



CAF's GREEN BOND FRAMEWORK

May 2019

Measure of Units

Currency	USD
Millions	MM
Billions	BN
Mega Watts	MW
Mega Watts hours	MWh
Carbon Dioxide Metric Tons	tCO2e

Acronyms and Abbreviations

Initials	Description
SDG	Sustainable Development Goals
AMA	Accreditation Framework Agreement
GBP	Green Bond Principles
GCF	Green Climate Fund
GEF	Global Environment Facility
GHG	Greenhouse Gas
CO2	Carbon Dioxide
IDFC	International Development Finance Club
NDC	Nationally Determined Contributions

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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 a 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 as its own the challenges outlined by the UN Sustainable Development Goals (SDG), 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.

In accord with regional efforts to address climate change mitigation and adaptation, CAF has been granted accreditation under the following United Nations Funds, which were created to mobilize resources to green projects:



GREEN
CLIMATE
FUND

Green Climate Fund: accredited since July 2015, CAF was the first multilateral development bank to enter into an Accreditation Framework Agreement (AMA) with Green Climate Fund, which in turn provides loans, non-reimbursable grants and investment resources to address mitigation and adaptation to climate change. This accreditation will allow CAF to develop climate-resilient and low-emissions development projects in Latin America, while providing access to new sources of green funding for the region.



Global Environment Facility (GEF): created on the eve of the Rio Earth Summit in 1992, GEF is a catalyst project aimed at promoting action in different areas of environmental sustainability. As an accredited Project implementation agency since April 2015, CAF has targeted its efforts toward the creation of a portfolio of green business projects aimed at enhancing biodiversity, the sustainable management of ecosystem services and the migration toward a low carbon emission economy.







ADAPTATION
FUND

Adaptation Fund: the fund was launched in 2001 to finance concrete projects and adaptation programs in developing countries Parties to the Kyoto Protocol that are particularly vulnerable to the adverse effects of climate change. Since its qualification as an implementing agency in March 2014, CAF has structured several projects, in support of local adaptation initiatives in communities affected by the effects of climate change.

CAF Green Bond Framework

CAF's Green Bond program supports the national commitments, or Nationally Determined Contributions (NDCs) undertaken by country members in the context of the Paris Climate Agreement, while contributing to address climate change mitigation and adaption challenges, focusing on the mobilization of financial resources to tackle the following SDG:

Table 1. Sustainable Development Goals Alignment

Environmental Objectives	SDGs alignment
<p>Sustainable Transport and Cities <i>CAF's infrastructure agenda aims to improve the land use, quality of transport, logistics and communications infrastructure to develop and connect the territory physically, economically and socially.</i></p>	
<p>Clean energy and distribution <i>CAF's energy agenda prioritizes the development of sustainable infrastructure with the top priority of ensuring regional energy supply security, increased access to energy and the optimization of the energy matrix in shareholder countries to strike a suitable balance for the sensible use of available natural resources.</i></p>	
<p>Climate resilience and environmental protection <i>Environmental sustainability and climate change are incorporated across the region in all its areas through programs, projects and actions with the goal of facilitating in shareholder countries the migration toward a low-carbon economy resilient to climate change.</i></p>	
<p>Water and Sanitation systems <i>CAF affirms its commitment to help shareholder countries fulfill their development agenda, in line with the rights to drinking water and sanitation enshrined in the Universal Declaration of Human Rights.</i></p>	

CAF's Green Bond Framework is in line with the Green Bond Principles 2018 (GBP)¹ and as such, it rests on 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 Green Bond Framework will be allocated towards financing and/or refinancing of new and existing eligible green projects that meet the following criteria:

- Loans dedicated to investments that fall under one or several of the following Eligible Green project Categories: Renewable Energy, Energy efficiency, Clean Transportation, Sustainable management of living natural resources and land use, Waste management and Water management and projects.
- Loans granted (i) preceding the issue date of the Notes that are still outstanding with a lookback period of 4 years and/or (ii) following the issue date of the Notes and until the maturity date of the Notes.

¹ <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>

Table 2. Eligible Green Project Categories

Eligible Green Project Categories	Eligibility criteria
Renewable energy	<p>Financing the generation, distribution and/or transmission of energy from renewable energy sources as well as renewable energy related appliances and products from:</p> <ul style="list-style-type: none"> - Onshore and offshore wind energy - Solar energy - Small scale hydro energy (maximum of 20 MW in installed capacity) - Biomass (that does not deplete existing terrestrial carbon pools, does not compete with food production, not grown now or currently in areas of high biodiversity and in which facilities produce GHG emissions that are below 100gCO₂e/kWh,) - Ocean power (wave, tidal, ocean currents, salt gradient) - Measures to facilitate integration of renewable energy into grids (New, expanded and improved transmission systems, smart-grid and mini-grid)
Clean transportation	<p>Financing the acquisition, maintenance of:</p> <ul style="list-style-type: none"> - Public low carbon land transport such as electric rail, metros, trams - Low carbon vehicles such as electric, non-motorized or any other non-fossil fuel transportation - Infrastructure for clean energy vehicles and reduction of harmful emissions (e.g. charging infrastructure upgrades)
Sustainable management of living natural resources and land use	<p>Financing sustainable development of living resources and land use through projects such as:</p> <ul style="list-style-type: none"> - Sustainable forestry (e.g afforestation or reforestation projects, preservation or restoration of natural landscapes) which are certified through recognized certifications: Forest Stewardship Council, Programme for the Endorsement of Forest Certification, Rainforest Alliance, etc. - Sustainable agriculture (e.g certified organic farming) which are certified through recognized certifications: UTZ certified, Roundtable on Sustainable Biomaterials, the Intercultural Federation of Organic Agriculture Movements, etc. - Sustainable fishery and aquaculture which are certified through recognized certifications: Aquaculture Stewardship Council, Marine Stewardship Council, etc.
Waste management	<p>Financing sustainable equipment, development, manufacturing, construction, operation and maintenance of:</p> <ul style="list-style-type: none"> - Waste-to-energy projects (does not include incineration) Feedstock will include: Sewage, manure, wastewater, landfill gas capture, sugar cane bagasse, wood pellets and municipal waste. - Waste collection, recycling and management projects that recover or reuse materials and waste as inputs into new products or as a resource (only if net emission reductions can be demonstrated)

Water management and projects	Financing sustainable equipment, development, manufacturing, construction, operation and maintenance of: <ul style="list-style-type: none"> - Clean and/or drinking water - Wastewater treatment - Sustainable urban drainage systems - Flood and drought protection
Energy efficiency	Financing construction, equipment and maintenance of energy efficiency operations: <ul style="list-style-type: none"> - Smart meters, smart grids, upgraded equipment (e.g. LED lighting)

2. Process for Project Evaluation and Selection

2.1. CAF's definition of a Green Project

A project is classified *green* when it meets one or more of the following characteristics:

- i) Reduces Greenhouse gas emissions.
- ii) Removes Greenhouse gases from the atmosphere.
- iii) Promotes climate resilience and/or adaptation.
- iv) Encourages the efficient use of resources.
- v) Values ecological services.

CAF has developed an entire set of tools and procedures that provide robustness to each step of the project assessment and classification stages in accordance to the international standards. CAF as a member of the *International Development Finance Club (IDFC²)*, has designed all internal procedures to be in line with the IDFC green finance tracking methodology guidelines.

² International Development Finance Club is composed of 23 members that include various national and regional development banks around the world. One of their main objectives is to share know-how and best practice experiences for mutual lending. CAF is a member of the IDFC. <http://www.idfc.org>

In addition, it is important to note that this procedure, created, adopted and followed by CAF, has been developed in accordance with the Common Principles for Climate Mitigation and Adaptation Finance Tracking, which in turn hold correspondence against the GBP Project Categories.

Table 3. Green finance Project Categories recognized by CAF

1] Mitigation of greenhouse gases:

Activities that reduce or limit greenhouse gas (GHG) emissions and/or increase sequestration of carbon dioxide (CO₂)
– e.g. renewable energies, low-carbon transportation, waste handling, reforestation, etc.

2] Adaptation to Climate Change:

Activities that reduce the vulnerability of human or natural systems against the adverse impacts of climate change and climate-related risks, by means of building resilience and/or strengthening adaptation
– e.g. infrastructure projects to deal with the effects of climate change aggravated floods, landslides and drought. (This do not include project that facilitate the production of fossil fuels)

3] Environmental Sustainability:

An activity that promotes the sustainable use of natural capital, referred to biodiversity, water or forests, under environmental, social and economic sustainability standards
– e.g. watershed management projects, restoration of protected areas, others.

Beyond the aforementioned criteria, CAF also takes into account other elements such as: reputational aspects, client transparency and the magnitude of the environmental impact. Furthermore, all infrastructure projects, financed by CAF, are scrutinized against CAF's Environmental and Social Safeguards³.

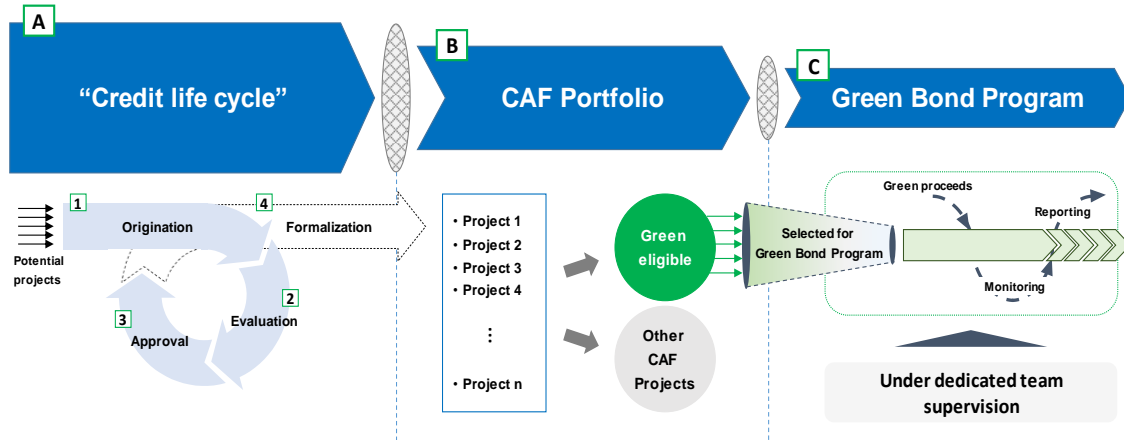
2.2. Loan Selection Process

Eligible projects for the Green Bond program go through all the evaluation stages and due diligence procedures, as established by CAF for the approval of each credit operation. Once operational, risk and climate requirements have been satisfied, first disbursements are approved to finally become part of the Bank's Portfolio. With the technical assistance of CAF's Climate and Sustainability Team and in close coordination with the Green Bond team eligible green 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 green operations, assess and monitor environmental and social projects, estimate carbon footprint and climate risk, and a complete set of safeguards aiming to meet any country environmental regulation in order to take all the needed precautions to avoid any potential negative social and environmental impact.

³ <https://www.caf.com/media/5614351/salvaguardas%20ambientales%20y%20sociales%20caf.pdf>

If there is the need to replace any project on the list of potential projects, CAF may change it and find a substitute project that meet the eligible criteria.

Graphic 1. Extended project flow illustration for Green Bond Program



2.3. A dedicated Green Bond Program Team

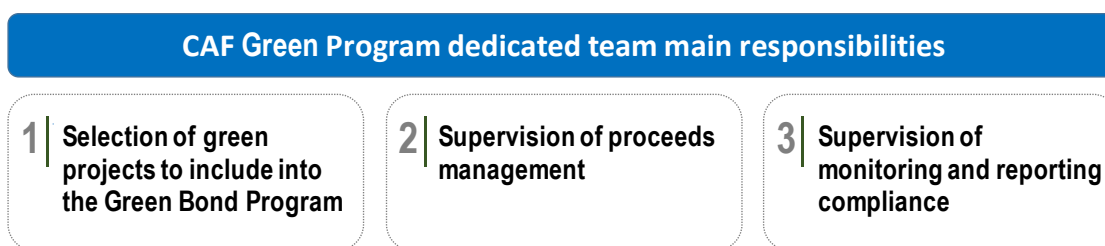
A dedicated Green Bond Program team is in charge of selecting green projects, to be part of the program in accordance to eligibility criteria defined in the Use of proceeds, CAF's mandate and established priorities for the region.

The Team is composed of various members belonging to different key areas of the bank, including: international bond issuances, climate change, strategic planning, 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 Green 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 specialized climate team
- ii) The project monitoring and reporting compliance.

Graphic 2. Green Bond dedicated team main responsibilities



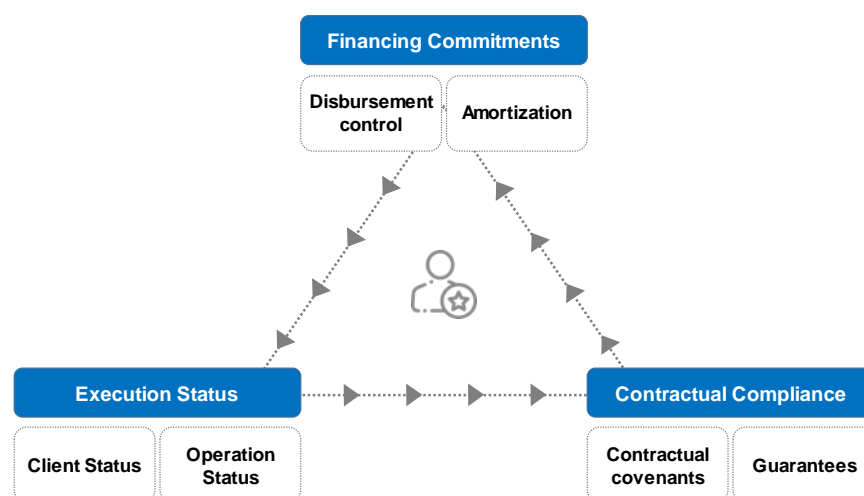
The Green Bond dedicated team is independent from the regular evaluation and assessment team, assigned to follow up project-loans, along the “credit life cycle”. Regular meetings and reports are established to keep control of the project portfolio, project performance, bond issuances and proceeds management.

3. Management of Proceeds

3.1. CAF Portfolio Monitoring Policy

Every project under the Green 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 projects 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 Green Bond Program are monitored by the Green Bond Program Team in order to control the proper use of the Green Bond proceeds.

3.2. Green Bond Program Proceeds Monitoring

CAF's Green Bond Program proceeds are used for green selected projects. A selected project can be in one of the following three stages:

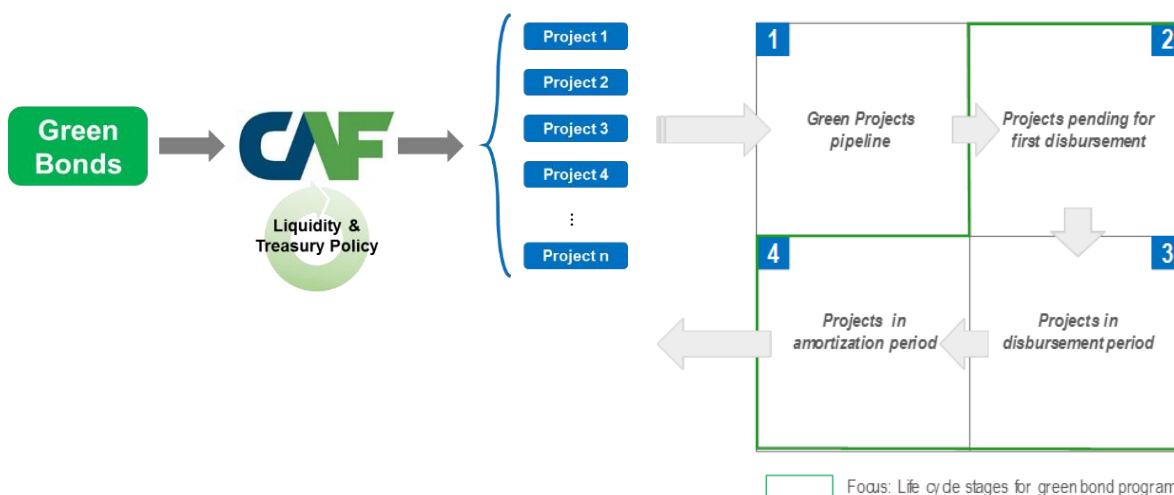
- i) New projects that have been approved and meet all the requirements in order to start the disbursement period

- ii) Projects that are already in the disbursement period.
- 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.

Given that every individual project selected for the program has different characteristics including tenor, disbursement period, grace period and amortization schedule, flow mismatches when compared to the characteristics of the bonds are common.

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 green project. In those cases, CAF manages the resources according to the Bank's liquidity and treasury Policy.

Graphic 4. Life cycle stages for green bond program projects



CAF is committed to finance green projects throughout the lending cycle in order to reach a balance among the various projects in the program, while operational and reputational risks are mitigated, and the likelihood of success and environmental impact is increased.

CAF's Green Bond portfolio management framework focuses on keeping a well-balanced share of projects along the credit cycle. CAF's Green project pipeline offers a broad variety of projects with great environmental impact, however since projects in this pipeline are still subject to final approvals, CAF has considered to keep it as a potential source of projects to feed the program.

4. Reporting

Reports are provided on a yearly basis and published on the webpage. Reports include information regarding the environmental impact of the projects and the use of the proceeds.

- Projects are included in the report once the first disbursement has been allocated; and removed when the underlying loan has been repaid
- In cases which only a component of the project/program is green financed, only that portion is reported
- Loan information provides: outstanding portfolio, remaining disbursements and loan maturity

As per international standard reporting practices, impact measurements are reported by project category and may include the following metrics:

- Mitigation of Climate Change:
 - Annual Greenhouse Gas (GHG) emissions reduced or avoided (tCO₂e). For instance and depending on the type of project, a relevant GHG emission factor will be applied to activity data, such as: annual energy savings (MWh) or annual renewable energy produced (MWh)
 - Capacity of renewable energy plant(s) built or rehabilitated (MW)
 - Minimum energy efficiency improvement achieved (%)
 - Certification achieved for sustainable management of living natural resources and land use
- Adaption to Climate Change and Environmental Sustainability: when impact indicators are available, measurements are reported.

5. External review

5.1. Second-Party Opinion

CAF appointed Sustainalytics to provide a Second-Party Opinion on the Green Bond Framework, evaluating the environmental added value of CAF Green bonds and their alignment with the Green Bond Principles.

The Second-Party Opinion will be published on CAF's website.