

## **Environmental and Social Management Report**

### **CAMIF II (RG-L1051)**

#### **I. INTRODUCTION**

- 1.1. In June 2006 the Board approved a US\$60 million loan in favor of the Central American Mezzanine Infrastructure Fund (“CAMIF I”). The purpose of CAMIF I is to invest by way of equity contributions and mezzanine lending in infrastructure and natural resources projects in Central America, the DR, Mexico and Colombia. CAMIF I has made investments in medium size companies, largely family owned, bringing professionalization of management, implementation of operational efficiencies, implementation of environmental management practices, and improvements in organizational structures among others. These existing investments are located in Colombia, the Dominican Republic, Guatemala, Mexico, and Honduras.
- 1.2. LAP Latin American Partners LLC (“LAP”), which is the managing shareholder of CAMIF I’s current manager EMP Latin American Management II LLC (“EMPLA”) is in the process of organizing a second fund, CAMIF II, that will continue to support the financing of infrastructure and infrastructure-related projects and companies and assist in covering the long term, quasi capital financing needs of mid-size companies in the target regions. CAMIF II will have characteristics fundamentally similar to CAMIF I, leveraging on the experience and network for deal sourcing gained through the latter.
- 1.3. In doing so CAMIF II will continue with the work initiated by the first fund, thereby increasing the relatively scarce availability of mezzanine lending and quasi-equity as a source of alternative financing in Central America particularly for projects and companies of a medium size that are typical in the region and that tend to suffer more acutely from the lack of alternatives to strengthen their capitalization structures for sustainable growth.

#### **II. OPERATION DESCRIPTION**

- 2.1. CAMIF II will be very similar to CAMIF I in terms of its management and investment, with an expanded mandate allowing it to deploy some capital in the new Caribbean countries (all of which are IDB members) and on a selective and limited basis will be able to also invest in additional sectors, namely manufacturing, microfinance and non-bank financial services. Notwithstanding this, the investment guidelines will call for a 60% allocation of funds in infrastructure projects.
- 2.2. LAP or a single-purpose Affiliate will be the Fund Manager of CAMIF II, and is

- composed of the same management team as CAMIF I. LAP is a well-established manager with an Ethics Policy and a very detailed Employee Handbook with written non-discriminatory policies with regard to gender, race, religion, age, national origin, disability or any other socio-economic characteristic. LAP's offices are currently located in Washington, DC in a LEED-certified building. LAP has offices in Tegucigalpa, Mexico City and Washington DC.
- 2.3. As required in the CAMIF I loan conditions, EMPLA has implemented and continues to maintain a comprehensive Environmental and Social Management System (ESMS), headed by an Environmental Manager appointed by the managing director. The ESMS includes processes for training of officers, reporting annually to the IDB and other lenders, screening, classifying and conducting Due Diligence before deciding on any investments.
  - 2.4. During the “due diligence”, site visits were conducted in Mexico to three select project locations, two that had been in CAMIF I's portfolio and one that was in the process of closing which was subsequently closed. The site visits allowed to briefly assess how EMPLA supervises the operations currently in its portfolio and the tail-end of a due diligence process and EMPLA's general conformance with the implementation of its ESMS.
  - 2.5. **Environmental Impact Categorization.** Due to the nature of the proposed facility this operation is classified as a financial intermediation operation as per the requirements of Directive B.13 of the IDB Environment and Safeguards Compliance Policy (OP-703). The potential investments of CAMIF II will be subject to an environmental and social review to confirm eligibility and compliance with IDB policies, including environmental and social policies. The initial assessment of project eligibility will be performed by LAP, and as needed independent environmental and social consultants will be used to assess compliance with the IDB policies and any potential gaps that might need a corrective action plan. An annual report will be generated describing the implementation of the ESMS, and listing the investments made. Most of the projects to be supported by CAMIF II are expected to be Category B or C for their environmental and social impact. Any project that could potentially be classified as Category A for its environmental or social impact will require IDB's non-objection before any commitment on the part of CAMIF II.

### **III. INSTITUTIONAL AND LEGAL FRAMEWORK**

- 3.1. For CAMIF II, as required under its ESMS, LAP will conduct a review of the proposed project to determine 1) basic eligibility with respect to the IDB exclusion list, 2) environmental classification of the project with respect to the B.3 directive of the Environment and Safeguards Compliance Policy (OP-703), and 3) project compliance with all relevant laws, regulations and IDB Policies including directives B.2 through B.12 of OP-703, Disaster Risk Management

Policy (OP-704), Involuntary Resettlement Policy (OP-710), Gender Equality Policy (OP-761), Indigenous Peoples Policy (OP-765), and the Access to Information Policy (OP-102).

#### **IV. ENVIRONMENTAL AND SOCIAL ASPECTS**

- 4.1. The key potential environmental impacts and risks will be related to the Fund's investments in infrastructure, social infrastructure, natural resources, and manufacturing projects and to a lesser extent financial services. It is planned that CAMIF II will make over 10 investments, which would include infrastructure and natural resources as with CAMIF I (e.g., port expansions, agribusiness, small hydroelectric plants, telecommunication) or in the new target sectors manufacturing, and non-bank financial services.
- 4.2. The financing of capital expenditures for infrastructure projects could result in environmental and social impacts which will vary in nature, intensity and duration based on the specific characteristics, location and the social context of the individual project. As described in the ESMS, the potential environmental and social impacts and risks will be assessed following a project review procedure that occurs prior to financing. The key outcomes of the assessments will be presented to the credit committee for review and to confirm compliance with IDB policies and standards.
- 4.3. The IDB will continue to provide technical support on environmental, social, health and safety safeguards and practices at the earliest stages upon request. This will be particularly important as CAMIF II starts looking at investments in new sectors and new Caribbean countries.

#### **V. MANAGEMENT OF ENVIRONMENTAL, SOCIAL, HEALTH AND SAFETY AND LABOR IMPACTS AND RISKS**

- 5.1. The environmental, social, labor, health and safety management system (ESMS) includes the environmental, labor, health and safety policies and procedures for all CAMIF I and now CAMIF II investments. The ESMS is based upon the principles of recognized international standards such as ISO 14001 (Environmental Management).
- 5.2. The ESMS includes a policy statement and includes provisions for: (i) roles, responsibilities and training, (ii) the review procedures to ensure compliance with IDB policies (eligibility, screening, categorization, due diligence, public disclosure, and investment agreements), (iii) supervision and monitoring of the investment portfolio, and (iv) reporting requirements on compliance with the ESMS requirements and compliance of investments with IDB policies.

- 5.3. In the case of prospective category A operations, the ESMS provides for immediate notification of the IDB, sharing the results of the due diligence and for IDB's written input before any investment commitments are made.
- 5.4. As described in the ESMS, several investments in CAMIF I actually included a corrective action plan and are being monitored and supervised for compliance with said plans. For complex operations, it is LAP's intent to include provisions for the hiring of an environmental and social consultant to supervise adequate implementation of environmental and social contractual clauses by the invested company, wherever it is appropriate.
- 5.5. Based on independent consultant's reviews and IDB's assessment, the implementation of the ESMS has been satisfactory to date and minor modifications were made since 2009, with IDB's prior approval.
- 5.6. Each investment will be carefully assessed during the environmental and social review procedure which will be conducted by LAP and/or the Due Diligence consultant for each proposed project.

## **VI. PUBLIC CONSULTATION**

- 6.1. Public Consultation is a complex process driven by a number of factors, not in the least national requirements. Although social impacts are generally captured through the initial risk and/or impact assessment of a project, LAP will ensure as part of its due diligence that adequate stakeholder engagement and public consultation were performed as part of project preparation and into compliance with IDB policies.
- 6.2. In addition to the above, LAP will disclose on its webpage non-confidential E&S information, including Environmental and Social Impact Assessments (EIA), about potential category A CAMIF II investments for a minimum of 120 days prior to a final decision by its investment committee.

## **VII. RECOMMENDATIONS AND REQUIREMENTS**

- 7.1. The corporate level environmental and social management system developed for CAMIF I is a robust system that contains the key elements for continual improvement and to ensure compliance with IDB policies. Limited clarifications will be made to the ESMS prior to closing of CAMIF II, to (i) refer to new or updated IDB policies and IFC performance standards and (ii) clarify timing of IDB's non-objection for prospective category A operations.

7.2. The loan agreement will include the items listed below to reflect the fund's agreement to continue to implement the ESMS environmental and social loan conditions that applied to CAMIF I. These requirements notably include the following:

1. The Fund Manager and General Partner have fully implemented the ESMS for the Fund acceptable to the IDB (Environmental and Social Management System); and, to the extent any actions for such full implementation are pending, the necessary arrangements have been made for their satisfactory implementation in a timely manner;
2. With respect to the Fund's operations and activities, there are no substantial or material liabilities or unmitigated risks associated with the Fund's employees, buildings or offices, or assets due to Environmental or Social Matters, Environmental Claims or material complaints related to Environmental or Social Matters;
3. Prior to each disbursement, LAP shall certify compliance with all environmental social, health and safety, and labor requirements in the loan agreement. The compliance certification requires the implementation of the ESMS to determine the eligibility of proposed projects by assessing the potential environmental impacts and risks and reporting the results of this assessment together with measures to be implemented to control and mitigate impacts and risks.
4. The ESMS requires projects to comply with local laws and Bank policies and provides for contractual and other arrangements through the fund can implement corrective and enforcement measures.
5. Prior to each disbursement, LAP shall present to the satisfaction of the Bank all agreed upon environmental, social, health and safety, and labor management or mitigation plans not already presented or scheduled for a later date.
6. During the life of the Loan Agreement, LAP must prepare and submit an Environmental and Social Compliance Report, in form, content and frequency acceptable to IDB.
7. To provide for Bank monitoring of the Operation's environmental, social, health and safety and labor aspects the Loan Agreement shall provide for:
  - a. Direct Bank supervision actions (e.g., site visits, review of documentation, consultations with affected parties and third parties, etc.).
  - b. The Bank's right to contract an external independent environmental consultant to perform more detailed

supervision/monitoring actions during the Operation's construction and initial operation by the Sponsor/Borrower, and, as needed through the life of the loan.

- c. The Bank's right to contract for the performance of an independent environmental, social, health and safety, and labor audit, if the Bank deems necessary.