Environmental and Social Management Report
Regional Green Bond Program
(RG-X1250)

I. Project Description and Background

1.1 The purpose of this Facility is to provide an alternative financing solution for private sector EE projects through capital markets securities by introducing green asset backed securities (ABS) under the Green Bond Principles, and fostering among local institutional investors social and environmental responsible investments. [1] The Facility will replicate and scale up the existing transaction: "Capital Markets Solutions (ME-L1150)" in at least four LAC capital markets.[2] Initial capital markets under consideration for utilizations of this Facility include Mexico, Dominican Republic, Jamaica, Chile and Colombia. Other capital markets could participate based on availability of EE projects seeking adequate financing, capital market readiness for the issuance of green ABS, and institutional capacity of local institutional investors to invest in such green securitized assets.

1.2 The Facility consists in a flexible two-step financing solution: (i) the Accumulation Step consists in a senior warehousing loan[3] to accumulate and standardize EE projects for their further securitization; and (ii) the Mobilization step consists of a program of Partial Credit Guarantees (PCGs) to enhance the issued green ABS in the local or international capital markets.

II. Project Status and Compliance

2.1 Based on Directive B.13 of the Environment and Safeguards Compliance Policy (OP-703), this Project is classified as a financial intermediary and as such is not categorized according to its potential environment and social (E&S) impacts and risks. Based on the nature of project activity to be assumed, to include installation of co-generation facilities, substitution of fossil fuel energy with biomass production or natural gas, and renovation and retrofitting of existing facilities, this operation is classified as low risk (FI-2).

III. Environmental and Social Risks and Impacts

A. Potential risks and impacts associated with ESCO financed activities

3.1 The proposed preliminary pipeline of activities includes the following type of project percentage breakdown: co-generation of electricity (16%), actions in steam circuits (steam traps), (26%), replacement of equipment, machinery and lighting (41%),

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1 https://www.ceres.org/resources/reports/green-bond-principles-2014-voluntary-process-guidelines-for-issuing-green-bonds/view

2 ME-L1150 was approved by the IDB Board in July 2014. The project has completed closing phase in April 2015 and will start disbursing during 3Q2015.

3 The warehousing loan can be structured as a senior revolving credit loan or as a senior loan, which will be defined at the time of the structuring of each utilization under the Facility.

installation of smart metering and controls (17%).[4] Per the eligibility criteria (see 4.2 below) no operation can exceed 30MW of generation capacity or US$36 million financing, the average investment pipeline is roughly US$14 million in investment. EE investments must generate energy savings of at least 15%, and 17,000 tCo2e per million of USD invested.

3.2 The ESHS risks and impacts are expected to be low to moderate, and relate primarily to the substitution of old technology and equipment, and the proper disposal, recycling and reuse of materials, especially those considered to be hazardous. These impacts can include inadequate disposition of gases used for cooling (i.e., chlorofluorocarbons), asbestos from old insulation, and industrial waste from old machinery/plant operations. There may be health and safety risks associated with the disposal of such wastes, as well as the installation of new equipment.

IV. Environmental and Social Management

A. Management of Environmental and Social Risks

4.1 ESCOs and EESPs under the facility shall operate on existing environmental and social management systems or will be in the process of developing a set of environmental and social procedures with the aim to identify, manage, and monitor related E&S risks and impacts associated with the proposed investment activities. ESCOs must have a specific set of procedures for separating wastes and properly disposing hazardous wastes.

4.2 In order for each project to qualify, ESCOs must ensure that a basic set of eligibility requirements are met. They are that the project must: (i) be of energy efficiency or renewable energy generated, (ii) have energy savings of greater than 15% relative to the pre-investment baseline or reduce at least 17,000 tCO2e per million invested over the life of the operation, (iii) be in compliance with local law pertaining to operating licenses and EHSH permitting where required, (iv) rely on an energy efficiency audit to determine savings, and (v) ensure proper disposal and management of all wastes, particularly when labeled as hazardous, according to agreed procedures and in accordance with local law.

4.3 In the context of co-generation facilities, the existing generation facilities will be left on site and remain available as a source of backup power. With regard to hazardous waste removal, local law requires that this be property removed by a certified company authorized by the Ministry of Environment and in accordance with the guidelines and procedures it has defined.

4.4 Additionally, in qualifying as a Green Bond, the developer will need to ensure that a minimum set of eligibility standards are followed in accordance with either the Climate Bond Standard or the Green Bond Principles.[5] In either instance, independent external assurance will be provided to confirm each project's status as being eligible for inclusion in a Green Bond.

4.5 The E&S requirements noted below detail the nature of E&S risk management measures that will be developed and implemented corresponding to this facility.

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4 These percentages may vary in each individual utilization. An assessment of the environmental and social risks of the then pipeline will be conducted to determine the environmental and social requirements that the Sub-Project shall meet.

5 For Climate Bond, see http://www.climatebonds.net/standards/; for more information on Green Bond Principles, see http://www.ceres.org/resources/reports/green-bond-principles-2014-voluntary-process-guidelines-for-issuing-green-bonds

V. Environmental and Social Requirements

5.1 For this operation which involves financing of energy efficiency and clean energy projects for an average value of US$14 million, the E&S requirements will be customized for each project/utilization under the Facility. The Bank will require any ESCO in any given project under the Facility, and as part of the Facility Program Agreement to:

(i) Comply with all applicable local environmental, social, health and safety, and labor regulatory requirements, and in relation to the financing of projects to ensure that each loan complies with: (a) in-country ESHS and labor regulations; (b) the IDB List of Excluded Activities for Non-Sovereign-Guaranteed (NSG) operations; (c) the Fundamental Principles of the Rights at Work, and (d) the ESCOs' Environmental and Social Management System or Procedures;

(ii) Develop and/or present a set of internal guidelines and procedures to ensure effective waste management of old technology and equipment. This will include procedures for recycling, re-use, and discard of wastes. Additionally, it will include special procedures for the disposal of hazardous wastes in accordance with local law.[6]

(iii) In the case of co-generation financing, all investments will be limited to brownfield operations (greenfield development is excluded), and ensure that in instances of expansion, the development complies with World Bank Environmental, Health and Safety (EHS) Guidelines regarding emissions and other pollutants. An audited report to this effect is required of each sub-investment.

(iv) Ensure that ESCOs have received the ISO 14001 certification as a condition precedent to the loan disbursements

(v) Previous the bond issuance, ensure that that external assurance is undertaken to confirm the projects' status as a Green Bond.

(vi) Present an Annual Environmental and Social Compliance Report (ESCR) with information on the project portfolio, and with information on any particular risk issues identified with respect to projects and mitigation or corrective measures agreed with clients and/or taken by the ESCO.

5.2 The IDB will supervise the environmental and social aspects related to the use of the proceeds of the IDB loan either by an in-house specialist or with external consultants, and if necessary, will require means of addressing specific impacts and risks and/or enhancing management.

[6] Hazardous materials are those that could cause injury or death; or damage or pollute land, air, or water. They are defined as substances that are ignitable (flammable), corrosive, toxic, explosive, or reactive.