loan, the Bank will assess the overall capacity of Isolux to manage the ESHSL aspects of its operation, in particular in the line of business where the loan is to be directed, in order to identify potential efficiencies that could be considered for the assessment of the individual projects whenever they are presented for financing under the corporate loan. In any case, as mentioned above, the Bank will assess each individual project, which scope and process will be commensurate to the potential impacts and risks, the status of implementation of the project (i.e. projects under construction will require an audit type approach), and will follow the typical environmental and social requirements of operations as if these would have been presented for individual financing (i.e. conditions for closing, disbursement, etc.). Also as part of the due diligence for the structuring of the proposed loan, the Bank will define the internal process to be followed for the evaluation of the individual projects to be supported by the corporate loan.

3.2 The Bank's Environmental and Social Due Diligence activities will focus on:

- a) Analysis of the likely portfolio of Isolux to better understand overall composition, potential risks and impacts. Based on the findings, risk reduction and management options will be discussed.
- b) Assessment of Isolux's capacity, policies and procedures to identify, evaluate and mitigate ESHSL liabilities, risks and impacts.
- c) Investigation of Isolux's technical and economic resources to successfully implement proposed changes, if any, to the Corporate ESMS (Company-wide

focus) and to project specific Environmental and Social Management Plan (ESMP) for each proposed project (Project specific focus),

- d) Assessment of the two solar energy projects; and
- e) Assess a representative project of the sectors of future projects, such as a road and or a transmission line.

3.3 Based on the results of the ESDD, the Bank will define the process by which each eligible project applying for IDB's financing under the Isolux Financing will be assessed, including the turnaround time needed for the Bank to complete its due diligence on individual projects, the specific environmental and social due diligence activities, p.e.g. Bank reviewing the first operations of low risk projects and conducting project specific due diligence activities on projects with higher potential risks, define the instruments for enforcing any project specific requirements. The IDB may undertake an expedited 'desk' due diligence prior to approving some lower risk loans under the Financing by requiring Isolux to furnish an information package on the proposed Project, and for high environmental impact or risk projects, the Bank will perform specific environmental and social due diligence activities following the typical approach for the assessment of large infrastructure projects, including the review and disclosure of Environmental and Social Impact Assessment reports (EIA), site visits and the assistance of independent environmental and social consultants.

3.4 The results of the due diligence will be presented in an Environmental and Social Management Report (ESMR). The ESMR will also define appropriate requirements for environmental and social risk management based on the level of identified ESHSL and labor risks and impacts, in order to ensure that the Financing complies with IDB safeguard policies. This information will be summarized in the Loan Proposal and defined in the Financing legal agreement.

**Table 1**

Indicative list of potential financing opportunities based on Isolux's existing portfolio

<b>Sector</b>	<b>Country</b>	<b>Size</b>	<b>Status</b>
<b>Solar Generation</b>		<b>(MW)</b>	
Majes	PE	20	Construction
Reparticion	PE	20	Construction
<b>Roads</b>		<b>(km)</b>	
Via Bahia	BR	667	Construction
<b>Transmission</b>		<b>(kV/km)</b>	
Taubate	BR	500/247	Recently Awarded