

**CERREJÓN FOUNDATION
FOR THE PROGRESS OF
LA GUAJIRA**

**2009
MANAGEMENT
REPORT**

January 2010



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I. INTRODUCTION AND SUMMARY

After the creation of Cerrejón Foundation in March of 2008, as part of the Foundations' System created by the company Carbones de Cerrejón Ltd. That also comprises, Cerrejón Foundation for Water of La Guajira, Cerrejón Foundation for Institutional Enhancement of La Guajira, Indigenous Guajira Cerrejón Foundation, Cerrejón Foundation for the Progress of La Guajira; and at its mission to "Invest financial, technical and human resources, along with the communities of the region and other entities in order to, in a joint manner, create and enhance sustainable enterprises – social and fiscally responsible - generating jobs in the Department with sustainability along time"; the Foundation defined areas of interest and projects within the former, that began to consolidate towards the end of 2008 and throughout 2009. These projects are described at this Management Report.

Strategic projects of the Foundation were maintained for 2009, at value chains recognised as promising for the region: Tourism through the hotel project that begins to consolidate at the municipality of Albania; Aquaculture with the farming of bivalves at Bahía Portete and the proposal to grow into a company producing and marketing oysters and scallops; and Agricultural, determining the site for a pilot project that shall allow the development of an inclusive business on this chain, with distributors in the zone.

On the other hand, during 2009 was consolidated the alliance with WWB Colombia Foundation, with the purpose of enhancing micro – credit activity in the Department, through an institution specialised in this activity, in the process of becoming a banking entity. The Foundation kept its role as manager of resources for programs of the Sustainability and Public Affairs Department and, in some instances, support to the execution thereof, particularly for the Social Management Division.

Additionally, the Foundation did support, towards the end of the year, the establishment of the CAE – Corporate Service Centre, one of the strategies promoted in order to develop competitiveness in the Department, through the reduction of proceedings required for the creation of enterprises.

The 2009 Management Report presents the major advances of the aforementioned programs at this summary, as well as the learnings that allow us to seek alternatives towards the sustainable development of the Department.



II. PROGRAMS OF THE FOUNDATION

A. PROGRAM 1. CREATION AND CONSOLIDATION OF ENTERPRISES

TOURISM CHAIN

Aligned with the purpose of the Foundation to promote projects that shall support the growing recognition of the Department as a national tourism destination. An invitation to tender has been issued for the determination and construction of a hotel project, that besides meeting accommodation needs of employees, contractors and visitors to the Mine, shall become a hub of development for this activity.

A.1. Project 1: Hotel –room supply in Albania to drive tourism development in La Guajira.

A.1.1. Background

The construction of a hotel nearby the Mine is seen as the hub for the development of a tourism cluster that will also provide accommodation services to meet the current and future deficit at The Mine.

For the consolidation of this project, that has been outlined since the creation of the Foundation, the Foundation has retained the services of the Investment Banking firm Ágora Corporate Consultants Ltda. who is providing the Foundation with consultancy services in the strategy to obtain new resources (external investment for the Department) as well as the construction and operation of the hotel.

A.1.2. Objective

To create a tourism – development hub for La Guajira through the construction of a hotel and, additionally, to meet the need for



accommodation of employees, contractors and visitors of Cerrejón through the construction of a hotel that shall imply the generation of jobs and revenue for the communities of the municipalities located nearby The Mine and that also shall become a hub for tourism development in the Department of La Guajira.

A.1.3. Progress

Upon completion of the process of presentation of the project and its requirements to the Offices of the Mayors and to the Municipal Councils of Albania, Barrancas and Hatonuevo, the municipality of Albania showed interest for the project to be carried out at this municipality (Figure 1) and the commitment of the town is described below. Therefore, a twin – peaked hill (Figure 2), located on the Albania – Cuestecitas road, about two kilometres away from the access sentry post to the Cerrejón Mine has been determined as the site for the construction of the hotel.

Figure 1: Map of La Guajira, location of the municipality of Albania.

Figure 2: Cerrejón access sentry post (Papa 1) Hill where it is planned to build the hotel.

The commitment of the municipality towards this development initiative can be evidenced in the first instance through the formulation of the Municipal Framework Agreement declaring the activity of Tourism as of general and priority interest for the Municipality, additionally, by the presence at joint meetings and the determination to facilitate all agreements and proceedings required for the project to be sound and to have juridical stability. Additionally, the access to the site and the zoning thereof are being worked out jointly with the Office of the Mayor so that it becomes registered at the



common adjustment of the Territorial Land Demarcation System (EOT) being carried out.

As stated above, for the structuring of the strategy to obtain resources and the determination of the firms that could build and operate the hotel, the Foundation, through tender, selected the Investment Banking firm Ágora Corporate Consultants Ltda. As adviser in the process. Its proposal to invite to tender where teams comprised by investor firms, construction firms and hotel – operating firms do submit bids that include a scheme to attract tourists to the Department and a pre – design of the hotel, was deemed as innovating, and it is the one that has started to be developed in order to define, by the first quarter of the year 2010, the design of the hotel and the firms that shall comprise the corporation that shall execute the project.

Another characteristic that adds appeal to the project for its investors is the commitment acquired by Cerrejón to enter into a contract for the use of a number of rooms every month for a period of at least 10 years.

Throughout the year 2009 the Foundation contracted the topography survey and soil survey of the site, the results of these studies and those performed in relation with Cerrejón's demand and tourism needs of the zone, are part of the basic information provided to potential investors, builders and operators.

AQUACULTURE CHAIN

La Guajira, Department with a 365 kilometre long seaboard, which represents 22% of the Colombian Caribbean Seaboard, also has a platform of 3.600 square miles, equivalent to 40% of the Colombian continental platform on the Caribbean, with a traditional fishery vocation, with a fishermen population in excess of 2.030 people and with a population of more than 10.312 people depending upon this activity. 88% of the catch of fish does not use any preservation methods and 88,6% does not use any processing method, it is also known that 83.6% of the catch is marketed wholesale.

The traditional fishery chain in La Guajira exhibits some facts that affect its development in a negative manner: the lack of storage processes, cold chain, the modernisation of traditional fishing, lack of sensitivity for the preservation of the resource and the ecosystem, limited financial capacity of the sector, price instability, lack of specialised transportation, lack of infrastructure and basic services that affect marketing, there are neither defined marketing strategies nor channels, nil legalisation of fishing activities, the existing organisations do lack administrative and financial processes for their operation.



On the other hand, aquaculture in Colombia is focused upon some species of fish such as red tilapia, cahama and sweet water trout as well as sea prawns; as a consequence of a lack of information on aquaculture matters as well as the tradition not to eat any other sea product. Bivalves are currently the group of marine organisms subject to farming that show the best outlook with regards to production and profitability, production costs are not high and these are a valuable source of food.

A. 2. Project 2: *Bivalve Farming.*

A.2.1. *Background*

At the Media Luna zone, after completing the second phase of Bivalve farming, the community stated its wish to undergo training and to get support in order to establish an adequate organisation that shall carry out production activities (breeding, finishing, harvest and processing) and marketing of oysters and scallops. Through this initiative we can apply the utilisation of a marine resource different from traditional ones, thus minimising the over-exploitation of some species at the activity of traditional fishing. Another contribution is the improvement of the quality of life of the traditional fishermen of the Media Luna community at Bahía Portete, developing initiatives that shall consolidate employment and generate revenue to the community of Media Luna tending to minimise food uncertainty and it also seeks a reduction on the dependency of the community generated by middlemen for the marketing of the products of fishery, without disrupting the social structure. And finally, to generate good practices in the handling of food, both Bivalves as well as Traditional Fishing products.

Phase III consists in the process of the community forming an organisation which, eventually shall consolidate in the creation of an enterprise for the production and marketing of oysters and scallops. This phase counted with co-financing resources from Acción Social, as part of its program against illegal crops, through an agreement executed with the USAID/MIDAS program.

A.2.2. *Objective*

To create an organisation dedicated to the farming, processing and marketing of bivalves (scallops and oysters) at Bahía Portete, through rational and sustainable practices that shall contribute to the improvement of living conditions of the Wayuu community at Media Luna.



A.2.3. Progress

During the first semester of the year 2009, upon completion of the second phase of the project, and counting with a first approach to a business plan, is acknowledged the intent of the community to go ahead with the project, under a business perspective.

Counting with cooperation resources from Acción Social, through an agreement executed with the MIDAS program of USAID, more than 150 members of the Wayuu community at Media Luna, did participate in trainings and workshops that did enhance already acquired knowledge ranging from the significance of preservation of species at the zone of their fishing activity, the creation of handicrafts with shells (the latter with the participation of community children) as well as engine maintenance workshops; other issues were the establishment of an organisation, maintenance of harvesting lines; harvest and post – harvest processes (with the participation of women and men of various ages).

These activities were complemented with two exchanges of experiences, at which members of the community were able to observe the reality of a community organisation in Tumaco, dedicated to the marketing of pianguas (a bivalve found in the mangroves of the zone) and its breeding and growth process (Figure 3, collection of Pianguas), and, on the other hand, two firms in Cartagena, one is the producer of 33% of the prawns produced in Colombia (C.I Oceanos S.A.) and a smaller – scale marketing company of sea products which showed interest both in the marketing of oysters and scallops that can be produced at Puerto Bolívar, as well as the fish of the zone (C.I. Comerpes S.A.)



Figure 3: Collection of Pianguas in Tumaco with the Nariño Association of Shell Fishermen –ASCONAR.

Figure 4: Visit to prawn farming site of C.I. Océanos S.A and the plant of C.I. Comerpes. S.A. by members of the Media Luna community.

The community was visited by Chilean experts in the farming and post-harvesting of scallops, hired by the Foundation to provide advise to the project on the definition of the post – harvest process. This consultancy did exceed expectations as it not only did propose the possible location, organisation and needs of the plant, as well as post – harvest process manuals, but also it did pose concerns regarding some procedures and assumptions regarding the business plan, that are indispensable, such as feedback to adjust the project and improve processes (Figure 5, visit of experts from Chile Foundation at Puerto Bolívar).

Figure 5: Visit of experts from Chile Foundation in the production and post – harvest of scallops. Explanation of the de shell-removing process.

Another product related with the organisational purpose of the third phase is: the Bylaws of the Association the fishermen pretend to create, that shall include traditional fishing activities, and aquaculture activities being promoted in the zone, particularly the farming of oysters and scallops, and administrative, functions and procedures' manuals.

This shall become a pilot project not only with regards to the establishment of enterprises in the Department, but more so regarding the management of international – cooperation resources.



AGRICULTURAL CHAIN

This chain offers opportunities of inclusive business with large retail store chains at the zone for agricultural products, additional to the demand generated by local markets.

Municipalities located in the south of La Guajira, possess soil and water conditions that allow for the development of strategic agricultural products at the zone, and the Foundation is currently developing, along with CECODES, in alliance with Netherlands' cooperation, feasibility studies in order to determine specific inclusive business.

A. 3. Project 3: Inclusive business for agricultural products with large retail store chains.

A.3.1. Background

The CECODES – SNV (Netherlands Service of Cooperation for Development) alliance has acknowledged the opportunity to generate an Inclusive Business, understood as an entrepreneurial initiative that, without disregarding the final objective to generate profits, does contribute to the overcoming of poverty through the incorporation of low – resources people to the value chain. This project is being worked out with the Social Management Division of Cerrejón Ltd. At the Los Remedios community.

A.3.2. Objective

Cooperation and co-financing for the formulation of a viable business plan for the production of agricultural products, that shall allow for the execution of an Inclusive Business between CARREFOUR and a group of producers of La Guajira, with the advise of the SNV – CECODES alliance. This production can also have an outlet at local markets.

A.3.3. Progress

Upon the execution of the agreement, the company Prodesarrollo did perform a pre-feasibility study and defined a proposal whereby 25 community members will work on 25 hectares, planting 5 products, both perishable and non – perishable, for a period of time not less than 3 years; these products have a demand both at local markets as well as at the



supermarkets of the region and shall become the possibility to become the pilot project at this chain.

B. PROGRAM 2. ENTREPRENEURIAL FINANCING

B.1. Project 1: Alliance with WWB Foundation

B.1.1. Background.

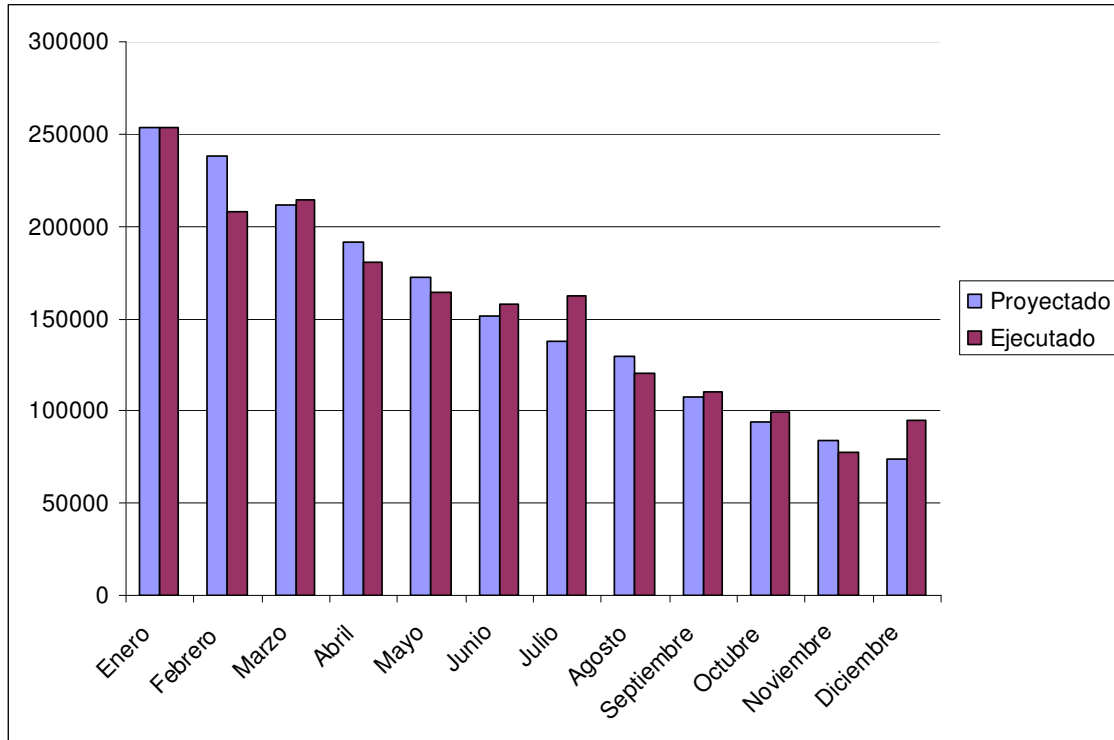
The traditional micro-credit program of Cerrejón Foundation, acknowledged in the region for more than 25 years as a support for micro-entrepreneurs, was created with the purpose of enhancing productive projects, mainly subsistence ones, through credits to which the holders usually did not have access to. Opposing the sole additional option of usury, with high interest rate levels, this was an alternative for more than 17.000 clients throughout 25 years.

The determination of the members of the Board of Directors of the Foundation at the end of the year 2008, about establishing strategic alliances with entities with more experience in this activity, in order to focus its operation on enterprises that shall generate a greater impact, led the Foundation to define and execute an alliance with WWB Foundation, that allows the traditional clients of the former to maintain their access to credit, through an entity recognised in the Country and thus allowing Cerrejón Foundation for the Progress of La Guajira, to concentrate its efforts in strategic projects that generate more employment levels for the inhabitants of La Guajira. As from the month of December 2008, the Foundation ceased to grant credits, its clients became the clients of the alliance; throughout 2009 was maintained the activity of collection of the portfolio that was not transferred to the alliance. This activity shall continue throughout 2010, year when this activity shall be completed and resources then shall be invested in other projects.



B.1.2. Behaviour of portfolio throughout 2009.

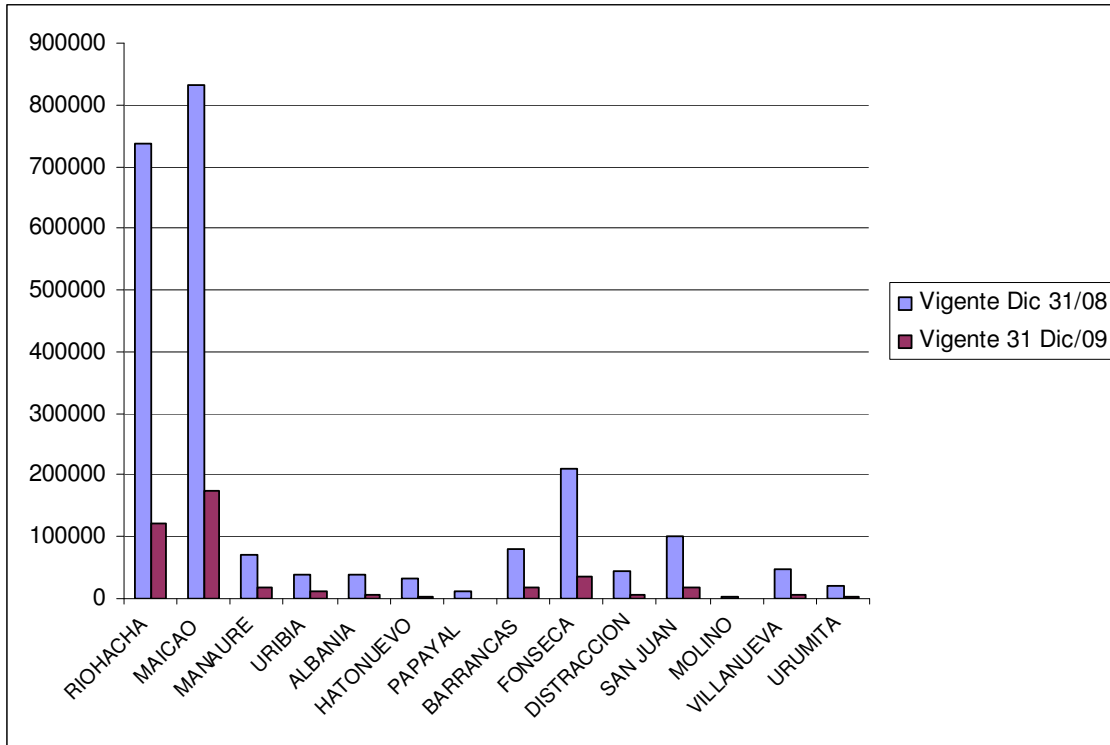
Chart 1: Projection of Collection Vs Executed



The above Chart shows the behaviour of projected portfolio collection (Col. \$ 1.800 Million) during the year 2009, In order to meet these goals were established collection strategies (personal visits, calls to debtors and co-signers, etc...) this activity also counted with the support of external attorneys.



Chart 2: Comparison of portfolio at December 31 of 2008 Vs portfolio at December 2009.



At the above Graph we can note how during the year 2009, more than 80% of micro-credit portfolio was collected, and shown in detail at Chart 1

Chart 1: Collection Percentage per Municipality

Municipality	Collection %
RIOHACHA	83%
MAICAO	79%
MANAURE	75%
URIBIA	68%
ALBANIA	87%
HATONUEVO	90%
PAPAYAL	95%
BARRANCAS	78%
FONSECA	83%
DISTRACCIÓN	86%
SAN JUAN	83%
MOLINO	100%
VILLANUEVA	90%
URUMITA	88%



B.2. Project 2: Financing productive projects of the Tabaco community.

B.2.1. Background.

As a response of the commitments established by Cerrejón with the Tabaco community, the background of which shall not be elaborated on at this report, Cerrejón Foundation for the Progress of La Guajira, manages the resources allocated for credits for the Business Plans submitted by the Tabaco community and approved by the Committee. Besides going through the processes according to the credit' manual, Progress Foundation does follow-up and support projects in execution.

B.2.2. Evolution.

During the year 2009 57 active projects were subject to control and follow-up. Additionally, support and advise were provided for 22 new business ideas, these were assessed by SENA and approved at the December 3rd of 2009 Credit Committee meeting.

Previous visits were made in order to verify the experience of applicants for new productive projects in the activity they intend to undertake, and also to assess the performance of the business they currently operate, and to establish strategies that will contribute to the improvement thereof, with the support of SENA is being assessed the feasibility of productive and agricultural projects, and with the cooperation of UMATA are made control visits to agricultural projects.

Chart 2: Distribution of active projects at the Tabaco community.

Type of Project	Quantity
Commerce	11
Services	9
Industry (clothing and cabinet-making)	4
Cattle	13
Vehicles	11
Poultry	3
Pork	1
Computers Facilitators	3
Computers	1
Wood recovery	1



TOTAL PROJECTS	57
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Chart 3: New business ideas approved

Type of Project	Quantity
Commerce	7
Services	6
Livestock	6
Vehicles	3
TOTAL PROJECTS	22

B.3. Project 3: Resources of the Oreganal Coordination Panel

B.3.1. Background.

As a response to the commitments established by Cerrejón with the Oreganal Coordination Panel, Cerrejón Foundation for the Progress of La Guajira, manages the resources allocated for credits for various activities corresponding to the Oreganal community. Besides going through the processes according to the credit' manual, Progress Foundation does follow-up and support projects in execution

B.2.2. Evolution.

During the year 2009 were received 12 requests for support to new entrepreneurial initiatives, additionally, control and follow-up to 31 active projects.

Previous visits were made in order to verify the experience of applicants for new productive projects in the activity they intend to undertake, and also to assess the performance of the business they currently operate and along with the project leader, establish strategies that will help improve the normal performance thereof.



Chart 3: Distribution of active projects at the Oreganal community.

Type	Quantity
Poultry	2
Commerce	28
Provision of Services (building of fences)	1
Total Projects	31

Chart 3: New business ideas supported in 2009

Type of Project	Quantity
Commerce	4
Services	4
Poultry	2
Provision of Services (building of fences)	2
TOTAL PROJECTS	12



III. OTHER ACTIVITIES OF THE FOUNDATION

A. Recovery of civil works as support to projects of the Company's Social Responsibility Department.

A.1. Fonseca Children's Park

Children's park built with resources from the Office of the Mayor of Fonseca and the from the Foundation, besides direct contributions of the beneficiary community. The park was finished and opened on Wednesday the 5th of August (Figure 6)

Figure 6: Presentation of Children's Park to the Fonseca community.

A.2. Rebuilding of the Oreganal cemetery

With resources from the Oreganal Panel, managed by Progress Foundation, it was determined to rebuild the cemetery, as it is a cultural symbol of the community.



B. Participation at the Corporate Services' Centre - CAE.

B.1. Background and Role of the Foundation in the creation of CAE.

As part of the process for the design and implementation of the national program for the simplification of proceedings, in order to facilitate and promote the processes for the creation and consolidation of enterprises and entrepreneurial support, the Chambers of Commerce of various cities in the country are promoting the creation of such centres. These centres seek to minimise the steps and proceedings required for the registration and formalisation of businesses and enterprises, mostly informal, at the cities where the program is being executed.

In La Guajira, CAE is being supported and funded by the Office of the Governor of the Department, the MIDAS program of USAID, Cerrejón Foundation for the Progress of La Guajira, the Chamber of Commerce of La Guajira. The Foundation shall donate Col.\$ 50.000.000 (Fifty million pesos) in 2010 for the implementation of CAE.

C. Strategic alliances.

C.1. USAID/MIDAS – Office of the Governor of La Guajira – Progress Foundation

These entities did support the development of projects of the Aquaculture Chain in the Department during the year 2009, with funds from USAID/MIDAS and from the Foundation, for the oyster and scallop farming project. Looking towards 2010 there is an opportunity for new resources for the enhancement thereof.

C.2.



IV. TOWARDS 2010

The Foundation shall focus its efforts in carrying out Tourism, Aquaculture and Agricultural projects already referred to at this report, it will also follow-up all other projects for the creation and enhancement of enterprises in the region and shall be ready to review the feasibility of other productive projects that do generate impact in the Department.

It shall maintain the support required by the Social Responsibility Department pursuant provisions at the Bylaws and shall seek strategic alliances for the management of credits and education projects supported by corporate initiatives in the Department.