

ABENGOA REVOLVING LINE OF CREDIT FOR EARLY STAGE INFRASTRUCTURE FINANCING

ENVIRONMENTAL AND SOCIAL STRATEGY (ESS)

- Description of the operation.** The proposed operation consists of an up to US\$200 million loan or guarantee in US dollars or local currency revolving line of credit facility to Abengoa S.A. (“Abengoa”) to support Abengoa’s development of primarily energy and water and sanitation infrastructure projects throughout the Latin American region. Proceeds from this facility will be used to finance the early stages of Abengoa’s projects, including specific activities such as: (i) final engineering work; (ii) purchase of land, machinery and equipment; (iii) initial construction; (iv) preparation of environmental and social impact studies; (v) legal expenses; etc. The facility will be able to finance up to 50% of the total project cost of each underlying project. It is expected that each drawdown will average approximately US\$50 million and that this amount will be sufficient to cover the early-stage financing needs of most of the pipeline projects. In the few cases of very large projects where this amount is insufficient to cover the full need, Abengoa will raise additional funds to complement IDB’s line. The proposed line of credit is intended to be a quick-disbursing mechanism which will allow Abengoa to focus its efforts on project implementation and securing long term funding.
- The Borrower.** Abengoa S.A. was founded in 1941 and has evolved into one of the world’s leading developers of energy infrastructure and provider of environmental services. The company has three main lines of business: Engineering and Construction, Concession-type infrastructure, and Industrial production. Abengoa is active in a variety of energy types, including solar, wind and hydro, as well as transmission, desalination, industrial waste recycling and biofuel production.
- Abengoa’s potential pipeline that could be financed by the credit line with the IDB.** Abengoa has an extensive pipeline of infrastructure projects throughout the region that it expects will require financing over the next five years. However, since these projects require obtaining concessions and other governmental authorizations or depend on reaching offtake agreements with private companies, it is not possible yet to define which projects will be candidates to receive IDB’s financing. An indicative list of potential financing opportunities based on the current pipeline is presented below:

Sector	Country	Investment Amount (USD Million)	Expected Bid Date	Revenue Currency
Transmission	Peru	\$280	Q2 2011	USD
	Chile	\$802	Q3 2011	USD
	Brazil	\$1,600	2011	BRL
Wind Generation	Brazil	\$300	Q2 2011	USD
	Chile	\$110	Q4 2011	USD
	Mexico	\$300	Q2 2011	USD
Hospital Development	Chile	\$1,300	2011	USD
Desalination Plant	Mexico	\$23	2011	MXP
Aqueduct	Mexico	\$500	2011	MXP

- Environmental and Social Impacts.** The proposed facility could support either (i) costs associated with the design and preparation of infrastructure projects (engineering design,

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preparation of environmental and social impact studies, etc.) and/or (ii) the capital expenditures of 6 to 8 infrastructure projects which could include wind farms, transmission lines, a hospital, a desalination plant or an aqueduct. In the case of the former, the financing of the final design and the preparation of environmental and social impact studies will allow the Bank to have important additionality in enhancing project design and incorporating environmental, social and health and safety safeguards and practices at the earliest stage. The financing of capital expenditures of the type of infrastructure projects being proposed could result in adverse environmental and social impacts, which will vary in nature, intensity and duration based on the specific characteristics, location and the social context of the each individual project. At this time the projects feasible to receive IDB support have not yet been identified and thus the specific environmental and social risks, impacts and environmental and social safeguard requirements associated with each project cannot be assessed at this time. In general terms, the potential environmental and social impacts and risks of the facility will be those related to the individual projects to be financed or guaranteed. Wind energy projects can result in adverse environmental or social impacts, which will vary in nature, intensity and duration based on the specific characteristics, location and size of the wind farm and its social context, being the most significant avian and bat mortality, noise and land use issues. For example, the Bank has financed 2 different wind energy projects in the same geographical area, but due to the difference in generation capacity and social its social context, one wind farm was classified as Category A due to the significance of its impacts while the other project was classified as Category B. Similarly, transmission lines and to an extent the hospital, desalination plant and aquifer will have to be evaluated on an individual basis to determine the significance of its environmental and social negative impacts.

5. **Environmental Impact Categorization.** Due to the nature of the proposed facility, which will be managed by the Bank to support the preparation and or capital expenditures of Abengoa's projects, but which the specific ones are not known at this time, the team proposes that this operation be classified as a financial intermediation operation as per the requirements of Directive B.13 of the IDB's Environment and Safeguards Compliance Policy (OP-703). The underlying projects to be supported by the facility are expected to be Category B for its environmental and social impact. For any project that could potentially be classified as Category A for its environmental impact, the use of proceeds of the loan will be limited to the development costs for the preparation of the project (engineering design, preparation of environmental and social impacts studies, consultants, lawyers, etc.). The eligibility criteria for these loans will require that the scope of the environmental and social studies comply with the IDB's environmental and social policies, that no construction work starts until the studies are completed to the satisfaction of the Bank and no capital investment expenses will be financed until the Bank confirms that the necessary safeguards are in place to ensure compliance with IDB policies.
6. **Approach for the Environmental and Social Due Diligence.** The Bank will apply a two-tier approach for the assessment of the environmental, social, health and safety and labor (ESHSL) aspects of the proposed facility. First, the Bank will assess Abengoa's capacity to manage ESHSL aspects of the types of projects being proposed for financing or guaranteed

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through the facility. The Bank's will advise Abengoa on the IDB policies and requirements for environmental and social studies, as to develop the necessary guidance in the case the facility is used for the financing of studies. Similarly, the Bank will assess Abengoa's ESHSL policies, procedures, practices and/or systems for managing the ESHSL during the construction and operational phase of the type of projects that could be financed. It should be noted that in 2010 the Bank approved a loan to Abengoa for the expansion of the ATE III transmission line project, for which the IDB required the development and implementation of an Environmental and Social Management System (ESMS), which is being implemented satisfactorily for the expansion of this transmission line. The due diligence will assess whether this system can be enhanced with Abengoa's corporate policies and procedures to expand the scope to assess and manage the proposed projects and the characteristics of the IDB's proposed revolving line of credit or whether other similar but corporate ESMS can be used for the facility.

7. The second level of assessment will focus on the underlying projects. The Bank will conduct individual and tailored environmental and social due diligence (ESDD) activities on the projects to be supported by the facility. These ESDD will focus on compliance with the ESMS *vis a vis* the characteristics of the underlying project. The team will explore mechanisms to support the responsiveness of the facility, including hiring a third party to assist the Bank with the evaluation of the implementation of the ESMS when financing capital expenditures.
8. During due diligence, the project team will define the internal process for managing the ESHS aspects of the revolving line of credit and the requirements to be met prior to the disbursement of each tranche of the line of credit. For disbursements related to capital expenditures or after construction has started, this process will consist mainly on (i) confirmation that potential environmental and social risks and impacts are adequately identified and assessed, (ii) assessing that requirements for environmental and social management are commensurate to the impacts and risks of each underlying project and that these are established in relevant documents, and (iii) that the environmental and social aspects of the underlying operations are adequately monitored and reported upon, both consistent with Abengoa's ESMS and the Bank's for managing the ESHS aspects of the revolving line of credit.
9. The findings of the due diligence will be reported in an Environmental and Social Management Report (ESMR), which will also include any actions or activities and its timeframe that will need to be conducted as part of the Bank supporting this operation.