

## Environmental and Social Strategy<sup>1</sup>

### MACQUARIE MEXICAN INFRASTRUCTURE FUND

(ME-L1096)

- 1.1 Description of the Fund. The purpose of Macquarie Mexican Infrastructure Fund (Fund) is to make investments in a diversified portfolio of infrastructure-related projects and companies in Mexico. The Fund will make debt, equity, equity-like or other investments in a diversified portfolio of infrastructure assets in Mexico (e.g. construction or modernization of roads, railroads, ports, airports, water and sewage infrastructure, etc) that, in the opinion of the Fund Manager (as defined below), are expected to generate predictable cash flows over the long term and exhibit sustainable competitive advantages. The Fund reached its initial closing in December 2009 with total commitments of approximately US\$410 million raised with Mexican pension funds, the Mexican National Fund for Infrastructure (Fonadin) and the Macquarie Group (Macquarie).<sup>2</sup> MMIF Compañía Controladora, S.A.P.I. de C.V. (Borrower), a promoted company of the Fund through which the Fund intends to make infrastructure investments, is seeking a US\$150 million loan from the IDB. In addition, the Fund is seeking to raise further commitments from local institutional investors as well as from international institutional investors to reach a target size of US\$1,100 million.
- 1.2 **Fund Manager.** The Fund is managed by Macquarie México Infrastructure Management, S.A. de C.V. (Fund Manager) part of Macquarie. Macquarie is one of the largest dedicated specialist fund managers in the world. [http://www.macquarie.com.au/au/corporations/sfpc/infrastructure\\_funds/overview.htm](http://www.macquarie.com.au/au/corporations/sfpc/infrastructure_funds/overview.htm) The International Finance Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD) have supported Macquarie managed funds in India, East Europe and Africa. As such, Macquarie is experienced with the environmental and social requirements of Multilateral Development Institutions (MDIs).

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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> Fonadin was established in Mexico by Banobras with an initial capitalization of MX\$40 billion with the purpose of promoting private investment for infrastructure development in Mexico. The Bank has established a technical cooperation with Fonadin to support the preparation and appraisal of infrastructure projects.

- 1.3 **IDB Environmental Impact Category.** 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 thus this operation is not categorized according to its potential environmental and social impacts and risks. However, given the Fund's target investments (e.g. construction or modernization of roads, railroads, ports, airports, and water and sewage infrastructure) it is expected that some of the individual transactions will fall into categories A and B under the Bank's classification system.
- 1.4 **Environmental, Social, Health and Safety and Labor Impacts and Risks.** The Fund is designed to invest in infrastructure projects and related companies and in sectors that are likely to have potentially significant environmental, social, health and safety and labor impacts and risks (direct, indirect or cumulative), that will have to be identified, analyzed and managed on a project by project basis (given that infrastructure projects have not been identified at this time and thus, its potential environmental and social impacts cannot be assessed ex-ante). 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. Potential impacts and risks may include aspects of pollution and contamination from the construction and operation of infrastructure impacts 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 policy on Information Disclosure (OP-102), Natural Disaster Risk Management (OP-704), Involuntary Resettlement (OP-710) and Indigenous People (OP-765). In addition, there could be other issues commonly associated with the construction of large infrastructure projects such as labor management aspects, workers' health and safety. Most of the projects to be supported by the Fund are also likely to have public disclosure in accordance with both OP-703 and OP-102.
- 1.5 **Management of Environmental and Social Aspects.** As with other infrastructure funds, staff within the Fund Manager will be the persons ultimately responsible for screening, assessing and managing the environmental and social aspects 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 a relevant sub project involves activities determined as high environmental and social impact, the subproject will be referred to the Bank early in the due diligence process. The IDB will require that for operations for which the IDB facility is to be used, these are managed in accordance with the IDB Safeguard Policies and the ESMS. As with other IDB infrastructure funds, the Bank's environmental specialists will monitor the implementation of the ESMS very closely, particularly during the initial stage of the Fund's creation and pipeline ramp-up period.

- 1.6 **Environmental and Social Due Diligence (ESDD).** As part of the ESDD, the Bank will conduct the following activities (a) a preliminary identification of any especially sensitive impacts or risks that may be posed by projects in the Fund's pipeline, including reputation risks; (b) policies and standards to be applied by the Fund through the ESMS; (c) the resources the Fund will need to implement the ESMS; (d) contractual and monitoring arrangements between the Borrower and the Bank to ensure proper functioning of the ESMS and sustainability of the projects the Bank finances; and (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 projects. The Bank, the Borrower and the Fund Manager will agree on an ESMS for the Fund, based on the findings of the ESDD and using the approach for ESMS developed by Macquarie for other funds supported by MDIs, and adjusting this approach to account for IDB policies and procedures.
- 1.7 The ESMR 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.