

# Second-Party Opinion

## Corporación Andina de Fomento's (CAF) Social Bond Framework



### Evaluation Summary

Sustainalytics is of the opinion that the CAF's Social Bond Framework is credible and impactful and aligns with the four core components of the Social Bond Principles 2020. This assessment is based on the following:



**USE OF PROCEEDS** The eligible categories for the use of proceeds – Healthcare System Support and Emergency Economic Support – are aligned with those recognized by the Social Bond Principles that seek to achieve positive socioeconomic outcomes for target populations. Sustainalytics considers that the eligible categories will lead to positive social impacts and advance the UN Sustainable Development Goals, specifically SDG 3 and 8.



**PROJECT EVALUATION / SELECTION** CAF has established a Social Bond Program team, comprised of representatives from the Bank's international bond issuances, strategic planning, sustainability, treasury and business project executives, to be in charge of selecting projects that are in compliance with the Framework for the inclusion in the social bond. Sustainalytics considers the project selection process in line with market practice.



**MANAGEMENT OF PROCEEDS** CAF's Social Bond Program Team will monitor disbursements made under the Social Bond Program. Pending allocation, net bond proceeds will be managed according to the Bank's liquidity and treasury policy. This is in line with market practice.



**REPORTING** CAF intends to publish a Social Bond Report on its website on an annual basis until full allocation. The report will include allocation reporting and may include (i) the total amount of Eligible Social Expenditures funded through the social bond(s); (ii) a breakdown of Eligible Expenditures per country and by category; and (iii) information about Eligible Expenditures made by shareholder countries via the Emergency Credit Line (if publicly available). In addition, CAF is committed to reporting on relevant impact metrics. Sustainalytics views CAF's allocation and impact reporting as aligned with market practice.

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| <b>Evaluation date</b> | October 26, 2020 |
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| <b>Issuer Location</b> | Latin America |
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## Introduction

Corporación Andina de Fomento (“CAF” or the “Bank”) is a multilateral development bank that provides financial services such as commercial loans, financial advisory services, equity investments, and others, to the public and private sectors in Latin America, the Caribbean, Spain, and Portugal.<sup>1</sup> CAF has offices in Buenos Aires, La Paz, Brasilia, Bogota, Asuncion, Lima, Madrid, Mexico City, Montevideo, Panama City, Port of Spain, and Quito. CAF was founded in 1968 and is headquartered in Caracas, Venezuela.

CAF has developed the CAF's Social Bond Framework (the “Framework”) under which it has issued a social bond and use the proceeds to finance and/or refinance, in whole or in part, existing and/or future projects that support the mitigation and recovery from the COVID-19 pandemic and support vulnerable MSMEs.

The Framework defines eligibility criteria in two areas:

1. Healthcare System Support
2. Emergency Economic Support

CAF engaged Sustainalytics to review the CAF's Social Bond Framework, dated May 2020, and provide a Second-Party Opinion on the Framework's social credentials and its alignment with the Social Bond Principles 2020 (SBP).<sup>2</sup> This Framework has been published in a separate document.<sup>3</sup>

### Scope of work and limitations of Sustainalytics Second-Party Opinion

Sustainalytics' Second-Party Opinion reflects Sustainalytics' independent<sup>4</sup> opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework's alignment with the Social Bond Principles 2020, as administered by ICMA;
- The credibility and anticipated positive impacts of the use of proceeds;
- The alignment of the issuer's sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.5, which is informed by market practice and Sustainalytics expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of CAF's management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. CAF representatives have confirmed (1) they understand it is the sole responsibility of CAF to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and CAF.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible

<sup>1</sup> CAF's shareholders are: Argentina, Barbados, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Jamaica, Mexico, Panama, Paraguay, Peru, Portugal, Spain, Trinidad and Tobago, Uruguay, Venezuela and 13 private banks in the region.

<sup>2</sup> The Social Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp/>

<sup>3</sup> The CAF's Social Bond Framework is available on CAF's website at: <https://www.caf.com/media/2678628/caf-s-social-bond-framework.pdf>.

<sup>4</sup> When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics' hallmarks is integrity, another is transparency.

projects expected to be financed with bond proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

In addition, the Second-Party Opinion opines on the intended allocation of proceeds but does not guarantee the realised allocation of the bond proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that CAF has made available to Sustainalytics for the purpose of this SPO.

## Sustainalytics' Opinion

### Section 1: Sustainalytics' Opinion on the CAF's Social Bond Framework

Sustainalytics is of the opinion that the CAF's Social Bond Framework is credible and impactful, and aligns with the four core components of the SBP. Sustainalytics highlights the following elements of CAF's Social Bond Framework:

- Use of Proceeds:
  - CAF's two eligible social categories – Healthcare System Support and Emergency Economic Support – are aligned with those recognized by the SBP, namely Access to Essential Services and Employment Generation.
  - The net proceeds of the inaugural social bond are intended primarily to provide financing for projects that address the mitigation and recovery of the COVID-19 pandemic.
  - For the "Healthcare System Support" category, the Bank intends to finance expenditures in healthcare, such as for the procurement or distribution of medical supplies and equipment; supporting infrastructure; research and development for medicines; and other costs in relation to COVID-19.
    - Sustainalytics notes positively the impacts of providing financing to the medical and healthcare sector in the face of the COVID-19 pandemic, and recognizes that many of the urgent needs facing the sector relate to procuring medical supplies such as PPE or other equipment.
    - Financing may be provided to both public and private facilities. Sustainalytics notes that enhancing the access to healthcare services, through availability and affordability, is a key consideration from a social impact perspective. While this generally involves focusing on public or subsidized services, as the Bank intends to provide immediate support in response to the significant stresses posed by COVID-19 pandemic, this financing is anticipated to have net-positive impacts; therefore, private facilities are considered suitable recipients of a social loan. Nevertheless, Sustainalytics encourages the Bank to prioritize support to healthcare infrastructure and related services that are free and/or subsidized.
  - For the "Emergency Economic Support" category, the Bank intends to give preferential rate loans and credit facilities and grants for micro, small and medium-sized enterprises (MSMEs) with special emphasis on sectors that have been greatly impacted by COVID-19 such as tourism, retail, and manufacturing.
    - As the Bank operates in multiple countries there is no common definition of MSMEs, and CAF will instead use official categorizations of business size applicable to each individual country. Sustainalytics views this reliance on official definitions to be aligned with market practice.
    - Sustainalytics views the provision of credit facilities for businesses impacted by the effects of the COVID-19 pandemic to deliver positive social impacts and to be in line with market expectations.

- Expenditures in this category may be directed to eligible loans, in particular qualifying SMEs, in a wider context that just in response to the COVID-19 pandemic. For financing which is not provided specifically in response to the Pandemic, such as loans granted prior to February 2020, the Framework defines target populations, namely MSMEs, women, indigenous peoples, minorities, migrants, and other underserved populations. Sustainalytics views this targeting to be in line with market expectations.
  - In addition to this explicit targeting for MSME lending broadly, financing provided in response to the effects of COVID-19 will “prioritize” the aforementioned populations. Sustainalytics notes positively this additional intent.
- Project Evaluation and Selection:
  - CAF's Sustainability Team will assess eligible social projects for inclusion into the Bank's portfolio. All projects funded by the social bond will go through the Bank's standard evaluation and due diligence procedure. Ultimately the Social Bond Program Team will be in charge of project (i) selection of social projects to be included in the Social Bond; (ii) supervision of proceeds management; and (iii) supervision of monitoring and reporting compliance. The Team is composed of members from multiple areas of the Bank including representatives from international bond issuances, strategic planning, sustainability, treasury and business project executives. Overall, the Social Bond procedures falls under the supervision of the Bank's Vice Presidency of Finance.
  - Based on the establishment of a Social Bond Program Team in charge of project selection, ongoing monitoring and reporting Sustainalytics considers this evaluation and selection process to be in line with market practice.
- Management of Proceeds:
  - Business executives located in multiple representation offices are responsible for monitoring operations and project development for every corresponding project funded under the Social Bond Program. Projects are also subject to the Bank's Portfolio Monitoring Policy. In addition, the Social Bond Program Team will monitor disbursements made under the Social Bond Program to assure compliance with the Framework's eligibility criteria.
  - Pending allocation of bond proceeds, CAF will manage funds according to the Bank's liquidity and treasury policy, invested in high grade short-term liquid assets. Sustainalytics considers market expectation to be allocation within 36 months and notes that CAF intends to allocate within the life of the social bonds which, for the inaugural bond, has a tenor of five years, which exceeds market expectations.
  - Based on the above and the disclosure of the handling of unallocated net proceeds, Sustainalytics considers this process to be in line with market practice.
- Reporting:
  - CAF has committed to publish an annual Social Bond Report on its website within one year of issuance. The Social Bond Program Team will be charged with monitoring and reporting compliance. Allocation reporting may include (i) the total amount of Eligible Social Expenditures funded through the Social Bond(s); (ii) a breakdown of Eligible Expenditures per country and by category; and (iii) information about Eligible Expenditures made by shareholder countries via the Emergency Credit Line (if publicly available).
  - Subject to availability, CAF will report on impact metrics by country and by category and may include the number and/or value of medical supplies and equipment financed; the number of hospitals beds developed or expanded; the number of loans and/or value of loans to businesses or individuals; the number of jobs maintained or created, etc.
  - Based on CAF's allocation and impact reporting, Sustainalytics considers this process to be in line with market practice.

#### **Alignment with Social Bond Principles 2020**

Sustainalytics has determined that the CAF's Social Bond Framework aligns to the four core components of the SBP. For detailed information, please refer to Appendix 1: Social Bond/Social Bond Programme External Review Form.

## Section 2: Sustainability Strategy of CAF

### Contribution of Framework to CAF's sustainability strategy

Sustainalytics is of the opinion that CAF demonstrates a commitment to sustainability through its work supporting the sustainable development of its shareholder countries and the integration of Latin America. The Bank integrates social and environmental factors by applying CAF's management policies in all of its operations while taking into account sustainability and eco-efficiency criteria.<sup>5</sup> CAF's management policies are structured around social, environmental and climate change considerations. Sustainalytics highlights that CAF has dedicated policy-based loans targeting programs, projects and actions for mobilizing capital for social development. Such policy-based loans have provided sovereign beneficiaries the opportunity to fund policy reforms and social programs fostering socioeconomic advancement and empowerment.

The Bank is currently following its Strategic Vision 2017-2022,<sup>6</sup> through which it seeks ways to advance the development of its member countries. The Bank has developed reports, such as *Challenges and Opportunities for Development*, to identify the barriers countries face for economic growth and social development. CAF is also committed to providing technical expertise and cooperation with public institutions to strengthen their design and execution of projects financed by the Bank and to meet established goals. As part of fulfilling its mission CAF has developed several strategies and programs such as:

- On health and nutrition, CAF has been focused on reducing the prevalence of chronic undernutrition and micronutrient deficiencies in early childhood. CAF supports projects which are promoting health, favorable environment, and food security through the improvement in the provision and management of public services and enhancements of institutional capacities. To this end, CAF developed budgeting tools in Ecuador to enhance its ability to address health and nutrition and achieve an effective reduction of child malnutrition.<sup>7</sup>
- On urban development, CAF promotes the optimization and accessibility of goods, quality services, and socioeconomic, recreational and cultural opportunities with a focus on resilience and gender equity approaches. Through this strategy, CAF organized and provided workshops to over 400 public officials from Argentina, Bolivia, Brazil, Ecuador, Mexico, Peru and Uruguay to share best practices and enhance the impact of current and future projects.<sup>8</sup>
- On water, CAF has developed the Water Strategy 2019-2022, aimed at increasing safe, efficient and sustainable access to water and sanitation services; the reduction of water pollution and preservation of ecosystems; efficient and affordable access to rural irrigation services for family agriculture; multisectoral water development for agribusiness and other productive uses; and strengthening of governance and sustainable management of water resources. Through this strategy, the Bank has financed projects for the provision of drinking water, sanitation, rural development, and urban drainage in Argentina, Brazil, Colombia, Paraguay, the Dominican Republic and Uruguay.<sup>9</sup>
- On education, the Bank has implemented its Education Agenda 2017-2022, with the purpose of increasing access to early education and supporting citizens to complete high school; improving the quality of education at all levels; and strengthening the relevance of education. To this end, in 2019, CAF approved financing for USD 100 million to improve access and quality of education in the province of Jujuy, Argentina, benefitting approximately 260,000 students and 32,000 teachers.<sup>10</sup>

Considering the above, Sustainalytics believes that CAF's Framework is aligned with its overall mission and sustainability strategy and that it will further the Bank's actions on its key social priorities.

### Well positioned to address common social and environmental risks associated with the projects

While the net proceeds from the bond(s) issued under the Framework will be directed towards eligible projects that are recognized by the SBP and anticipated to have positive social impact, Sustainalytics recognizes that there exist environmental and social risks which could be associated with the financing provided. Some key environmental and social risks associated with the eligible projects could include occupational health and

<sup>5</sup> CAF, "Annual Report 2019", at: <https://scioteca.caf.com/handle/123456789/1630>.

<sup>6</sup> CAF, "Annual Report 2018", at:

<https://scioteca.caf.com/bitstream/handle/123456789/1440/CAF%20Annual%20Report%202018.pdf?sequence=9&isAllowed=y>.

<sup>7</sup> CAF, "Sustainability Report 2019", at: <https://scioteca.caf.com/handle/123456789/1594>.

<sup>8</sup> CAF, "Annual Report 2019", at: <https://scioteca.caf.com/handle/123456789/1630>.

<sup>9</sup> CAF, "Annual Report 2019", at: <https://scioteca.caf.com/handle/123456789/1630>.

<sup>10</sup> CAF, "Annual Report 2019", at: <https://scioteca.caf.com/handle/123456789/1630>.

safety, community relations/stakeholder participation, land use change and biodiversity loss, as well as the risks associated with being exposed to controversial companies or projects as a result of the Bank's lending activities.

Sustainalytics is of the opinion that CAF is able to mitigate such risks through internal regulations and the Bank's sustainability structure, starting with its management policies which include a Social and Environmental Framework<sup>11</sup> comprising characteristics such as:

- General Aspects – CAF-financed operations must be in full compliance with applicable environmental and social legislation in each country in terms of occupational health and industry safety guidelines, agreements subscribed in environmental matters, and environmental and social safeguards.
- Social and Environmental Safeguards – incorporating adequate social and environmental standards to comply with national regulatory rulings and international agreements signed by Shareholder Countries. Social and environmental safeguards should account for the appropriate identification, evaluation and mitigation of social and environmental risks.
- Natural capital and climate change – inclusion of vulnerable groups, protecting all individuals in particular the most vulnerable and in a way that accounts for their dignity, human rights, cultures and traditional ways of life.

CAF has also developed guidelines and procedures related to the application of its Environmental and Social Safeguards.<sup>12</sup> These guidelines stipulate minimum technical requirement to ensure sustainable and responsible environmental management; prevent, mitigate, and/or compensate for impacts to the environment and the population; consider climate risk at a project level; and supervise compliance with relevant norms. The guidelines establish nine key safeguard areas, namely (i) evaluation and management of environmental and social impacts; (ii) sustainable use of natural resources; (iii) conservation of biodiversity; (iv) waste management and disposal; (v) cultural heritage (vi) ethnic groups and cultural diversity; (vii) population relocation; (viii) work and training conditions; and (ix) gender equity. Along with these guidelines, CAF has designed and implemented the Program for Environmental and Social Evaluation and Follow-up (Spanish: Programa de Evaluación y Seguimiento Ambiental y Social de Operaciones; PESASO) to guarantee physical, environmental and social sustainability in operations financed by the Bank.<sup>13</sup>

Based on these policies and standards, Sustainalytics is of the opinion that CAF has in place adequate measures and is well positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

### Section 3: Impact of Use of Proceeds

The two use of proceeds categories are aligned with those recognized by the SBP. Sustainalytics has focused below on how the impact is specifically relevant in the local context.

#### The importance of access to healthcare in relation to COVID-19

As of September 2, 2020, Latin America and the Caribbean had almost 6.1 million confirmed cases of COVID-19 (almost 28% of cases worldwide) and almost 280,000 deaths (almost 33% of deaths worldwide).<sup>14</sup> Although there are signs that the number of new cases is beginning to drop in many countries in the region,<sup>15</sup> access to healthcare is of utmost importance to confront the ongoing crisis. Predating the global pandemic, the region was already struggling to provide and equitable access to healthcare services. Estimates suggest that, on average, there are 125 million people who lack access to even basic health services, with more than 47% of the population lacking access to social security.<sup>16</sup>

Overall, health spending in the region is on average one-fourth of what is typically spent in OECD countries, and the World Bank has identified that most health systems in the region are heavily dependent on out-of-

<sup>11</sup> CAF, "Management Policies", (2019) at: <https://www.caf.com/media/2244161/caf-management-policies-sep2019.pdf>.

<sup>12</sup> CAF, "Guidelines and Procedures on Environmental and Social Safeguards", at: [https://www.caf.com/media/2759391/d0-7\\_s\\_e\\_safeguards\\_manual\\_to\\_caf-gef\\_projects\\_may\\_2015\\_28.pdf](https://www.caf.com/media/2759391/d0-7_s_e_safeguards_manual_to_caf-gef_projects_may_2015_28.pdf).

<sup>13</sup> CAF, "Guidelines and Procedures on Environmental and Social Safeguards", at: [https://www.caf.com/media/2759391/d0-7\\_s\\_e\\_safeguards\\_manual\\_to\\_caf-gef\\_projects\\_may\\_2015\\_28.pdf](https://www.caf.com/media/2759391/d0-7_s_e_safeguards_manual_to_caf-gef_projects_may_2015_28.pdf).

<sup>14</sup> Congressional Research Service, "Latin America and the Caribbean: Impact of COVID-19", (2020), at: <https://fas.org/spp/crs/row/IF11581.pdf>.

<sup>15</sup> BBC News, "Coronavirus: What are the numbers out of Latin America", (2020), at: <https://www.bbc.com/news/world-latin-america-52711458>.

<sup>16</sup> OECD, "COVID-19 in Latin America and the Caribbean: An overview of government responses to the crisis", (2020), at: <https://www.oecd.org/coronavirus/policy-responses/covid-19-in-latin-america-and-the-caribbean-an-overview-of-government-responses-to-the-crisis-0a2dee41/#section-d1e309>.

pocket expenditures or supplemental private insurance. The challenges became more apparent when supply chains were disrupted due to the lockdown measures implemented in various countries to stop the spread of the disease. A UN report estimates that Latin America “is reliant on extraregional imports of medical products essential for treating COVID-19, with less than 4% of imports sourced from within the region itself.”<sup>17</sup> This has limited the ability of many countries to test and treat people. The UN report lists a series of recommendations that highlight the importance of ensuring access to testing and care for all and extending public investment in healthcare.<sup>18</sup>

Considering the current situation, many regional governments and multilateral organizations have come together to create regional initiatives to cope with the crisis. Examples include “Prosur” member countries<sup>19</sup> pursuing the joint purchase of medical supplies and equipment in coordination with regional multi-national organizations; Mercosur<sup>20</sup> approved a USD 16 million special fund for member countries targeted at testing kits; and the Ibero-American Medicines Authorities Network, that has created a digital platform to “share and consult official information on treatments, clinical trials of medicines and technical guides for health personnel.”<sup>21</sup>

In this context, the funding of healthcare systems is of particular relevance to overcome the current pandemic and future health emergencies. Sustainalytics considers that CAF’s financing for medical centers, laboratories, and other direct and indirect costs for the prevention and treatment of COVID-19 to be particularly impactful.

### **Supporting MSMEs in Latin America in light of the economic effects of the global pandemic**

The United Nations Economic Commission for Latin America and the Caribbean (ECLAC) is estimating the global pandemic will bring about the sharpest recession of Latin America and the Caribbean, where over a third of formal employment and a quarter of GDP are generated in sectors that have been heavily hit by the crisis (the auto industry, tourism, and hospitality, transportation, and commerce)<sup>22,23</sup> Overall, ECLAC estimates that around 2.7 million companies are likely to close due to the global pandemic.<sup>24</sup> While important measures to increase liquidity and access to credit for MSMEs in the region is being carried out – with different approaches applied by each country – ECLAC highlights that these measures have been “important but insufficient” and will not be enough for the businesses to sustain a recovery that is projected to be slow and gradual.<sup>25</sup>

Furthermore, in a context where there are already wide inequalities, the impacts of COVID-19 have disproportionately affected the most vulnerable populations and individuals, including women, older persons, persons with disabilities, indigenous peoples, people of African descent, migrants and refugees.<sup>26</sup> The UN has called for action as countries mobilize capital and calls for change on the broad structural challenges to build back better by promoting decent jobs, strengthening environmental sustainability, and reinforcing social protection mechanisms.<sup>27</sup> To this end, the World Economic Forum has identified strategies that help mitigate the disproportionate effect the global pandemic is having on women, including rebalancing the burden of

<sup>17</sup> United Nations, “Policy Brief: The Impact of Covid-19 on Latin America and the Caribbean”, (2020)

[https://www.un.org/sites/un2.un.org/files/sg\\_policy\\_brief\\_covid\\_lac.pdf](https://www.un.org/sites/un2.un.org/files/sg_policy_brief_covid_lac.pdf).

<sup>18</sup> United Nations, “Policy Brief: The Impact of Covid-19 on Latin America and the Caribbean”, (2020)

[https://www.un.org/sites/un2.un.org/files/sg\\_policy\\_brief\\_covid\\_lac.pdf](https://www.un.org/sites/un2.un.org/files/sg_policy_brief_covid_lac.pdf).

<sup>19</sup> Member countries include: Argentina, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru and Guyana.

<sup>20</sup> Mercosur is the Southern Common Market; full members are Argentina, Brazil, Paraguay and Uruguay, while Bolivia, Chile, Colombia, Ecuador, Guyana, Peru and Suriname are associate countries.

<sup>21</sup> OECD, “COVID-19 in Latin America and the Caribbean: An overview of government responses to the crisis”, (2020), at:

<https://www.oecd.org/coronavirus/policy-responses/covid-19-in-latin-america-and-the-caribbean-an-overview-of-government-responses-to-the-crisis-0a2dee41/#section-d1e309>.

<sup>22</sup> ECLAC, “Sectors and businesses facing COVID-19: emergency and reactivation”, (2020), at:

[https://repositorio.cepal.org/bitstream/handle/11362/45736/5/S2000437\\_en.pdf](https://repositorio.cepal.org/bitstream/handle/11362/45736/5/S2000437_en.pdf).

<sup>23</sup> ECLAC, “Sectors and businesses facing COVID-19: emergency and reactivation”, (2020), at:

[https://www.cepal.org/sites/default/files/presentation/files/ppt\\_specialreport\\_sectorsandbusinesses\\_en.pdf](https://www.cepal.org/sites/default/files/presentation/files/ppt_specialreport_sectorsandbusinesses_en.pdf).

<sup>24</sup> ECLAC, “Sectors and businesses facing COVID-19: emergency and reactivation”, (2020), at:

[https://repositorio.cepal.org/bitstream/handle/11362/45736/5/S2000437\\_en.pdf](https://repositorio.cepal.org/bitstream/handle/11362/45736/5/S2000437_en.pdf).

<sup>25</sup> ECLAC, “Sectors and businesses facing COVID-19: emergency and reactivation”, (2020), at:

[https://repositorio.cepal.org/bitstream/handle/11362/45736/5/S2000437\\_en.pdf](https://repositorio.cepal.org/bitstream/handle/11362/45736/5/S2000437_en.pdf).

<sup>26</sup> UNODC, “Message from Secretary-General: Policy Brief on the Impact of Covid-19 on Latin America and the Caribbean”, (2020), at:

<https://www.unodc.org/ropan/en/policy-brief-on-the-impact-of-covid-19-on-latin-america-and-the-caribbean.html>.

<sup>27</sup> UNODC, “Message from Secretary-General: Policy Brief on the Impact of Covid-19 on Latin America and the Caribbean”, (2020), at:

<https://www.unodc.org/ropan/en/policy-brief-on-the-impact-of-covid-19-on-latin-america-and-the-caribbean.html>.

unpaid care work; ensuring women are well positioned in growth sectors; and addressing violence against women.<sup>28</sup>

With a weaker economy and lower regional growth, countries should strengthen their efforts to help small businesses that are the power engines of many economies. The sustained availability of credit and liquidity will be important for sustaining MSMEs and supporting vulnerable populations. Considering the foregoing, Sustainalytics is of the opinion that CAF's credit facilities for MSMEs will be particularly impactful as the region continues to progress through the global pandemic.

#### Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. This social bond advances the following SDGs and targets:

| Use of Proceeds Category   | SDG                                | SDG target                                                                                                                                                                                                                                                                                |
|----------------------------|------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Healthcare System Support  | 3. Good Health & Well Being        | 3.8 Achieve universal health coverage, including financial risk protection, access to quality essential healthcare services and access to safe, effective, quality and affordable essential medicines and vaccines for all                                                                |
| Emergency Economic Support | 8. Decent Work and Economic Growth | 8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium sized enterprises, including through access to financial services |

## Conclusion

The Corporación Andina de Fomento has developed CAF's Social Bond Framework under which it will issue social bonds and use the proceeds to finance projects that support the mitigation and recovery from the COVID-19 pandemic and support vulnerable MSMEs. Sustainalytics considers that the projects funded by the social bond proceeds will provide a positive social impact.

The Framework outlines a process by which proceeds will be tracked, allocated, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the CAF's Social Bond Framework is aligned with the overall sustainability strategy of the Bank and that the social use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goals 3 and 8. Additionally, Sustainalytics is of the opinion that CAF has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the use of proceeds.

Based on the above, Sustainalytics is confident that the Corporación Andina de Fomento is well-positioned to issue social bonds and that the CAF's Social Bond Framework is robust, transparent, and in alignment with the core components of the Social Bond Principles 2020.

<sup>28</sup> World Economic Forum, "The COVID-19 crisis disproportionately affects women – here's how Latin America is addressing it", (2020), at: <https://www.weforum.org/agenda/2020/07/covid-19-economic-crisis-women-latin-america-gender-parity/>.

## Appendix

### Appendix 1: Social Bond/ Social Bond Programme -External Review Form

#### Section 1. Basic Information

|                                                                              |                                       |
|------------------------------------------------------------------------------|---------------------------------------|
| <b>Issuer name:</b>                                                          | Corporación Andina de Fomento ("CAF") |
| <b>Social Bond ISIN or Issuer Social Bond Framework Name, if applicable:</b> | CAF's Social Bond Framework           |
| <b>Review provider's name:</b>                                               | Sustainalytics                        |
| <b>Completion date of this form:</b>                                         | October 26, 2020                      |
| <b>Publication date of review publication:</b>                               |                                       |

#### Section 2. Review overview

##### SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the SBP:

- |                                                            |                                                                                  |
|------------------------------------------------------------|----------------------------------------------------------------------------------|
| <input checked="" type="checkbox"/> Use of Proceeds        | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting                                    |

##### ROLE(S) OF REVIEW PROVIDER

- |                                                                                 |                                        |
|---------------------------------------------------------------------------------|----------------------------------------|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification                                           | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other (please specify):                                |                                        |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

##### EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (if applicable)

Please refer to Evaluation Summary above.

## Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

### 1. USE OF PROCEEDS

Overall comment on section (if applicable):

The eligible categories for the use of proceeds – Healthcare System Support and Emergency Economic Support – are aligned with those recognized by the Social Bond Principles that seek to achieve positive socioeconomic outcomes for target populations. Sustainalytics considers that the eligible categories will lead to positive social impacts and advance the UN Sustainable Development Goals, specifically SDG 3 and 8.

#### Use of proceeds categories as per SBP:

- |                                                                                                                                                   |                                                                                                    |
|---------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|
| <input type="checkbox"/> Affordable basic infrastructure                                                                                          | <input checked="" type="checkbox"/> Access to essential services                                   |
| <input type="checkbox"/> Affordable housing                                                                                                       | <input checked="" type="checkbox"/> Employment generation (through SME financing and microfinance) |
| <input type="checkbox"/> Food security                                                                                                            | <input type="checkbox"/> Socioeconomic advancement and empowerment                                 |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBP | <input type="checkbox"/> Other (please specify):                                                   |

If applicable please specify the social taxonomy, if other than SBP:

### 2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

CAF has established a Social Bond Program team, comprised of representatives from the Bank's international bond issuances, strategic planning, sustainability, treasury and business project executives, to be in charge of selecting projects that are in compliance with the Framework for the inclusion in the social bond. Sustainalytics considers the project selection process in line with market practice.

#### Evaluation and selection

- |                                                                                                                     |                                                                                                                               |
|---------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------|
| <input checked="" type="checkbox"/> Credentials on the issuer's social objectives                                   | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories               |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Social Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input checked="" type="checkbox"/> Summary criteria for project evaluation and selection publicly available        | <input type="checkbox"/> Other (please specify):                                                                              |

**Information on Responsibilities and Accountability**

- ☒ Evaluation / Selection criteria subject to external advice or verification
 ☐ In-house assessment
- ☐ Other (please specify):

**3. MANAGEMENT OF PROCEEDS**

Overall comment on section (if applicable):

CAF's Social Bond Program Team will monitor disbursements made under the Social Bond Program. Pending allocation, net bond proceeds will be managed according to the Bank's liquidity and treasury policy. This is in line with market practice.

**Tracking of proceeds:**

- ☒ Social Bond proceeds segregated or tracked by the issuer in an appropriate manner
- ☒ Disclosure of intended types of temporary investment instruments for unallocated proceeds
- ☐ Other (please specify):

**Additional disclosure:**

- |                                                                                             |                                                                                         |
|---------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|
| <input type="checkbox"/> Allocations to future investments only                             | <input checked="" type="checkbox"/> Allocations to both existing and future investments |
| <input type="checkbox"/> Allocation to individual disbursements                             | <input checked="" type="checkbox"/> Allocation to a portfolio of disbursements          |
| <input checked="" type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other (please specify):                                        |

**4. REPORTING**

Overall comment on section (if applicable):

CAF intends to publish a Social Bond Report on its website, on an annual basis until full allocation. The report will include allocation reporting and may include (i) total amount of Eligible Social Expenditures funded through the social bond(s); (ii) a breakdown of Eligible Expenditures per country and by category; and (iii) information about Eligible Expenditures made by shareholder countries via the Emergency Credit Line (if publicly available). In addition, CAF is committed to reporting on relevant impact metrics. Sustainalytics views CAF's allocation and impact reporting as aligned with market practice.

**Use of proceeds reporting:**

- ☐ Project-by-project
 ☒ On a project portfolio basis
- ☐ Linkage to individual bond(s)
 ☐ Other (please specify):

**Information reported:**

- ☒ Allocated amounts ☐ Social Bond financed share of total investment
- ☒ Other (please specify): Loan information will include the outstanding amount in the portfolio, remaining disbursements and loan maturity.

**Frequency:**

- ☒ Annual ☐ Semi-annual
- ☐ Other (please specify):

**Impact reporting:**

- ☐ Project-by-project ☒ On a project portfolio basis
- ☐ Linkage to individual bond(s) ☐ Other (please specify):

**Information reported (expected or ex-post):**

- ☐ Number of beneficiaries ☐ Target populations
- ☒ Other ESG indicators (*please specify*): Number and/or value of medical supplies and equipment financed; Number of hospital beds developed or expanded; Number of individuals supported by healthcare programs; Number of loans and/or value of loans to business or individuals; Number of jobs maintained /created; Sectors supported and monetary value of support.

**Frequency:**

- ☒ Annual ☐ Semi-annual
- ☐ Other (please specify):

**Means of Disclosure**

- ☐ Information published in financial report ☐ Information published in sustainability report
- ☐ Information published in ad hoc documents ☒ Other (please specify): Social Bond Report published on CAF's website.
- ☐ Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

Where appropriate, please specify name and date of publication in the useful links section.

**USEFUL LINKS** (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

<https://www.caf.com/en/>

**SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE**

**Type(s) of Review provided:**

- |                                                                      |                                        |
|----------------------------------------------------------------------|----------------------------------------|
| <input type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification / Audit                        | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other (please specify):                     |                                        |

**Review provider(s):**

**Date of publication:**

**ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE SBP**

- i. **Second-Party Opinion:** An institution with social expertise, that is independent from the issuer may issue a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Social Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Social Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to social sustainability, and an evaluation of the social features of the type of projects intended for the Use of Proceeds.
- ii. **Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or social criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the socially sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Social Bond proceeds, statement of social impact or alignment of reporting with the SBP, may also be termed verification.
- iii. **Certification:** An issuer can have its Social Bond or associated Social Bond framework or Use of Proceeds certified against a recognised external social standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. **Social Bond Scoring/Rating:** An issuer can have its Social Bond, associated Social Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on social performance data, process relative to the SBP, or another benchmark. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material social risks.

## Disclaimer

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## About Sustainalytics, a Morningstar Company

Sustainalytics, a Morningstar Company, is a leading ESG research, ratings and data firm that supports investors around the world with the development and implementation of responsible investment strategies. The firm works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. The world's foremost issuers, from multi-national corporations to financial institutions to governments, also rely on Sustainalytics for credible second-party opinions on green, social and sustainable bond frameworks. In 2020, Climate Bonds Initiative named Sustainalytics the "Largest Approved Verifier for Certified Climate Bonds" for the third consecutive year. The firm was also recognized by Environmental Finance as the "Largest External Reviewer" in 2020 for the second consecutive year. For more information, visit [www.sustainalytics.com](http://www.sustainalytics.com).

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**GlobalCapital**  
**SRI Awards**

**Named**

**2015:** Best SRI or Green Bond Research or Rating Firm  
**2017, 2018, 2019:** Most Impressive Second Opinion Provider



**The**  
**Green Bond**  
**Principles**