



**Cifi**

**Green Bond Framework**

July 31, 2019

# Table of Contents

## I. CIFI's Overview

- a. Background
- b. Mission and Values
- c. Organizational Chart

## II. CIFI's rationale to issue a Green Bond

- a. Strong commitment to Sustainable Development
- b. Environment, Social & Governance Department
  - I. Environmental & Social Management System
  - II. Mission
  - III. Policy
- c. CIFI is committed to the energy sector

## III. CIFI Green Bond Framework

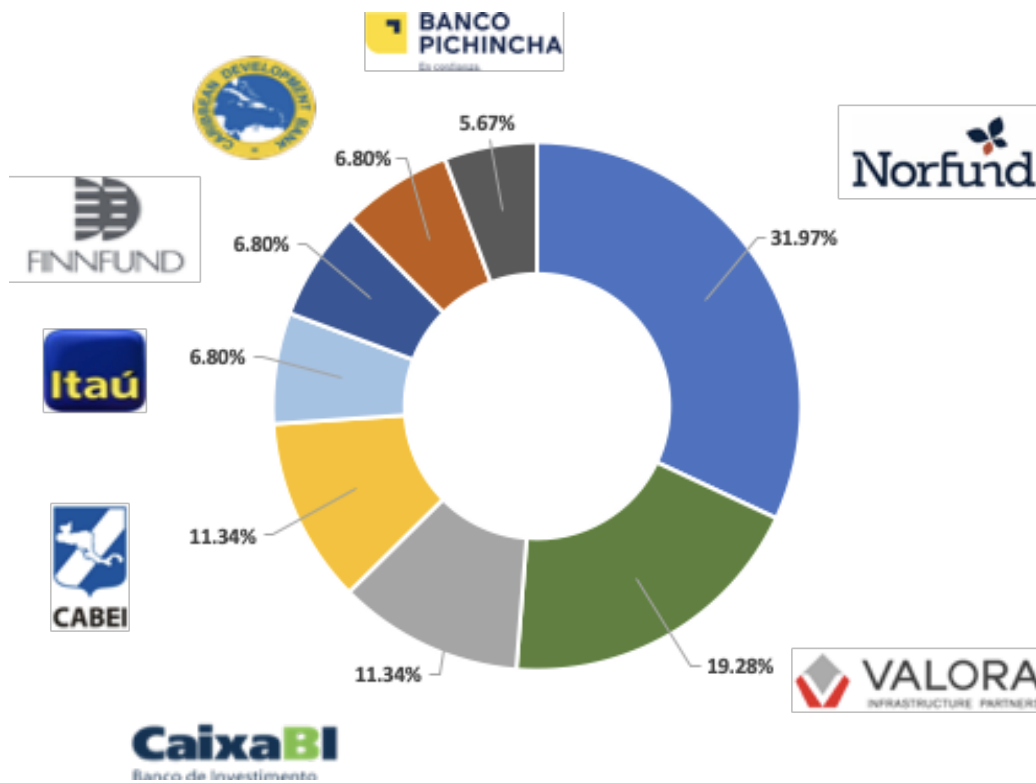
- a. Use of Proceeds
- b. Project Selection Criteria
- c. Environmental & Social Due Diligence
- d. Risk Management
- e. Risk Categorization
- f. Risk Scoring System
- g. Green Bond Committee
- h. Management of Proceeds
- i. Reporting
  - I. Allocation report
  - II. Impact report
- j. External Review
  - I. Second opinion
  - II. External verification

# CIFI's Overview

## a. Background

CIFI is a regional non-bank financial institution based in the Republic of Panama that began operations in July 2001 in Washington, DC, USA. According to CIFI's 2018 Financial Annual Report, CIFI's total equity (share capital, additional paid-in capital, reserves, and retained earnings) was USD \$97.7 MM, and net loans payable (funding through regional capital markets, international banks and development financial institutions) was USD \$282.7 MM as of December 31, 2017. CIFI's shareholders are comprised of: Development Financial Institutions (DFI), regional commercial banks, Multilateral Financial Institutions (MFI) and the Management Team as seen in Figure 1.1 below.

Figure 1.1 – CIFI Shareholders



The major shareholder of CIFI is the Norwegian Investment Fund for Developing Countries with 31.97% of the shares and CIFI's senior management team owns 19.28% of the shares via SPV called Valora Holdings.

CIFI specializes in providing debt financing for private sector sponsored infrastructure projects in the Latin America and the Caribbean. It participates in a limited range of infrastructure lending transactions and its business model is based on having an efficient organization with a lean and effective core staff.


At the same time, it is committed to effectively and comprehensively managing and minimizing E&S risk and ensuring that its projects are consistent with international standards, including the IFC Performance Standards and Equator Principles, which CIFI has adopted.

### **b. Mission and Values**

CIFI is a Panamanian Corporation whose mission is to provide advice and financing for infrastructure and energy projects in Latin America and the Caribbean that promotes sustainable development in the region. CIFI is focused on serving the small and mid-size (middle market) infrastructure projects in the region.

CIFI's business model is designed to give response to the client in an efficient manner by focusing on the assessment and mitigation of risks, aiming at a project that is technically, financially, socially, and environmentally viable. To date CIFI has participated financing more than over 180 projects, representing a total investment of more than \$1.6 billion.

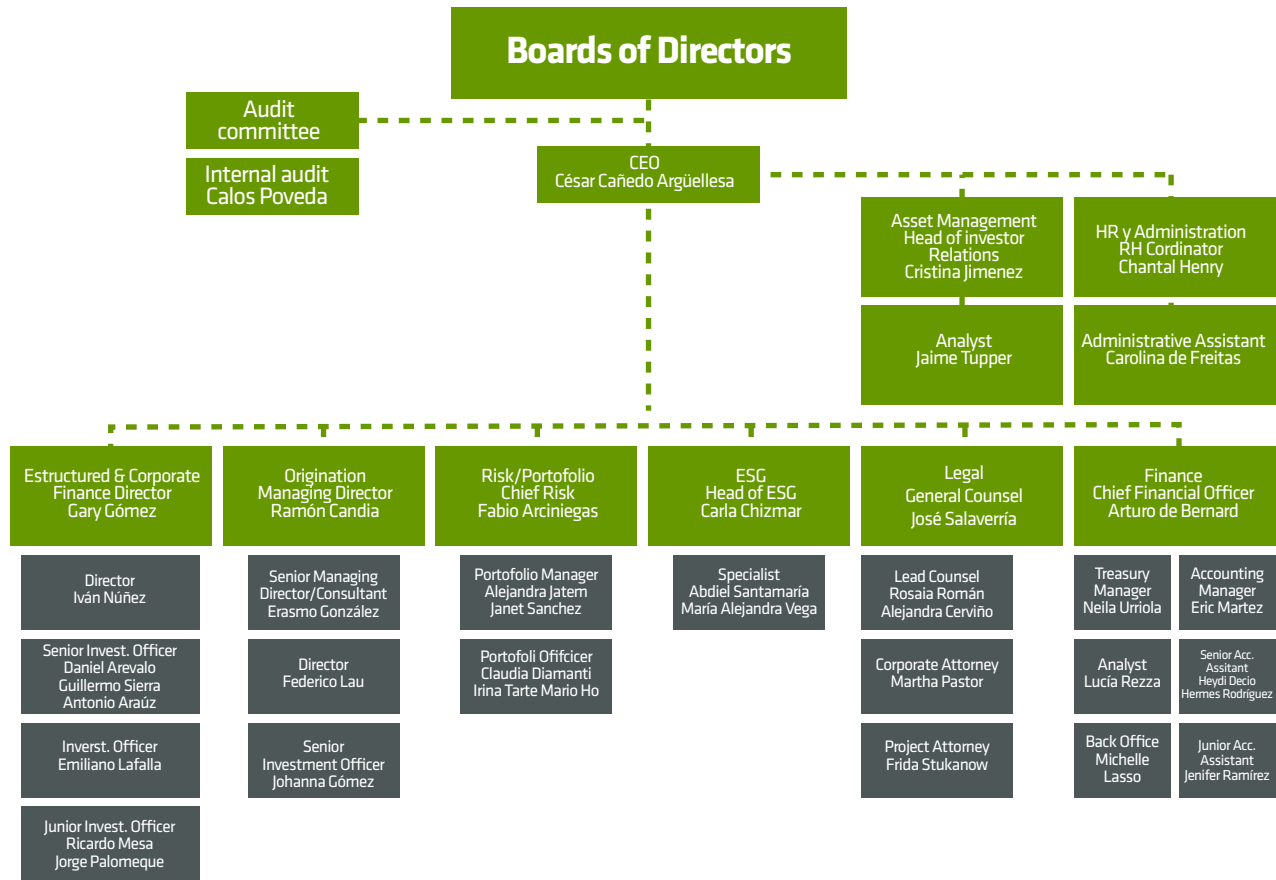
### **CIFI's corporate values consist of the following:**



<b>Quality:</b> We add value to our customers through a service that combines deep knowledge and extensive experience
<b>Integrity:</b> We act per certain essential principles. This code of values has enabled CIFI to reach the top in the sector
<b>Trust:</b> The experience accumulated since 2002 and the success achieved are the best guarantee for our customers
<b>Responsibility:</b> Fulfilling our obligations is an obsession. We work hard not to disappoint the expectations placed in our company
<b>Professionalism:</b> has been instrumental in the success of CIFI and in the recognition, it generates amongst its audiences.
<b>Teamwork:</b> we offer creative and dynamic solutions that are only attainable through a fully attuned team.

### c. Organizational Chart

Figure 1.2 – CIFI’s Organizational Chart



## CIFI’s rationale to issue a Green Bond

### a. Strong commitment to Sustainable Development

CIFI has a strong commitment to sustainable development in all its operations, since it is a fundamental part of the organization from the beginning, mainly in a world that demands total transparency and accountability from companies due the current challenge of the climate change, responsible investments, gender equality and corporate social responsibility, in order to be a good corporate citizen and to promote sustainable business.

Environmental and social matters have been part of CIFI's Risk Department for over 11 years, being CIFI an active member of the Equator Principles Association since the year 2007, and it applies the International Financial Corporation’s Environmental and Social Performance Standards in all its investments for managing the environmental and social risks.

The natural evolution of CIFI has made its shareholders and Management Team to decide the creation in January of 2018, of the Environment, Social & Governance (ESG) Department, as an independent management unit within CIFI. In this way, CIFI takes a major commitment in adding value by achieving the best investment practices for infrastructure and energy in Latin America and the Caribbean, minimizing the risks and maximizing the positive impacts, both environmental and social.

In 2016, CIFI moved its headquarters from Washington D.C, to Panama City, and took into consideration the importance of having a sustainable venue. Thereof, CIFI’s headquarters is located at a LEED® Gold certified building granted by the U.S. Green Building Council. CIFI implemented the “Green Office” concept in all its workspace, including the energy efficiency system and the recycling program under development.

**In accordance to the above, CIFI developed the following:**

i) Gender Equality Policy and Strategy; ii) Crisis Management Protocol; iii) Strategic Communication Plan; iv) Stakeholders Engagement Plan; v) Grievance Mechanism, and vi) Corporate Social Responsibility Strategy.

**b. Environment, Social & Governance Department**

**I. Environmental & Social Management System**

Since 2005, CIFI has had an Environmental and Social Management System (ESMS) that includes our E&S Policy, with annual revisions. However, with the creation of the Department in 2018, a comprehensive revision of all governance aspects of ESG was upgraded.

**II. Mission**

Our mission is to perform a comprehensive ESG risk assessment to implement mitigation strategies to minimize risks and maximize positive environmental and social impacts that add value to infrastructure financing in the region. CIFI applies the highest standards and corporate governance principles to foster sustainable development in Latin America and the Caribbean using a transparent and accountable approach.

**III. Policy**

CIFI is committed to mainstream sustainability in its operations by building environmental, social and governance factors into the investment process. CIFI will perform a comprehensive ESG risk assessment; propose mitigation strategies to minimize such risks and impacts; and guide our clients through its implementation.

CIFI is committed to foster sustainable development in the region by maximizing positive environmental and social outcomes whenever possible. To contribute to this, CIFI forbids financing to any project or company whose primarily business activities are listed in our Exclusion List.

CIFI recognizes Climate Change as a global challenge and anticipates any possible contribution from the private sector as key to sustain economic, environmental, and social wellbeing. To that end, CIFI applies IFC Performance Standards in all its financing, is committed to promote a low carbon economy, and to report GHG emissions accurately.

CIFI is a committed agent of progress in emerging markets of the Americas, understanding the value of respecting human rights and gender equality as key drivers of sustainable development in our region.

CIFI is committed to implement principles to structure and process the direction and control of its performance, showing strong corporate leadership. To this end, CIFI will secure the necessary resources to constantly improve our ESMS and communicate its commitments to all its stakeholders.

**c. CIFI is committed to the energy sector**

Historically, one of the main sectors that CIFI has focused its lending operations has been the energy sector. As seen in the Figure 2.1 (below), during 2018 48% of total loan disbursements have made to energy related infrastructure projects.

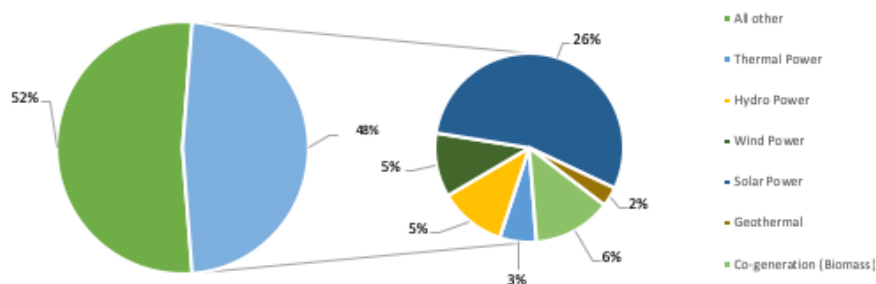
Figure 2.1 – Historical Disbursements, Energy vs. all other sectors

As part of its lending, CIFI is focused on a broad range of middle market infrastructure projects in Latin America and the Caribbean, however it has a strategic aim to provide financing in the following green sectors:

- Renewable energy
- Wind Power
- Hydro Power (under 25 MW)
- Solar Power
- Co-Generation (Biomass)
- Geothermal
- Waste Management Facilities (solid waste and pretreatment of effluents)
- Waste-to-Energy (urban solid waste and biomass)

As of December 2018, 45 % of our loan portfolio corresponds to renewable energy, as shown in the following graphic:

**Figure 2.2 – Loan Portfolio – Energy Sector Breakdown**  
Amount in 000's of USD



## CIFI Green Bond Framework

### a. Use of Proceeds

An amount equal to the Net Proceeds from the sale of Notes issued under CIFI's Green Bond Program will be allocated towards financing and/or refinancing of middle market, private sector infrastructure Eligible Green Projects, specifically:

- Renewable energy
- Hydropower (limited to projects less than 25MW in capacity)
- Solar Power
- Wind Power
- Geothermal Power
- Co-generation from biomass (limited to waste biomass)



- Waste Management
- Treatment of wastewater and effluents
- Waste-to-energy from municipal solid waste
- Recycling & waste diversion

#### **b. Project Selection Criteria**

CIFI's Green Bond Committee will be responsible for the evaluation and selection of Eligible Green Projects. The Eligible Green Projects to be financed and/or refinance with the proceeds from the issuance of CIFI's Green Bond Program may have been originated and financed before 2019 with a look back period of 24 months, or after the bond's issuance. The proceeds used for refinancing projects represent up to xx% of the resource allocation at the time of the bond issuance. The Eligible Projects will comply with the following criteria:

- Our Exclusion List (see Annex)
- Renewable energy and waste management sectors
- Compliance with local law and regulations
- Equators Principles and IFC's Performance Standards on Environmental and Social Sustainability
- Environmental & Social Management System (ESMS)
- Complete Due Diligence Process (Technical, legal, financial and ESG)

#### **c. Green Bond Committee**

A Green Bond Committee is expected to be setup, including the Financial Team, the ESG Management Unit, and any relevant business lines involved in the selection of Eligible Projects when required.

The Green Bond Committee is expected to check the compliance of the Eligible Projects with the Project Selection Criteria and will be responsible for approving allocations of net proceeds on an annual basis.

The Green Bond Committee will also monitor the environmental and social risk analysis process of the Eligible Projects.

#### **d. Management of Proceeds**

The Net Proceeds will be allocated to the financing or Eligible Green Projects and / or refinancing of existing Eligible Green Projects.

Pending the fill of the Net Proceeds allocation to Eligible Green Projects, the Net Proceeds will be held in cash, cash equivalents, or in CIFI’s liquidity portfolio in line with investment management policies.

Payment of principal and interest of the Notes issued will be made from a general account of CIFI and will not be directly linked to the financial performance of the Eligible Green Projects. Funds are track on a monthly basis and presented to management on a quarterly basis to ensure compliance with internal controls.

### e. Reporting

#### i. Allocation Reporting

During the term of the Notes, CIFI will make and keep readily available on its website and data rooms information on the Allocation of the Net Proceeds. The report will be updated quarterly until the Net Proceeds have been fully allocated to Eligible Green Projects. The information is expected to include amounts and a brief description of the funds allocated to Eligible Green Projects.

### II. Impact report

Detailed information regarding the expected environmental benefits, will continue to be made available for Eligible Green Projects using the following performance indicators:

**Figure 3.2 – Project Category & Reporting Indicators**

Project Category	Reporting Indicators
Renewable Energy	<ul style="list-style-type: none"><li>• Installed capacity in MW</li><li>• Annual renewable energy generation in MWh</li><li>• Annual GHG emissions reduced/avoided in tons of CO2 equivalent</li></ul>
Waste Management (solid and effluents)	<ul style="list-style-type: none"><li>• Solid waste recycled/revalorized per year in tons</li><li>• Effluents treated per year in cubic meters</li></ul>

## **f. External Review**

### **I. Second opinion**

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

This Second-Party Opinion document will be made available on Sustainalytics' website.

### **II. External verification**

An external verification on the allocation of the Green Bond proceeds is expected to be provided, on an annual basis until the complete allocation of proceeds by Sustainalytics.

# ANNEX - 1 EXCLUDED ACTIVITIES

## Exclusion List Relative to All CIFI Operations

**CIFI will not Provide Financing to any Project or Company that is primarily involved in the following prohibited activities:**

1. Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international phase out or bans, such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, PCB's, wildlife or products regulated under the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).
2. Production or trade in weapons and munitions (1).
3. Production or trade in alcoholic beverages (excluding beer and wine) (1).
4. Production or trade in tobacco (1).
5. Gambling, casinos and equivalent enterprises (1).
6. Production or trade in radioactive materials (2).
7. Production or trade in unbonded asbestos fibers. This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.
8. Drift net fishing in the marine environment using nets more than 2.5 km. in length.
9. Production or activities involving harmful or exploitative forms of forced labor (3)/harmful child labor (4).
10. Commercial logging operations for use in primary tropical moist forest.
11. Production or trade in wood or other forestry products other than from sustainably managed forests.
12. Such other projects as the Company shall determine are inconsistent with its policies and objectives.
13. Cross-border trade in waste and waste products, unless compliant with the Basel Convention and the underlying regulation.
14. Destruction (5) of High Conservation Value areas (6).
15. Pornography and /or prostitution.
16. Racist and / or anti-democratic media.

### **Notes to Exclusion List:**

1. This does not apply to project sponsors who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a project sponsor's primary operations. For companies, "substantial" means more than 10 % of their consolidated balance sheets or earnings. For financial institutions and investment funds, "substantial" means more than 10% of their underlying portfolio volumes

2. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where CIFI considers the radioactive source to be trivial and/or adequately shielded.
3. Forced labor means all work or service, not voluntarily performed that is extracted from an individual under threat of force or penalty.
4. Harmful child labor means the employment of children that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child's education, or to be harmful to the child's health, or physical, mental, spiritual, moral, or social development.
5. Destruction means the (1) elimination or severe diminution of the integrity of an area caused by a major, long-term change in land or water use or (2) modification of a habitat in such a way that the area's ability to maintain its role is lost.
6. High Conservation Value (HCV) areas are defined as natural habitats where these values are considered to be of outstanding significance or critical importance (See <http://www.hcvnetwork.org>)

## ANNEX - 2 ADDITIONAL PROJECT SELECTION FACTORS

### i. Environmental & Social Due Diligence

CIFI undertakes an environmental and social due diligence (ESDD) assessment in all its financing (Figure 3.1). The depth of each ESDD assessment and subsequent monitoring depends on the categorization assigned according to CIFI's environmental and social scoring system.

Figure A2.1 – ESDD Process Summary



### ii. Risk Management

The main risks identified as part of the ESMS are : Environmental and Social - defined as the reduction in asset values due to environmental and social accountabilities, e.g. cleanup costs, lawsuits, fines, etc. that might result in credit risks where the client is not able to repay the loan; Liability – legal complications, fees, and/or fines in rectifying social and environmental damages by virtue of taking possession of collateral; Credit Risk - defined as the risk of default on a debt that may arise from a borrower failing to make required payments due to environmental and social events, e.g. construction and operations interruption; and, Reputational - which is the risk of loss resulting from damages to a client's image in the media, with the public, with the business community, and the spillover effect of being associated with projects/clients that could cause environmental and social negative impacts.

### iii Risk Categorization

CIFI follows the categorization definition of the IFC, which assigns all projects and operations one of three categories: A, B or C.

**Category A Projects/Loans – high impact:** Any operation that is likely to cause significant negative environmental or social risks and/or impacts that are diverse, irreversible or unprecedented. These include impacts that extend beyond the project site and are difficult to mitigate, or have profound implications affecting natural resources.

**Category B+ Projects/Loans – medium/high impact:** Operations with generally limited potential adverse social or environmental impacts or risks that are site-specific and readily addressed through mitigation measures but having some specific features which can have significantly larger adverse social or environmental impacts.

**Category B Projects/Loans – medium impact:** Operations that are likely to cause mostly local, site-specific, and short-term environmental and social impacts that are few and largely reversible and for which effective mitigation measures are readily available.

**Category C Projects/Loans – minimal impact:** Operations that are likely to cause minimal or no negative environmental or associated social impacts.

All CIFI's clients are required to submit an Annual Monitoring Report, and report on material environmental, social or labor incidents.

#### **iv. Risk scoring system**

The Environmental and Social Scoring System is a tool, developed by CIFI in concordance with its risk appetite, that allows the identification of higher risk transactions.

The scoring system enables CIFI to focus its resources to further analyze and monitor projects that pose a higher E&S risk. Projects financed by CIFI are subject to an E&S assessment, consistent with CIFI's ESMS and the four levels of due diligence established in this document.

A series of variables influence CIFI's ability to manage the identified risks, i.e. the financial product, CIFI's role in the transaction, and the stage of the project. The scoring system might be modified with the approval of the CEO.