

## **Environmental and Social Strategy (ESS)<sup>1</sup>**

### **CleanTech Latin America Fund II**

#### **I. Overview**

- 1.1 The purpose of CleanTech Latin America Fund II<sup>2</sup>, L.P. (the “Fund” or the “Partnership”) is to make investments in a diversified portfolio of renewable energy infrastructure and clean technology companies in the Latin American and the Caribbean Region (the “Region”). The Fund will contribute to meet the large demand expected for the clean technology and renewable energy sectors in the Region.
- 1.2 The objective of the Fund is to make investments in equity, senior or subordinated debt, with conversion rights or warrants, in renewable energy infrastructure (including wind, solar, small hydropower, biomass, biogas and geothermal) and on growth stage clean technology companies (including but not limited to waste-management, bioenergy, and biomass, hybrids, energy efficiency, demand side management and smart-grid) in the Region. The Fund will be well-positioned to take advantage of first mover opportunities given the track record of the Manager’s core team in the Region.
- 1.3 The Fund will be managed by affiliates of Emerging Energy and Environmental, LLC, a Connecticut limited liability company (“EEE” and together with its affiliates, the “Sponsor”). EEE is an alternative investment firm based in Stamford, Connecticut, with an office in Mexico. EEE specializes in clean and renewable energy, clean technologies, climate change and environment, and low-carbon infrastructure investments and advisory.

#### **II. Status and Compliance**

- 1.4 Based on Directive B.13 of the Environment and Safeguards Compliance Policy (OP-703), the Fund is classified as a Flexible Lending Instrument (financial intermediary) and as such this operation is not categorized according to its potential environmental and social impacts and risks. However, given that the Fund’s target investments will likely include some renewable energy infrastructure developments (including small hydro and wind power generation), it is expected that some of the individual transactions (i.e. Fund-financed projects) could fall into categories A and B under the IDB’s environmental and social impact classification system.

#### **III. Environmental, Social, Health and Safety and Labor Impacts and Risks**

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<sup>1</sup> This ESS will be made available to the public in accordance with the Bank’s policy on information disclosure. The ESS does not represent either the Bank’s approval of the Project or verification of the ESS completeness or accuracy. The Bank, as part of its due-diligence on the feasibility of the Project, will assess the environmental and social aspects. This assessment will be presented in the Project Environmental and Social Management Report that will be prepared by the Bank, and will be made available to public prior to consideration of the Project by the Bank’s Board of Executive Directors.

<sup>2</sup> The Partnership is the successor fund to US\$25.2 million CleanTech Fund, L.P. in which the MIF had a equity participation of US\$10 million.

- 1.5 The Fund will finance small renewable energy infrastructure and on growth stage clean technology companies, projects that have not yet been identified and thus, its potential environmental and social impacts cannot be assessed ex-ante. The Fund is targeting (i) 80% of its commitments in renewable energy infrastructure, including clean generation sectors (including wind, solar, small hydropower, biomass, biogas and geothermal), and (ii) 20% in emerging areas of clean technology related infrastructure including but not limited to waste-management, bioenergy, and biomass, hybrids, energy efficiency, demand side management and smart-grid. Fund investments, particularly green-field projects, may have moderate to complex environmental, social, health and safety and labor impacts and risks (direct, indirect and cumulative) that will have to be identified, analyzed and managed on a project-by-project basis. The specific environmental and social impacts and risks will be those related to or caused by each specific project investment. These impacts will be diverse and their significance will depend on the project characteristics, such as size, sector, and location.
- 1.6 Potential impacts and risks may include aspects of pollution and contamination from the construction and operation of infrastructure as well as 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 such as the Involuntary Resettlement Policy (OP-710); the Indigenous Peoples Policy (OP-765) and the Information Disclosure Policy (OP-102). In addition, there could be other issues commonly associated with the construction of renewable energy infrastructure projects such as labor management aspects, workers' health and safety.

#### **IV. Management of Environmental and Social Aspects**

- 1.7 As with the other funds financed by the IDB, staff within the Fund Manager will ultimately be responsible for screening, assessing and managing the environmental and social aspects in a manner that is consistent with the IDB's environmental and social policies, specifically by implementing an appropriate Environmental and Social Management System (ESMS). The ESMS will have key elements such as: screening of subprojects against exclusion criteria, impact categorization of proposed subprojects, undertaking of due diligence and monitoring procedures commensurate with the levels of impacts, the structuring of subprojects so that they meet environmental requirements, and where necessary require corrective actions. In addition, when subprojects involve activities determined as high environmental and social impact, the subproject will be referred to the Bank early in the due diligence process. As with other IDB funds, the Bank will monitor the implementation of the ESMS closely.

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

- 1.8 As part of the ESDD, the Bank will conduct the following activities (a) a preliminary identification of any particularly sensitive impacts or risks that may be posed by projects expected to be financed by the Fund (if known) or other projects managed by the Fund Manager (in particular

the CleanTech Fund I financed by MIF in 2000), including reputation risks; (b) a review of policies and standards to be applied by the Fund through the existing CleanTech Fund I ESMS implemented by Eenergy for the Fund; (c) the resources the Fund will need to implement the ESMS; (d) contractual and monitoring arrangements between the Fund and the Bank to ensure proper functioning of the ESMS; (e) measures and mechanisms to address any non-compliances with Bank policies or unmitigated environmental and social impacts or risks during the execution of Fund-approved projects; and (f) compliance with the Fundamental Principles and Rights at Work and with any other relevant international labor organization conventions and treaties which have been ratified by in the countries in which they work.

- 1.9 The Bank and the Fund Manager will agree on any modifications necessary to the existing CleanTech Fund ESMS for the proposed Fund, based on the findings of the ESDD.
- 1.10 The results of the due diligence will be presented in an Environmental and Social Management Report (ESMR). This will include a description of the key aspects of the ESMS and related contractual requirements, and the identification of the activities and its timeframe that will need to be conducted as part of the initial phase of implementation of the Fund's management mechanisms including the ESMS.