



CAF's SOCIAL BOND FRAMEWORK

May 2020

Acronyms and Abbreviations

Initials	Description
SDG	Sustainable Development Goals
SBP	Social Bond Principles

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Introduction

Founded in 1970, CAF is a development bank currently owned by 19 countries including 17 in Latin America and the Caribbean, Spain and Portugal as well as 13 private banks in the region.

CAF's main mission is to promote sustainable development and regional integration with the goal of improving the quality of life for Latin American people.

To do so, CAF channels resources from international markets and provides a wide range of financial products and services (loans, co-financing and A/B loans, credit lines, structured finance, guarantees, investment banking and financial assistance services, equity investments, cooperation funds and technical assistance) to both the public and private sectors of Latin America in various economic sectors including energy, commercial banking, social services and health, education, transport, water, etc.

CAF's Sustainability strategy

Adopting the challenges outlined by the UN Sustainable Development Goals (SDGs) as its own, and with the conviction that Latin American countries can make a qualitative leap towards the construction of a more inclusive, low carbon and resilient society, CAF has formulated an agenda to assist countries in the pursuit and achievement of such targets. CAF's strategic approach focuses on mobilizing financial resources into the region to promote investments in infrastructure, energy, social development, environmental sustainability and climate change.



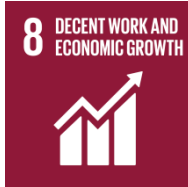


CAF's response to COVID-19

Recognizing the immediate need to support to CAF's shareholder countries in coping with the economic and health effects of the COVID-19, CAF has set up a number of initiatives. CAF has developed an Emergency Credit Line for the rapid disbursement for up to USD 2.5 billion to support and complement the fiscal measures that shareholder country governments are applying to contain the pandemic and alleviate the economic fallout. A contingent credit line of up to USD 300 million has also been established to provide direct support for public health systems. Additionally, shareholder countries have access to non-reimbursable technical cooperation resources of up to USD 400 thousand per country for initiatives related to the pandemic.

CAF Social Bond Framework

CAF's Social Bond Framework has been developed to finance socially impactful expenditures, in particular those that support the region's mitigation of and recovery from the COVID-19 pandemic. The expenditures specifically address the following SDGs:

Table 1. Sustainable Development Goals (SDGs) Alignment

Social Objectives	SDGs alignment
<p>Healthcare System Support</p> <p><i>Providing support to strengthen the capacity of the healthcare system to adequately respond to the health emergency.</i></p>	
<p>Emergency Economic Support</p> <p><i>Support to the economic health of the region by containing the social and economic fallout as a result of the pandemic.</i></p>	   

CAF's Social Bond Framework is considered to be aligned with the Social Bond Principles, 2018 (SBP)¹ and as such, promotes the values of transparency, disclosure and reporting. The next sections specify CAF's approach in respect to the following four core components:

1. Use of Proceeds,
2. Process for Evaluation and Selection,
3. Management of Proceeds, and
4. Reporting.

1. Use of Proceeds

An amount equal to the net proceeds of the Notes under CAF's Social Bond Framework will be allocated towards the financing and/or refinancing of new and existing Eligible Expenditures. Eligible Expenditures may include loans and direct financing provided directly by CAF or by shareholder countries via CAF's Emergency Credit Line, including:

a) Healthcare System Support

Eligible Expenditures may include:

- The manufacture, procurement or distribution of medical supplies and equipment; virus testing; hygienic supplies; and other supplies and services associated with the emergency response
- Construction and/or expansion of medical centers, laboratories and supporting infrastructure
- Research and development for medicines, vaccines and treatments
- Other direct and indirect costs related to preventative care, treatment, public health education and mental health support in relation to COVID-19

b) Emergency Economic Support

Eligible Expenditures may include:

- Preferential interest rate loans, credit facilities, and grants for micro, small and medium-sized enterprises (MSMEs), particularly those in the most vulnerable sectors (e.g. hospitality, tourism, retail, manufacturing, transport, agriculture)

- Preferential interest rate loans to low and middle-income households
- Poverty alleviation and employment programs
- Other costs associated with programs, initiatives and financial assistance to stimulate and sustain economic activity

Loans granted (i) preceding the issue date of the Notes that are still outstanding with a lookback period of one year and/or (ii) following the issue date of the Notes and until the maturity date of the Notes.

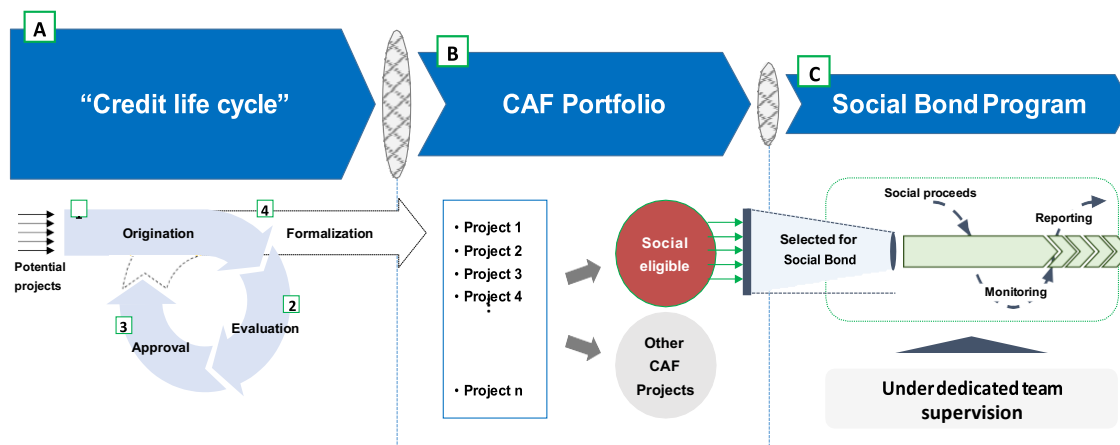
The target populations for the Eligible Expenditures will prioritize MSMEs; women, indigenous, minority, migrant and underserved populations affected by COVID-19, which may be the general public given the extent of the COVID-19 pandemic. For loans granted prior to February 1, 2020, the target populations refer to MSMEs; women, indigenous, minority, migrant and underserved populations.

2. Process for Project Evaluation and Selection

2.1. CAF's definition of a Social Project

Eligible projects for the Social Bond program go through the full evaluation and due diligence procedures, as established by CAF for the approval of each credit operation. With the technical assistance from CAF's Sustainability Team, eligible social projects are assessed for inclusion in the Bank's portfolio. It is important to highlight that CAF has a well-established set of tools and procedures to classify social projects and estimate social impact.

Graphic 1. Extended project flow illustration for Social Bond Program



2.2. A dedicated Social Bond Program Team

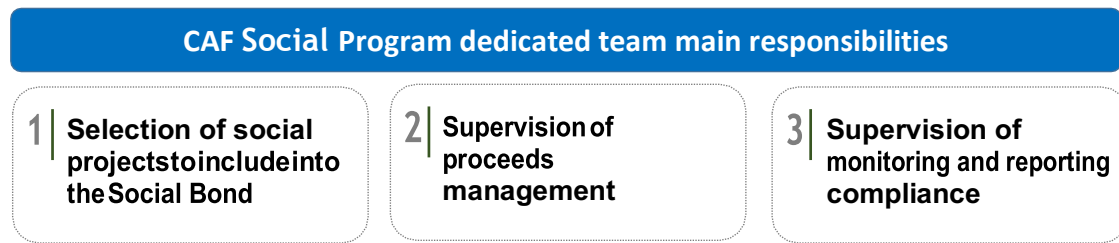
A dedicated Social Bond Program team is in charge of selecting eligible projects, to be part of the program in accordance to eligibility criteria defined in the Use of proceeds, CAF's mandate and established priorities for the region.

The Team is composed of various members belonging to different key areas of the bank, including: international bond issuances, strategic planning, sustainability, treasury and business project executives. Collaboration of other departments might be required by demand, depending on the specificities of each project. Finally, the Vice Presidency of Finance is in charge of leading the whole Social Bond process.

The team is in charge of controlling the program commitments regarding:

- i) The selection of the use of proceeds for selected projects that have been previously assessed by CAF's sustainability team, and
- ii) The project monitoring and reporting compliance.

Graphic 2. Social Bond dedicated team main responsibilities



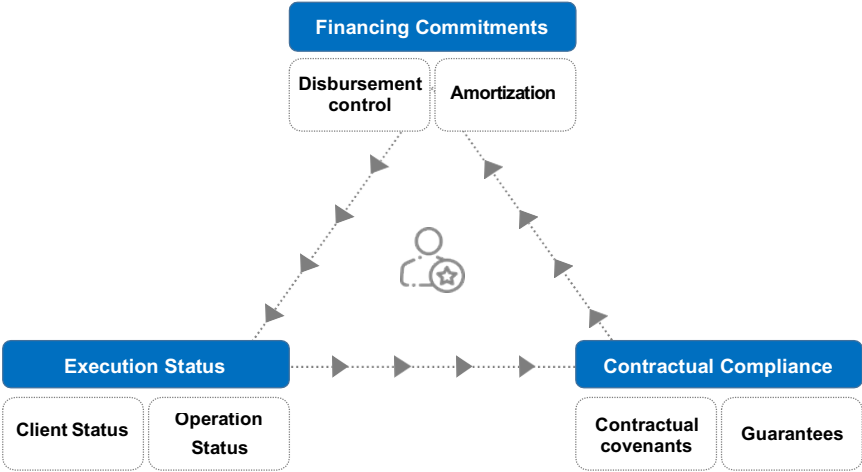
The Social Bond dedicated team is independent from the regular evaluation and assessment team, assigned to follow up project-loans, along the “credit life cycle”. Regular meetings and reports are established to keep control of the project portfolio, project performance, bond issuances and proceeds management.

3. Management of Proceeds

3.1. CAF Portfolio Monitoring Policy

Every project under the Social Bond Program is subject to the Bank’s Portfolio Monitoring Policy. During the loan management, control and monitoring of disbursements, client quality, operation status and guarantees are performed. Business executives that are located in the representation offices where the projects are executed are responsible for monitoring permanently the operations. The monitoring scope considers three main angles: financing commitments, execution status, and contractual compliance.

Graphic 3. Operations monitoring scope



- i) The Financing Commitments perspective controls both the project conditions and disbursement compliance; and, the loan’s amortization duties.
- ii) The Execution Status checks the client’s and operation quality, financial situation, investment value and project progress.
- iii) The Contractual Compliance angle checks the conformity of the contractual covenants and guarantees agreed by the parties.

In addition to monitoring the project development, business executives are responsible for reviewing the clients and operation credit risk in accordance to internal guidelines. In case of operations with sovereign risk, credit risk is reviewed annually. For operations with non-sovereign risk, credit risk is reviewed every six months. However, Business executives are allowed to make as many reviews as they consider necessary.

In addition, disbursements for projects under the Social Bond Program are monitored by the Social Bond Program Team in order to control the proper use of the Social Bond proceeds.

3.2. Social Bond Program Proceeds Monitoring

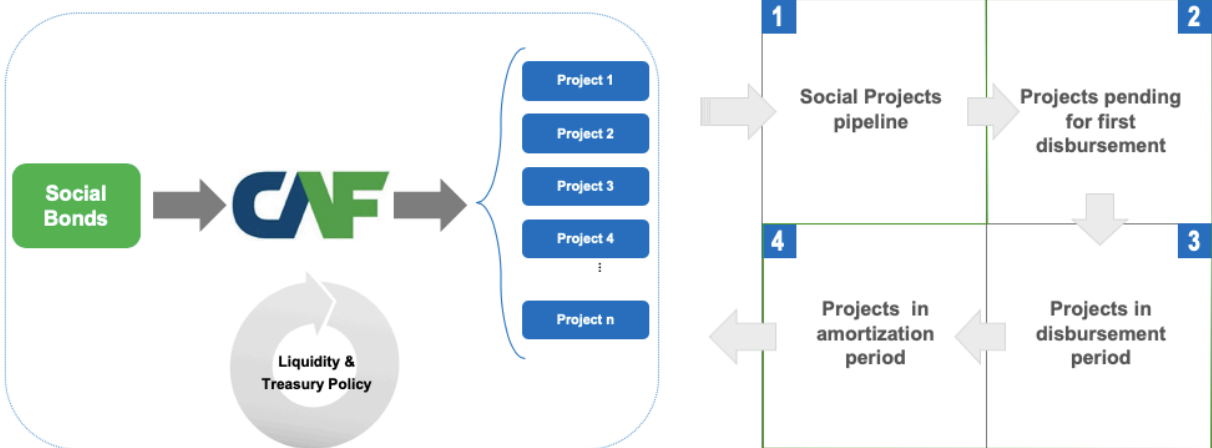
CAF’s Social Bond Program proceeds are used for socially impactful projects. A selected project can be in one of the following three stages:

- i) New project/initiatives that have been approved and meet all the requirements in order to start the disbursement period;

- ii) Projects that are already in the disbursement period; or
- iii) Projects that have finished receiving disbursements and are either in their grace period or have begun to amortize, but still have a relevant amount in CAF's loan portfolio pending amortization.

Funds that are not being utilized are placed into CAF's general liquidity portfolio where they are invested in high grade short-term liquid assets until the moment that funds are disbursed to a selected social project. In those cases, CAF manages the resources according to the Bank's liquidity and treasury Policy.

Graphic 4. Life cycle stages for Social Bond program projects



4. Reporting

CAF will provide a Social Bond Report on an annual basis within one year of the issuance. The report will be published on CAF's website. Reports may include the total amount of Eligible Social Expenditures funded through Social Bond(s), a breakdown of Eligible Expenditure per country and by category and—if publicly available—information about the Eligible Expenditures made by shareholder countries via the Emergency Credit Line.

- Projects are included in the report once the first disbursement has been allocated
- In cases which only a portion of the project/program is financed by social proceeds, only that portion is reported
- Loan information provides: outstanding portfolio, remaining disbursements and loan maturity

Where available, impact metrics will be reported by country and by category and may include the following metrics:

Healthcare System Support Indicators

- Number and/or value of medical supplies and equipment financed
- Number of hospital beds developed or expanded
- Number of individuals supported by healthcare programs

Emergency Economic Support Indicators

- Number of loans and/or value of loans to business or individuals
- Number of jobs maintained / created
- Sectors supported and monetary value of support

5. External review

5.1. Second-Party Opinion

CAF intends to receive a Second-Party Opinion on the Social Bond Framework, evaluating the alignment with the Social Bond Principles and anticipated social impact.

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