

**Ashmore Colombia Infrastructure Fund**  
**CO-L1081**  
**Environmental and Social Management Report**

**I. Project Summary**

- 1.1 The purpose of the Ashmore Colombia Infrastructure Fund (Fund) is to make mainly equity, and quasi-equity and debt-financing investments in a diversified portfolio of infrastructure-related projects and companies in Colombia. The target Fund size is up to US\$500 million at the initial closing date, which will be funded by an IDB senior loan of up to US\$75 million (Loan) with a commitment period of 4-5 years, and capital commitments estimated at US\$425 million to be made by local institutional investors including the Colombian pension funds, Banco de Comercio Exterior de Colombia (Bancoldex), CAF and the shareholders of the professional manager. The professional manager is also working to structure a parallel investment vehicle to raise capital commitments from international institutional investors with a target size of approximately US\$250 million. The parallel vehicle will be managed by the professional manager under similar terms and conditions than those of the Fund. The Fund is expected to have one local closing during 4Q 2009 and the parallel vehicles not later than twelve months after the local closing.
- 1.2 The Fund will be structured as a *Fondo de Capital Privado* (Private Equity Fund or PEF) to be established under Colombian Law. The Fund will be managed by Ashmore Management Company Colombia SAS (Professional Manager), a company to be organized under the laws of Colombia by a consortium led by the Ashmore Group (an emerging markets investment management group) and Inverlink S.A. (a leading Colombian advisory firm) with advisory services to be provided by Macquarie Capital (USA) Inc. (a leading global infrastructure investment group). As required by Colombian law, the Fund's management structure will also include a trust company (Fiduciaria Fiducor S.A. or the Managing Company), which will be responsible for the Fund's administration.
- 1.3 The objective of the Fund is to contribute to meeting the large demand for infrastructure investments in Colombia, while generating attractive returns by providing mainly equity and quasi-equity to a diversified portfolio of infrastructure companies and projects (i.e. greenfield, brownfield, capital investments of existing companies, etc). The Fund's target infrastructure sectors include transportation, energy, water and sewage, telecommunications, waste management, infrastructure logistics, and other infrastructure-related sectors. Of the projected demand for infrastructure investments (in excess of US\$20 billion), the Professional Manager has identified a large group of projects that is currently analyzing and, therefore, form part of the Fund's potential pipeline of investments in the short- to medium-term. Other projects will be identified during the Fund's investment period. As shown in Table 1, this pipeline amounts to over US\$14 billion in total investments (equity and debt) which the Professional Manager estimates may result in potential Fund investments of US\$500-750 million.
- 1.4 The Fund's portfolio of investments shall observe certain diversification criteria as set out in the Fund's regulations with respect to the type of assets in which the Fund can invest. Though most of these criteria are designed to ensure diversification of the financial risk of the Fund, they will also contribute to diversifying its environmental and social risks. However, this diversification will also add to the complexity of managing these risks, requiring the Fund to deploy an ESMS that has the flexibility and resources to address a wide range of environmental and social impacts, risks and mitigation and management schemes.

1.5 The Fund’s Investment Guidelines and Restrictions will be attached as an annex to the Loan Agreement and will not be modified without the prior written consent of IDB. The diversification criteria are expected to include:<sup>1</sup>

- Not more than fifteen percent (15%) of the total investment commitments is invested in any single asset; provided however that the Fund may invest up to twenty-five percent (25%) of the total investment commitments in companies that in turn invest in a diversified portfolio of infrastructure projects in Colombia or in assets that belong to a single entrepreneurial group or that are under the direct or indirect control of a single natural person or legal entity so long as none of the Fund’s indirect participations in a given infrastructure project in Colombia exceeds fifteen percent (15%) of the total investment commitments;
- The Fund may invest in assets of each sector, within the following limits:

Sector	% of the Total Investment Commitments
Transportation	Up to 40%
Electric Power	Up to 40%
Gas and Oil	Up to 40%
Water	Up to 30%
Telecommunications and Satellites	Up to 30%
Garbage and Waste Management	Up to 30%
Infrastructure Logistics	Up to 40%
Other infrastructure sectors	Up to 15%

- Not more than fifty percent (50%) of the total investment commitments is invested in investments to develop infrastructure projects that are greenfield projects; and
- No investments shall be made in assets or companies that are engaged in, or that to the knowledge of the investment committee intend to engage in, any activity on the IDB Exclusion List.

## II. Potential Impacts and Risks of Fund Investments

2.1 According to the preliminary survey and evaluation conducted by the Professional Manager, target investments are envisioned to include: (i) energy, including generation, transmission and distribution of electricity; (ii) transportation, including toll highways, railroad systems, urban and inter-urban transport networks, ports and airports; (iii) waste management, water and sanitation, including treatment, distribution transport of waste, and other treatment and processing sites; (iv) telecommunications, telephone systems (including cellular), international access to cable, satellite communication and other communications systems; logistics and any other related infrastructure initiatives (no projects in initial pipeline).

2.2 The Fund’s investments are likely to be in projects of large scale and in sectors that are likely to have potentially significant environmental, social, health and safety and labor impacts (direct, indirect or cumulative) and risks. An indicative pipeline of projects under analysis by the Fund includes existing roads and airports, and ports and power plants including some Greenfield

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<sup>1</sup> All percentages calculated at the time the Fund’s Investment Committee approves and commits to undertake the investment

facilities. The impacts and risks associated with these potential investments may include, in addition to risks of pollution and contamination from the operations of the facilities required for these types of projects and labor management aspects including workers' health and safety, impacts and risks related to the insertion of the projects in certain specific contexts, including resettlement, impacts on indigenous peoples, impacts on natural habitats and other social and environmental impacts that could trigger other Bank safeguard policies (OP-710, OP-765 and OP-704). Most of these projects are also likely to require public consultation and information disclosure in accordance with both OP-703 and OP-102.

<b>Sector</b>	<b>Sub-sector</b>	<b>Total CIF Investment</b>	<b>Percentage (Sub-sector)</b>
Transport	Airports		15%
Transport	Roads		40%
Transport	Railways		10%
Transport	Ports		14%
Electricity	Generation		20%
Environmental Services	Waste Management		1%
Total	Infrastructure	500-750	100%

- 2.3 Even though according to Directive B.13 of the Environment Safeguards Compliance Policy (OP-703) the Fund is considered a financial intermediary and this operation is not categorized, the potential impacts and risks of Fund-financed projects, which are likely to fall into categories A and B under the Bank's classification system, will have to be appropriately managed. For this purpose, Directive B.13 provides that the Bank require that the Fund adopt and implement an Environmental and Social Management System (ESMS) to enable the Fund to identify, analyze and manage environmental and social impacts and risks on a project by project basis, in accordance with the requirements of local regulations and of the Bank's environmental and social safeguard policies.

### **III. Proposed Management Measures and Additionality**

- 3.1 Even though Colombia has environmental and social impact management regulations that will contribute to the identification and mitigation of the environmental and social risks of the projects the Fund might finance, the potentially significant of these risks makes it unfeasible for the Bank to rely completely on local regulations. In order to achieve compliance with Bank safeguard policies, the impacts and risks from the proposed transaction must be managed through a system that enables the Professional Manager to: (i) evaluate the environmental and social risks of each project in light of local regulatory requirements, Bank policies and good management practices; (ii) decide in each case whether a project is environmentally and socially sustainable and can achieve the standard of risk and impact management and mitigation required to be eligible for Fund financing; (iii) establish the environmental and social conditions that must be contractually required to ensure

sustainability and compliance with the requirements of the ESMS throughout the life of each project; and (iv) establish the contractual and monitoring arrangements to enable the Fund to ensure that environmental and social conditions are satisfactorily met.

3.2 For this purpose, the Bank and the Fund are discussing the ESMS that the Fund will be contractually required to develop and implement in order to properly identify, assess, mitigate and monitor the potential environmental and social impacts and risks associated with Fund Investments. The Bank and the Professional Manager have agreed on the scope of the ESMS taking into account the following:

- (a) A preliminary review of the Fund's pipeline confirms that its investments will involve significant environmental and social risks that will require commitment and resources for their appropriate management; however, no impacts or risks that might pose reputation risks to the Bank or impair the viability of the Fund or of a significant part of its proposed portfolio have been identified. This aspect will continue to be monitored during the operation of the Fund.
- (b) The Bank and the Fund have agreed in principle on the policies and standards to be applied by the Fund through the ESMS (Annex 1). These include the Bank's safeguard policies and local regulations, as well as a project classification system and due diligence process to enable the Fund to identify risks and impacts before investment decisions are made. For Category A projects the Fund will obtain the Bank's non-objection before investing.
- (c) Local regulatory requirements and institutional capacity will be a source of support to the Fund in implementing the requirements of the ESMS. According to local regulations applicable to projects and companies in which the Fund would potentially invest, project sponsors will be required to carry out EIAs and to incorporate mitigation and compensation plans in their projects. These local requirements will facilitate the Fund's due diligence, lower transaction costs, and provide complementary monitoring and reporting processes.
- (d) The Fund is committed to deploy the staff and resources that will be necessary to implement the ESMS as described in more detail in Section IV;
- (e) The Loan Agreement will contain the contractual and monitoring arrangements between the Fund and the Bank, described in more detail in Section V, in order to: (i) ensure implementation and proper functioning of the ESMS, (ii) establish measures and mechanisms to address any non-compliances and (iii) to manage unmitigated environmental and social impacts or risks during the execution of Fund-approved projects.

3.3 The Fund will apply the ESMS to all Fund investments generating environmental and social additionality as a result of leveraging additional resources to be invested in accordance with the requirements of IDB safeguard policies. The Fund will also employ its best efforts to promote the implementation of corporate social responsibility programs by its investments and client companies.

#### **IV. Fund Resources to implement the ESMS and manage environmental and social aspects of Fund investments**

4.1 The Professional Manager is highly experienced in the infrastructure sector and understands the importance of managing the environmental and social aspects of the Fund investments. The administrative structure of the Fund takes this into account and assigns responsibilities for environmental and social risk management at the highest levels.

- 4.2 The Fund's regulations establish that all due diligence costs, including the environmental and social due diligence, are to be covered by the Fund. The Fund, in accordance with the ESMS, will require project sponsors to carry out EIAs and other environmental and social studies and will complement these with additional studies requested from the sponsors and the Fund's own due diligence as necessary to bridge any gap with respect to the ESMS requirements (which include IDB policies). The Professional Manager's budget contemplates the required resources.
- 4.3 The Professional Manager will allocate time of its senior personnel to the administration of the ESMS. The Environmental Manager, with the support of the Environmental Coordinator and of the Investment Directors will make recommendations to the Fund's investment committee regarding the socio-environmental eligibility of each proposed investment as one of the elements required for the investment committee's decisions. The persons directly involved will include a General Manager who will serve as the Environmental Manager with overall responsibility for Environmental and Social issues and the General Counsel who will act as the Environmental Coordinator, and will manage and coordinate the environmental and social review process.
- 4.4 The Fund will also hire an Environmental Consultant, according to TOR agreed upon with the Bank to assist with the initial implementation of the ESMS. This will include training the staff of the Professional Manager on the environmental and social aspects of Fund investments and on the application of the ESMS.
- 4.5 As part of the Loan Agreement, the Professional Manager will be committed to ensuring that it has, at all times, through its own staff or through the use of outside consultants and experts, the technical support required to implement the ESMS.

**V. Key aspects of the ESMS and related contractual requirements**

- 5.1 The ESMS under discussion with the Fund and to be approved by the Bank prior to first disbursement requires the Fund to: (i) screen and classify its investments in accordance with the IDB's Exclusion List and environmental and social policies; (ii) carry out a full due diligence and obtain the Bank's non-objection before approving investments in Category A projects; (iii) ensure that the projects it approves incorporate all the necessary environmental and social management measures; (iv) include in its loan and investment agreements, covenants that require its clients to comply with mitigation plans and with the applicable local regulations and IDB policies; and (v) diligently monitor environmental and social compliance and in case of non-compliance require the implementation of corrective action plans.
- 5.2 In order to ensure the proper implementation of the ESMS the Loan Agreement between the Bank and the Fund will include the following provisions, to be fulfilled to the satisfaction of the Bank:
  - (a) The Fund's commitment to adopt and implement the ESMS as agreed upon with the Bank, and to designate the personnel and allocate the resources for this purpose. This includes appointment of the Environmental Coordinator and hiring of the Environmental Consultant;
  - (b) The Fund's commitment to maintain compliance with all environmental and social requirements, including the obligation to cause the Enterprises in which it invests to comply with the ESMS, and whenever necessary for this purpose to implement corrective actions;

- (c) The Fund's obligation to represent and warrant at financial closing and prior to each disbursement that it is in compliance with the environmental and social requirements under the Loan Agreement; and
- (d) The Fund's obligation to report to the Bank on the performance of the ESMS and on the compliance of the Fund's investments with the environmental and social requirements, and to permit the Bank or its designees to carry out inspections and audits at the expense of the Fund.
- (e) The provision that failure to comply with the environmental and social requirements, or to implement an acceptable corrective action plan, constitutes an event of default.