ANNEX XII
ENVIRONMENTAL AND SOCIAL MANAGEMENT REPORT
COLEGIOS PERUANOS: QUALITY PRIVATE EDUCATION FOR EMERGING SOCIAL CLASSES IN PERU
PE–L.1120

I. Overview

1.1 The proposed transaction is a senior, secured loan to Colegios Peruanos SAC (“CP” or “the Company”) of up to US$ 15 million, as part of a US$ 40 million syndicated IDB debt package consisting in an A Loan, a B Loan (up to US$10 million) and a co-loan (up to $15 million). The debt will be disbursed in combination with equity from shareholders to scale the Client’s existing network of 5 schools up (as of December 2011) to a total of 26 in emerging districts of Lima and in provincial cities with high deficits of quality and affordable private education accessible to the emerging social classes in Peru. The project consists of the construction of 21 new schools, including 6 already opened in early 2012, and 15 more to be constructed between 2013 and 2014, increasing current student capacity of 2,200 to a total of 29,000. The total capex cost of the project is US$ 74.7 million.

1.2 Colegios Peruanos SAC is a Peruvian company dedicated to the construction, operation, and management of private primary and secondary schools for the emerging socioeconomic classes of Peru. The Company began operations in 2005 with the construction of a first school in the district of Los Olivos (Lima), and commenced its expansion in 2010 with the opening of four additional schools in the Greater Lima districts of Surco, Chorrillos, San Miguel, and Villa El Salvador which are primarily inhabited by residents from the C and D socio-economic classes.

1.3 In line with the national curriculum, Schools provide a total of 14 years of education, starting with 3 years of initial school and followed by 6 years of elementary and 5 years of high-school. The average classroom currently operates with a total of 29 students, expecting to grow to 30 students by 2015. In order to facilitate the correct functioning of schools, opening occurs gradually, starting with lower age grades in the first years, and then adding new years as students grow.

1.4 The project represents the first phase of a long-term, large-scale network expansion with plans to operate up to 70 schools throughout Peru by 2020. During the first quarter of 2012 during the first phase of the expansion, CP opened a total of six new schools in the districts of San Juan de Lurigancho, Santa Clara in Ate, San Martín de Porres, Bellavista, Chaclacayo, and Carabayllo.

II. Project Description

2.1 The project entails the acquisition of land properties and the construction of schools facilities, including buildings with classrooms, libraries, media and internet labs, cafeterias, and outdoor facilities such as playgrounds, sports courts, and other recreational areas. Exhibit I shows a set of descriptive pictures of existing schools.
2.2 At the end of 2011 Colegios Peruanos had an existing network of 5 schools operating in the following districts of Lima: Villa El Salvador, Venturosa, San Miguel, Los Olivos, and Chorrillos. The five schools have an installed capacity of 2,200 students in five land properties totaling 15,540 m² and a total construction area of 10,525 m².

2.3 In 2012, 6 new schools totaling 18,249 m² of construction were built in 6 properties totaling 19,980 m² of land, averaging 3,330 m² per school. These six schools are located in the districts of Callao, San Martin de Porres, San Juan de Lurigancho, Chaclacayo, Santa Clara, and Carabayllo. The initial capacity of these 6 schools is 3,708 students.

2.4 During 2013 and 2014 the company expects to acquire locations and build a total of 11 additional schools in Lima and start its nationwide expansion by starting one additional school in each of the cities of Trujillo, Piura, Chiclayo, Chimbote and Tacna. Total land acquisitions during this period are expected to add up to 93,000 m², raising the average school lot size to 6,200, in light of lower cost opportunities that are available in emerging cities of Peru, where larger sized lots will be acquired. With the addition of these schools, a total of 18,287 new seats will be available by 2014, taking total capacity of the system up to 24,164 students. As the expansion of existing schools is completed, total capacity would gradually increase until 2018, when total capacity of the system would reach 49,556 students.

2.5 All schools are built following top construction standards on areas of between 2,500 and 7,000m², featuring ample open spaces for recreation and outdoor activity, a multi-purpose sports court, a dining area where kids can buy healthy food or bring their own lunch, a computer lab, and a library. For each new school construction project, the company uses a competitive, closed-envelope bidding process, choosing the best third party proposal in terms of costs, execution time, experience, and service quality. The use of different contractors allows CP to maintain a buying power and ensure the best combination of price, delivery, and quality. CP uses standardized construction contracts requiring fixed price, date certain delivery by its hired crews, and requiring them to provide all industry-standard insurance bonding and warranty provisions.

2.6 A significant challenge that CP faces in its growth process is the availability and affordability of suitable land properties. In this regard, the Company’s strategy is to identify properties that reunite a minimum number of characteristics: (i) location in emerging C and D districts with significant captive demand but where land prices have not yet reflected their full price potential; (ii) surroundings that are compatible with and educational setting; (iii) compliance with zoning regulation and permitting; (iv) availability and affordability of local construction services; (v) land quality and aptitude for construction. A key competitive advantage of CP is its contract with Nexus’s land bank service, which gives them access to a weekly updated database of property opportunities previously screened by one of the best real estate groups in the country, which serves the whole Interbank Group. CP may decide to purchase lots for school construction against payment of a finder’s fee of US$20,000 to Nexus, which delivers the property fully cleared in terms of permitting, zoning, and any additional requirements to
ensure a ready to build serviceable lot. Previous uses of lands where schools are built vary from one case to another, with a predominating tendency for housing, both individual and multi-family. Although each municipality has its own set of requirements regarding location and layout, in general schools need to have a minimum number of parking spaces, a specific area for children drop-off/pick-up, and being at least 50 m away from the closest gas station. Other criteria for site selection include pricing, construction costs (which tend to vary significantly at a local level)

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III. Institutional and Legal Framework

3.1 The construction and operation of Colegios Peruanos’s schools are subject to the following regulations:

a. Construction and operation of facilities is subject to Law 290 (Ley de Regulación de Licencias de Habilitación Urbana y Edificación), which establishes the legal regulation of all administrative procedures for the procurement of urban habilitation licenses and edification.

b. Ley General del Ambiente Ley Nº28611, Art. 24°

c. Reglamento de la Ley del Sistema Nacional de Evaluación de Impacto Ambiental D.S.N° 019-2009-MINAM

d. Municipalidades Ley Nº 27972

e. Reglamento de Estándares Nacionales de Calidad del Aire D.S. Nº 074-2001-PCM


g. Ley General de Residuos Sólidos Ley Nº 27314, su Reglamento D.S. Nº057-2004-PCM y modificatorias.

h. Reglamento Nacional de Edificaciones, which establishes anti-seismic standards to be incorporated in buildings.
i. Compliance with the Instituto Nacional de Defensa Civil’s (INDECI’s) Law 19338 and its modifications.

j. Other norms that may apply at each municipal level, usually varying from one to another.

3.2 This operation triggers the following directives of the IDB’s Environment and Safeguards Compliance Policy (OP-703): Directive B.3 (Screening and Classification), Directive B.4 (Other Risk Factors), Directive B.5 (Environmental Assessment Requirements), Directive B.6 (Consultations), Directive B.7 (Supervision and Compliance) and Directive B.11 (Pollution Prevention and Abatement). IDB’s Disaster Risk Management Policy (OP-704). While very unlikely, the construction of new schools could require resettlement of population, for which the IDB’s Involuntary Resettlement Operational Policy (OP-710) would apply. As per the provisions of the IDB Policy OP-703, this operation is being classified as a Category “B” due to its potential environmental and social impacts, which are described in the following section.

IV. Environmental and Social Impacts and Risks

4.1 Schools are, and for the case of new, will be located in urban areas. The environmental and social potential impacts are those related to the construction and operation of individual schools. Each individual school is likely to have particular characteristics according to its surroundings and its general location. These include environmental aspects such as, but not limited to, waste management, water and wastewater treatment, and air emissions from school traffic, as well as social aspects such as inclusion (access to lower-income students and/or vulnerable groups (i.e. women, indigenous people, afro-descendants) and health and safety and labor aspects, particularly during construction/expansion works. These Environmental, Social, Health and Safety (ESHS) impacts will be those generally associated with the construction of urban buildings, including erosion and sedimentation, air emissions (including dust and noise), wastewater, and solid and hazardous waste. There might be other impacts associated with the schools development related mainly to the magnitude of each individual project.

4.2 The key potential project-related ESHS impacts related to new constructions include but are not limited to: Social issues associated with acquisition of the site, including any potential displacement of illegal settlements occupying the construction site, and any changes of land use; impacts resulting from construction on potentially contaminated sites or that could present a human health risk, such as soil and ground water contamination, equipment containing polychlorinated biphenyl compounds, or potential presence of hazardous gases/materials; typical temporary impacts from construction related activities such as loss of vegetation, soil erosion; increased air emissions and noise as a result of construction, engine combustion from heavy equipment and machinery, increased generation of solid waste and construction debris, potential contamination or disruption of surface and ground waters; etc.; potential impacts on lands/constructions located in areas of previous use activities that may result in localized
environmental problems, such as abandoned landfills or waste disposal areas, industrial facilities, etc.

4.3 During the operational phase of the Sub-Projects, the main impacts will be from waste generation and vehicular greenhouse gas emissions from commuting to the Project site by students and workers; the main health and safety impacts to students and site workers are fire, indoor air quality, and exposure to cleaning products. In regard to social impacts during the operational phase of the Sub-Project, increased traffic around the Sub-Project site and the degree to which the Sub-Project provides equal opportunity for education to vulnerable groups (including low-income students, minorities, and women) are the key aspects. In addition, vulnerability to natural disasters, such as earthquakes, is also to be considered.

V. Public Consultation

5.1 It is a general guideline of the company to engage in a process of public consultation before engaging in the construction of a school. The community in general is invited to know more about the project through local physical and radio advertising, providing contact information and references to the webpage.

5.2 As stated in the “Plan de Participacion Ciudadana” that makes part of the FICA (see Section VI below), the company performs local surveys to assess (i) demographic characteristics of the local population, (ii) degree of knowledge and perception of the project, (iii) and willingness of the community to participate in the project. In order to estimate the sample population, areas of influence are determined to estimate total population, and using the SAMPIERI method, a sample is determined at a 77% confidence level.

5.3 The Client also keeps constant communication with municipalities and community association where schools are to be located, offering ample information about the construction process, operation of schools, and actions to prevent negative impact on transit.

5.4 With the double purpose of marketing the schools and engaging in a bi-directional dialogue with community members and potential future student parents, every Tuesday CP runs an on-site workshop where the company presents their teaching methodology, education advantages of Innova Schools, information about the construction process, and all other relevant information. A Q&A session then starts, which usually extends for 2 hours, where parents find answers to all their questions, and have the opportunity to sign up for the admissions test. The Project Team had the opportunity to be present at one of these sessions, and witness the active curiosity of families in the various topics and willingness of Innova Schools management to provide ample information and responses to the discussion topics.
VI. Environmental and Social Management

6.1 While every individual school is duly assessed by CP for its potential environmental and social impacts following in-country regulations, there is no consolidated documented approach for the management of environmental and social aspects of the a long-term, large-scale network expansion program. As a result of the Bank participation, an Environmental Analysis (EA) of the Program is being conducted to assess the impacts of the first phase (i.e. 26 schools) and define the approach for the management of the environmental and social aspects of the program. The EA documents how environmental, social, health and safety and labor aspects are integrated into the different phases of program, such as the selection of sites, confirmation for compliance with the applicable regulations, technical specifications for the design of the facilities, including adequate seismic building codes, basic EHSL requirements in the contracts with construction companies, and the management of ESHSL aspects from the operation of the schools. These aspects are used to define CP corporate approach for managing the EHSL aspects of the program, which will be the basis for the development of an Environmental and Social Management System (ESMS). Presented below is a summary of the process followed to assess each individual school.

6.2 The FICA report: For each of the schools to be constructed, the company performs an environmental classification file (Ficha de Clasificación Ambiental or FICA), an internal document of approximately 30 pages that made through outsourcing with the company Ecogestion Consultores SAC, a local consulting firm specializing in environmental and social impact assessment. The file starts with a general description of the project’s sponsor and the project itself. It defines with detail the areas of direct and indirect influence of the project, describing external stakeholders and potentially affected physical spaces that surround the school. The FICA provides the list of all regulations that apply to the execution of projects (this list was included in point III of this document for reference). It also lists the different stages of the project (planning, construction, operation, maintenance, and potential closing or abandonment of facilities), all the activities that take place at each stage, a description of all techniques utilized during the construction phase, and a quantification of inputs, materials, and personnel to be employed.

6.3 The FICA identifies specific environmental risks arisen and generated at each of the activities of the project. There is a specific section dedicated to naming, characterizing, and quantifying all effluents generated at each stage. Examples of effluents typically found in these projects are domestic effluents at portable bathrooms, solid residuals resulting from excavation activities, pieces resulting from cutting of iron, wood, copper cables, PVC tubes, and others.

6.4 Noise generation is also assessed to verify compliance with local noise regulation, establishing hours of operation to minimize negative impact on neighbors. Generally speaking, the construction phase is the one that poses a higher degree of
noise pollution. A similar procedure is employed for assessing vibration effects of construction machinery.

6.5 Additionally, the FICA performs a thorough job of describing the aspects of physical, biotic, social, cultural, and economic environments surrounding the schools. Specific aspects assessed are weather and meteorology, geology and geomorphology, analysis of soil layers and their properties, and air quality, and how the project affects each of these categories.

6.6 The FICA report ends with a descriptive summary of the environmental management strategy of the company. In a first table the report names the phase, the activity, the environmental aspect to be impacted, and the impact itself. A second table summarizes the preventive, mitigating, or corrective actions to be taken in order to control all risks. A third table outlines a follow-up and control plan to ensure that actions are duly implemented. Finally an implementation budget is presented to assess the total cost of the environmental management strategy.

6.7 Certification from INDECI: All schools are designed and continuously improved to meet the standards of, and receive the certificate from, the Instituto Nacional de Defensa Civil, the national authority that supervises safety standards in facilities. Schools are equipped with emergency exits, fire alarms and extinguishers, emergency lights, stairs with anti-slip surfaces, and adequate bathrooms. The certification process includes a first inspection visit from INDECI where facilities are examined in full detail and assessed for compliance with norm. In the cases where there is no compliance, INDECI recommends steps to be taken to comply with norm. A process could take more than two visits until the school complies with all the requirements and is issued a certificate.

6.8 Transit Impact Study: Colegios Peruanos also performs a study specifically designed to assess the impact of new school developments on public transit. The study is a 50+ pages report that concentrates in studying the project’s location, areas of direct and indirect influence, description of current situation of surrounding streets and public ways, analysis of intersections, a detailed analysis of vehicle flow and rush hours using queue analysis theory, simulation and modeling of transit, a thorough description of potential positive and negative impacts that the construction and operation of the school will have in the area, and a list of preventive and mitigating actions to reduce negative impacts.

VII. Recommendations

7.1 As part of the Loan Agreement between the IDB and CP, the IDB will require that Colegios Peruanos comply with:

- all applicable Peruvian ESHSL regulatory requirements (permits, authorizations, or licenses that apply to the Project, the Borrower or any party responsible for executing the Project or its mitigation measures,
• All relevant IDB policies such as the Environment and Safeguards Compliance Policy (OP-703), the Disaster Risk Management Policy (OP-704) and the Disclosure of Information Policy (OP-102), the Involuntary Resettlement policy (OP-710), and the Gender and Equity in Development Policy (OP-270) and their respective guidelines the Fundamental Principles of Rights at Work (together referred to as the IDB Environmental and Social Requirements). Notice of any and all noncompliance with any environmental, health and safety, social and labor requirement of the loan agreement and any significant environmental, social, labor, health and safety accident, impact, event, claim, material complaint or other known risk.

• Ensuring that all the Borrower’s contractors hired for construction and Project activities comply with the applicable environmental, labor, social and health and safety requirements of the loan agreement.

• Implementing ongoing information disclosure and consultation activities related to environmental, labor, social, and health and safety aspects of the Project.

• Based on the Environmental Analysis, develop and implement an Environmental and Social Management System (ESMS) that is consistent with ISO 14001 and OHSAS 18001 and providing adequate resources for its implementation.

7.2 Prior to closing, IDB will verify that an action plan is clearly defined for the developing of the ESMS, including the definition of a policy approved by the Client’s Board of Directors, and that it contains all necessary elements to comply with the IDB Environmental and Social Requirements. The Policy will contain at least the elements outlined in the FICA report currently being performed by the Client, the Transit Report, and other elements that may be pertinent.

7.3 In order to comply with the IDB Environmental and Social Requirements CP will be required to present to the IDB, for each of the schools to be built with the proceeds of the IDB Loan, an Environmental Management Report following the provisions of the ESMS.

7.4 The IDB will monitor the environmental and social aspects of the Loan Agreement and require CP to present environmental and social compliance reports in form, content and frequency satisfactory to the IDB.
Exhibit I

Descriptive Pictures of Innova Schools and Competitors
Colegios Peruanos: Quality Private Education for Emerging Social Classes in Peru - PE-L1120
OMJ – Loan Proposal

Outdoors Infrastructure
Classrooms and Computer Lab
Dining area and other
Kids in class

Surroundings of School in Surco