ENVIRONMENTAL AND SOCIAL STRATEGY

The San José-Caldera Toll Road Project will connect the Central-Pacific region of Costa Rica. The highway will run from San José, the capital of the country located in the Central Valley to the Port of Caldera, in Puntarenas Province, in the Pacific Ocean.

The Project consists in the design, planning, financing, construction, rehabilitation, improvement, operation and maintenance of the 76.8-km San José-Caldera Toll Road, including the facilities and systems required for a proper operation of the highway, such as facilities for police and sanitary control activities, emergency stations, toll areas, signage, road markings, safety barriers, lighting, landscaping and community equipment. The Project has been divided into 3 specific sections; Section I – San Jose–Ciudad Colón (14.2-km) and Section III - Orotina-Caldera (23.8-km) are existing roads which have been in service for more than ten years. Section II – Ciudad Colón-Orotina will be a new 38.8-km highway with four lanes to link the existing Sections I and III. There are no major technical challenges with the construction of the new highway and no tunnels will be excavated. The Government of Costa Rica has built five new major bridges required by the new highway for the crossing of steep valleys and water bodies in the mountainous region.

The construction of the new highway does not require the resettlement of population. Expropriations will be conducted by the Government of Costa Rica, which will provide the right-of-way (ROW) as a condition precedent for the issuance of the Order to Proceed. Upon the date of signature of the Concession Agreement, expropriations were substantially completed, with 14 remaining under negotiations. Reportedly, no indigenous territories will be affected.

The Costa Rican road network is divided in two systems, the National Network and the Cantonal Network. The proposed Project will form part of the approximately 7,400-km of the National Network, which is under the responsibility of the Ministry of Public Works and Transport (*"MOPT"*), whereas the Municipalities administer the Cantonal Network, which includes rural roads and urban ways. The National Concessions Council (*"CNC"*) was created in 1998 as a decentralized agency of the MOPT for the development of public infrastructure through concessions. CNC is empowered among other functions, to award concessions and ensure that a Technical Secretariat performs the inspection and control functions on the awarded concessions.

The Ministry of the Environment and Energy (*"MINAE"*) has the responsibility to design the Republic of Costa Rica's policy to protect the environment and promote sustainable development. A National Environmental Technical Secretariat (*"SETENA"*), a body under MINAE, was responsible of approving the environmental documents for the proposed Project. On September 24, 1998, SETENA approved the general assessment or Form for a Preliminary Environmental Assessment (*"FEAP"*) prepared for the works at the existing roads. On October 7, 1998 SETENA approved the EIA prepared by the Foundation for the Investigation from the University of Costa Rica (*"FUNDEVI"*) for the MOPT for the new highway section. As per the environmental resolution 628-98 from October 1998, COVISA must submit an Environmental Management Plan (*"PGA"*) for each of the sections prior to the start of construction. COVISA has updated Project related information and the PGA was completed in December 2003.

The Project area is located in the Central-Pacific Region of Costa Rica, where the new 38.8-km segment will traverse agricultural land, rural areas and tropical forests in the mountainous areas. The selection of the proposed route was defined by the MOPT in the area of influence of existing secondary rural roads, areas with adequate soil stability and trying to minimize the crossings of water bodies. The new highway will not cross any areas of special ecological characteristics such as natural parks or protected areas. The new highway will cross the private reserve of Andrómeda, located in Atenas. Overall, the Project area has been highly deforested, in particular near the two existing roads. The soils in the area are prone to erosion, which can exacerbate sedimentation impacts and the creation of landslides in the steep mountainous region, especially between *Rio Grande* and *Quebrada Concepción*. The mountainous areas are less disturbed by anthropogenic activities. The EIA reports three threatened species of trees and the presence of a type of cedar reported by MINAE as an endangered species. Diverse species of birds are present in the vicinity of the rivers. The *Boidae*, specie of boa constrictor classified by MINAE as endanger of extinction was reported in the left margin of the Rio Virilla. The existing highways cross principally land dedicated to agricultural and cattle raising activities. The Project is located within a seismic area that has been subject to three earthquakes of magnitude 7 in the scale of Richter in the last 100 years. The Project requires the retrieval of artefacts at 16 classified archaeological sites.

The principal negative environmental impacts will be experienced within the corridor of the new highway, where large-scale construction activities will take place. These potential impacts will include erosion and sedimentation impacts, clearing of vegetation, which will also affect the habitat of terrestrial fauna and birds, interferences with the natural water drainage system, landslides due to the instability of slopes, contamination of surface water, disposal of cut-off material, in particular in the mountainous areas and the impacts on borrow pits. Noise and air emissions from machinery, construction vehicles and asphalt pouring activities as well as the associated waste characteristic of large-scale construction activities will be generated in the area of the new highway. Even though the construction works are not very labor intensive, there is a potential for accidents during the civil works which include cutting, excavating and the pouring of concrete and asphalt, as well as the use of explosives and construction machinery. To a much lower degree, some of the referenced environmental and health and safety impacts will be experienced in the refurbishment of the existing roads. The only major civil works will be required in Section I, where existing bridges will be expanded to accommodate the expected highway traffic. No major social impacts are anticipated as a result of the construction activities, as workers can be withdrawn from the city or the port area and their presence shall not stress nearby communities. The operation of the Project could result in potential vehicular accidents involving hazardous materials as well as collisions with local fauna in the mountainous region. Indirect and cumulative environmental and social negative impacts are anticipated from opening an important corridor between the capital and the ports in Puntarenas. The potential indirect impacts include increased development pressure in the area, encroachment in the right of ways, increase traffic and noise and induced deforestation in areas adjacent to the ROW.

The PGA includes the environmental control, mitigation and monitoring measures required by SETENA. COVISA will be responsible for the definition of the mitigation measures for contractors and the implementation of the safety and control measures for the operation of the highway. In addition, COVISA must provide a 1-million dollars bond to SETENA to guarantee the Concessionaire's compliance with the environmental requirements during construction. A bond for an identical value will be placed prior to the start of operation of the Project and will be valid up to 30 days after the end of the concession period.

The IDB has requested from the Project Company the preparation of an Environmental Analysis (EA) to identify better any environmental and social liabilities, such as encroachment in the ROW, soil contamination, safety hazards, etc, the specific impacts of the proposed works and the required mitigation measures. In addition, the Bank will require COVISA to conduct adequate consultation activities prior to the commencement of the construction works. The Bank will review the EA and the existing EIA and will require if necessary, complementary studies to update baseline conditions and to better assess all Project impacts. In particular the Bank will confirm that the environmental plans (Environmental and Social Management Plans, Health and Safety Plan, Contingency Plan and Spill Prevention and Counter Control Plan) consider the impacts of the Project (i.e. three sections) and address all direct, indirect and cumulative environmental, social, health and safety and labor impacts.

The Project team, with the assistance of an independent environmental consulting firm will perform an environmental and social due-diligence in order to confirm that all Project impacts have been and will continue to be properly and adequately mitigated, addressing in particular the following aspects:

- Confirm that the required Right-of-Way (ROW) for both the expansions of existing roads (i.e. new lanes) and for the construction of the new road from Ciudad Colón-Orotina are free of encroachment (people living within the ROW) and that the residents and owners of the land have been adequately expropriated and/or compensated.

- Verify if resettlement of affected population will not be required in both the existing and the new roads and if applicable, assess compliance with the IDB Operational Policy OP-710 on Involuntary Resettlement.

- Verify that the analysis of alternatives for the selection of the route for the new road from Ciudad Colón-Orotina included environmental and social considerations, with special emphasis on environmental sensitive areas, conflicts on land use and archeologically areas.

- Confirm that the principal impacts of the new road such as erosion, sedimentation and associated impacts on natural water drainage system, water quality on the various rivers and streams being crossed, clearing of vegetation, retrieval of artefacts at the 16 classified archaeological sites, impacts of the quarries and disposal off construction material have been adequately assessed in the EIA and that complete control, mitigation and monitoring measures are being identified and included in the

PGA.

- Assess the level and adequacy of consultation and communication procedures with special emphasis on the EIA for the new section of the road from Colon to Orotina, in particular, as the environmental authority did not require a public hearing.

- Assess the proposed communication strategy to inform the users about the application of a toll for the use of the road and evaluate if the toll has the potential to generate claims against the Project, both by users and the communities neighboring the existing roads.

- Confirm that adequate provisions are being considered to reduce the potential of accidents for both the users of the existing road (e.g. collisions, pedestrian safety risks, etc.) and the construction workers as a result of the construction activities in the existing roads as well as the provisions to mitigate nuisances to neighboring communities and road users (e.g. traffic interruption, closure of road, increase traffic, etc.).

- Confirm that adequate provisions will be designed and implemented to reduce the potential risks of accidents involving hazardous materials.

- Verify that environmental and social indirect and cumulative impacts such as increased development pressure, induced deforestation in adjacent areas, traffic, and overall of the strengthening of the Caribbean -Pacific Corridor have been adequately identified and that the control, mitigation and monitoring measures are being considered by the applicable parties.

- Assess the environmental and social record of *José Cartellone Construcciones Civiles S.A*, and SNC-Lavalin International Inc, the Argentinean and Canadian Sponsors respectively.

- Comment on the proposed Environmental and Social Management Plans (PGA) to be developed for each of the sections of the Project in terms of its adequacy, completeness, viability and the required costs for its implementation, including those for environmental monitoring.

- Confirm that the Project design includes adequate provisions for drainage in flood prone areas, as well as in the hilly areas, and that an evaluation of the risks/impacts due to seismic activity, flooding or land movement has been adequately assessed.

The Bank, as part of the due diligence process, will analyze the environmental and social aspects of the Project and will prepare a Project Environmental and Social Management Report ("ESMR") for review and approval by the Bank's Committee on Environment and Social Impacts ("CESI").