

D-3: Caribbean Development Bank's Sustainable Finance Framework

Project	Review and Update of CDB's Framework
Document	D-3: CDB's Sustainable Finance Framework – Final
Prepared for	Caribbean Development Bank (CDB)
Prepared by	HPL.LLC
Date	November 2022

Disclaimer

This Framework is delivered by HPL.LLC to the Issuer and can only be used by the Issuer. Its distribution and publication are at the sole discretion of the Issuer.

This Framework has been prepared by HPL.LLC based on the information provided by the Issuer, therefore, the accuracy, completeness and reliability of the information collected are the responsibility of the Issuer. Likewise, the Issuer is fully responsible for ensuring compliance with the commitments defined in this Framework, as well as ensuring their implementation and monitoring.

HPL.LLC is not responsible for the consequences induced when third parties make use of the information set out in this Framework to make investment decisions or to carry out any other type of commercial transaction.

Abbreviations

BMCs	Borrowing Member Countries
CC	Climate Change
CCA	Climate Change Adaptation
CDB	Caribbean Development Bank
CITES	Convention on International Trade in Endangered Species of Wild Fauna and Flora
CVRA	Climate Vulnerability Risk Assessment
DC	Division Chief
DRM	Disaster Risk Management
EAs	Environmental Audits
EE	Energy Efficiency
EIAs	Environmental Impact Assessments
ESU	Environmental Sustainability Unit
ESRP	Environmental and Social Review Procedure
GBP	Green Bond Principles
GLP	Green Loan Principles
GMOs	Genetically Modified Organisms
ICMA	International Capital Market Association
ICT	Information and Communication Technology
ILO	International Labor Organization
LMA	Loan Market Association
MDB	Multilateral Development Bank

MSMEs	Micro, Small and Medium-Sized Enterprises
NDCs	Nationally Determined Contributions
NHIA	Natural Hazard Impact Assessment
OCR	Ordinary Capital Resources
PR	Performance Requirements
RE	Renewable Energy
SBG	Sustainability Bond Guidelines
SBP	Social Bond Principles
SDGs	Sustainable Development Goals
SIA	Social Impact Analysis
SIDS	Small Island Developing States
SLP	Social Loan Principles
SPU	Strategic Plan Update
SSD	Social Sector Division

Table of Contents

Disclaimer.....	ii
Abbreviations.....	iii
Table of Contents	v
List of Tables	vi
List of Figures	vii
1. Background	8
1.1 Caribbean Development Bank.....	8
1.2 CDB's Strategic Plan Update.....	8
1.3 Environmental and Socioeconomic Context in CDB's BMCs.....	11
1.4 Objectives of Developing a Sustainable Finance Framework.....	14
2. CDB's Sustainable Finance Framework	16
2.1 Use of Proceeds.....	16
2.2 Process for Project Evaluation and Selection	24
2.2.1 Environmental and Social Review Procedures	24
2.2.2 Exclusion Criteria	26
2.3 Management of Proceeds	26
2.4 Reporting.....	27
2.4.1 Allocation Reporting.....	27
2.4.2 Impact Reporting	27
2.5 External Review	29
Appendix 1: CDB's Exclusion List	- 1 -

List of Tables

Table 1. Green Eligibility Categories	17
Table 2. Social Eligibility Categories	20
Table 3. Green Impact Indicators	28
Table 4. Social Impact Indicators.....	29
Table 5. CDB's Exclusion List	- 1 -

List of Figures

Figure 1. Indicative Strategic Framework 2022-2024.....	9
---	---

1. Background

1.1 Caribbean Development Bank

Caribbean Development Bank (CDB or the “Bank”) is a regional financial development institution, which was established in 1970 for the purpose of contributing to the harmonious economic growth and development of its Borrowing Member Countries (BMCs)¹. CDB’s BMCs are Anguilla, Antigua and Barbuda, Barbados, Belize, British Virgin Islands (BVI), Cayman Islands, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, the Bahamas, Trinidad and Tobago, and Turks and Caicos Islands. The 19 BMCs borrow funds from the Bank and have voting rights², which entitle them to be a part of the decision-making process of CDB.³

The Bank’s mission focuses on reducing poverty and transforming lives through sustainable, resilient, and inclusive development.⁴ CDB works in collaboration with development partners to finance activities that contribute to the systematic reduction of poverty in the BMCs through social and economic development. These investments span across various sectors and themes such as education, agricultural, transportation, rural development, energy, water & sanitation, amongst others. Additionally, the Bank serves its BMCs through several programs that provide technical assistance and grant funding, and in some cases, are financed in partnership with other development agencies.⁵

1.2 CDB’s Strategic Plan Update

CDB’s Strategic Directive for 2020 - 2024 is anchored on a resilience framework, which is the primary avenue through which the Bank can support BMCs in realizing sustainable and inclusive economic growth.⁶ This framework is underpinned by 21 corporate

¹ Caribbean Development Bank (2014). *CDB – Its Purpose, Role, and Function*. Available Online: <https://www.caribank.org/publications-and-resources/resource-library/document/cdbs-purpose-role-and-functions>

² The BMCs have 55.26% of voting power in the Bank.

³ Caribbean Development Bank (n.d.). *Borrowing Member Countries*. Available Online: <https://www.caribank.org/countries-and-members/borrowing-members>

⁴ Caribbean Development Bank (n.d.). *About Us*. Available Online: <https://www.caribank.org/about-us>

⁵ Caribbean Development Bank (n.d.). *Our Work*. Available Online: <https://www.caribank.org/our-work>

⁶ Caribbean Development Bank (2020). *Strategic Plan Update 2022 - 2024: Repositioning for Resilience*. Available Online: <https://www.caribank.org/about-us/policies-and-strategies/strategic-plan-update-2022-24-repositioning-resilience>

priorities and supported by four cross-cutting areas – regional cooperation and integration, gender equality, good governance, and digital transformation.⁷

In 2021, CDB repositioned itself to better address the needs of its BMCs amidst the debilitating impacts of the COVID-19 pandemic and the advancement of a new vision for the region and the Bank. The refreshed vision focusses on developing a comparative advantage based on innovation and knowledge creation as the primary means through which the region can eliminate poverty, advance standards of living, and deliver equitable prosperity. CDB's Strategic Plan Update (SPU) for 2022-2024 focuses on five pillars: building social resilience, building environmental resilience, building production resilience, building financial resilience, and building institutional resilience (see Figure 1). Furthermore, it places greater emphasis on social protection, transformational education, digitalization, knowledge generation, and economic diversification and private sector development.⁸

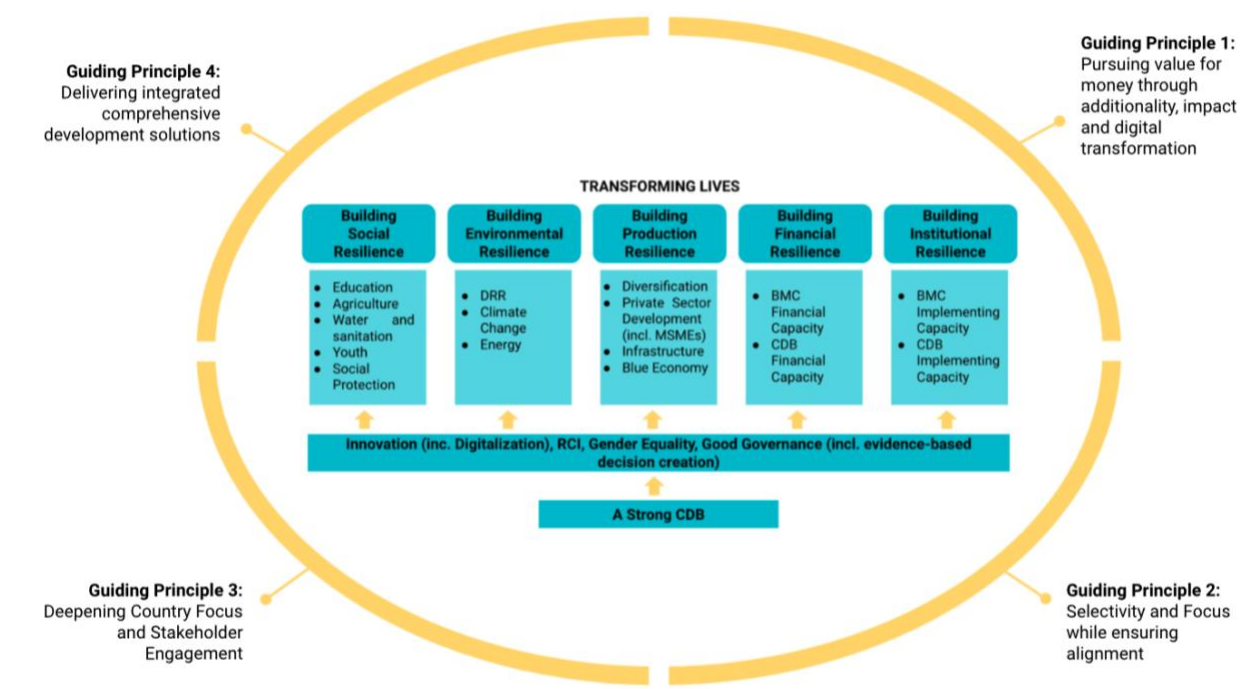


Figure 1. Indicative Strategic Framework 2022-2024⁹

⁷ Caribbean Development Bank (2020). *Development Effectiveness Report*. Available Online: <https://www.caribank.org/publications-and-resources/resource-library/development-effectiveness-reviews/development-effectiveness-review-2020>

⁸ Caribbean Development Bank (2020). *Strategic Plan Update 2022 - 2024: Repositioning for Resilience*. Available Online: <https://www.caribank.org/about-us/policies-and-strategies/strategic-plan-update-2022-24-repositioning-resilience>

⁹ (Source: *Strategic Plan Update 2022 - 2024: Repositioning for Resilience*.)

The Bank acknowledged that COVID-19 had an unprecedented impact on the regional education sector as it necessitated a hard pivot to an online platform which among other things, exacerbated inequalities in access to education. However, the pandemic also provided an opportunity for the Bank to support the region in advancing more student centered or active forms of learning (i.e., those based more on inquiry, discovery, and problem solving). COVID-19 also significantly increased demands on social protection systems. Consequently, over the medium term, the Bank will focus on supporting an integrated, socially inclusive and gender-responsive social protection framework that focusses on building the protective, preventive, promotional and transformative capacities of vulnerable persons. In addition to the above, the **social resilience pillar** focuses on key social themes including agriculture, water and sanitation, and youth development which are critical to sustainable, inclusive, and resilient growth.¹⁰

The **environmental resilience pillar** focuses on supporting BMC's adaptation and mitigation capacities through five activities: (i) integration of Disaster Risk Management (DRM) and Climate Change (CC); (ii) improvement of climate resilience in vulnerable sectors; (iii) increased partnerships; (iv) increased community resilience to natural hazards; and (v) development of DRM and CC tools and instruments. Moreover, the Bank is aware that CC affects vulnerable populations such as the poor, children, elderly and particularly women, disproportionately, therefore this pillar includes gender mainstreaming in its CC adaptation and mitigation actions.¹¹

CDB has also updated its **Climate Resilience Strategy 2019-2024** to promote and enhance climate resilience and sustainable development in BMCs. This strategy is based on four priority areas: (i) mobilizing concessionary resources to all BMCs, (ii) accelerating investments in adaptation and climate resilience in climate vulnerable sectors, (iii) supporting an enabling environment in BMCs for climate action, and (iv) strengthening CDB's institutional capacity and operational procedures to strengthen the implementation of its climate resilience strategy.¹²

Finally, the **production resilience pillar** focuses on diversification, private sector development, infrastructure, and the blue economy; the **financial resilience pillar** on strengthening financial capacity in CDB and BMCs to produce inclusive economic growth

¹⁰ Caribbean Development Bank (2020). *Strategic Plan Update 2022 - 2024: Repositioning for Resilience*. Available Online: <https://www.caribank.org/about-us/policies-and-strategies/strategic-plan-update-2022-24-repositioning-resilience>, p. 15.

¹¹ Ibid, p. 19-20.

¹² Caribbean Development Bank (2018). *CDB Adopts Updated Climate Resilience Strategy*. Available Online: <https://www.caribank.org/newsroom/news-and-events/cdb-adopts-updated-climate-resilience-strategy>

in the region; and the **institutional resilience pillar** on upgrading the implementation capacity of both CDB and BMCs to promote more resilient economies.¹³

CDB's SPU also includes cross-cutting themes such as good governance, regional cooperation and integration, and gender equality. CDB has supported gender mainstreaming in various actions such as applying gender equality in energy efficiency and renewable energy projects, or strengthening gender mainstreaming through guidance tools, policy analysis, and portfolio monitoring. CDB recognizes the need of gender mainstreaming in increasing climate resilience, and it is committed to continue and intensify the implementation of such an approach to promote resilient and sustainable development in the Caribbean.¹⁴

1.3 Environmental and Socioeconomic Context in CDB's BMCs

Regional challenges such as indebtedness, weaknesses in the provision of education and social services, socio-economic conditions have been exacerbated because of the debilitating impacts of the COVID-19 pandemic. Moreover, the pandemic has highlighted the need for incorporating a broader focus on resilience during the design and implementation of policies and project solutions.

This is relevant for CDB's BMCs, which are particularly vulnerable to CC due to their small sizes, reliance on climate sensitive economic sectors (such as tourism and agriculture/fisheries), dependence on rainfall for water, high public debt, and limited hazard forecasting capabilities.¹⁵ Additionally, the differential impact of CC on the lives and livelihoods of vulnerable groups, especially the poor and women influences the vulnerability of households and the likelihood of increasing poverty.¹⁶ In order to confront the environmental and socioeconomic impacts of CC, the BMCs have focused on integrating climate change adaptation measures as well as their DRM in their national development plans and in their sector strategies.¹⁷

¹³ Caribbean Development Bank (2020). *Strategic Plan Update 2022 - 2024: Repositioning for Resilience*. Available Online: <https://www.caribank.org/about-us/policies-and-strategies/strategic-plan-update-2022-24-repositioning-resilience>, p. 26.

¹⁴ Caribbean Development Bank (2020). *Strategic Plan Update 2022 - 2024: Repositioning for Resilience*. Available Online: <https://www.caribank.org/about-us/policies-and-strategies/strategic-plan-update-2022-24-repositioning-resilience>, p. 19-20.

¹⁵ Caribbean Development Bank (2018). *Climate Resilience Strategy 2019-2024*. p. 1. Available Online: https://www.caribank.org/sites/default/files/publication-resources/CDB_ClimateResilienceStrategy_2019-2024.pdf

¹⁶ Ibid, p. 1.

¹⁷ Ibid, p. 2.

CC impacts, such as reduced precipitation, sea-level rises, and more frequent droughts, have decreased water resource availability in the region.¹⁸ Variations on water supply are further aggravated by inadequate governance and management frameworks for water resources management at the governmental level, as well as inefficient water utilities.¹⁹ The BMCs also present deficiencies related to renewable energy and energy efficiency infrastructure, due to inadequate regulatory frameworks to facilitate and stimulate investment and insufficient funding instruments to advance the agenda.²⁰

Due to the Caribbean's relatively small size and its high level of export concentration, the region is vulnerable to macroeconomic shocks.²¹ This is especially relevant for micro, small and medium-sized enterprises (MSMEs), which represent between 70-85% of all companies within CDB's BMCs, as well as contribute between 60-70% of GDP and account for approximately 50% of employment.²² MSMEs in the Caribbean face diverse challenges such as inadequate access to financing, high informality, low productivity, and weak legislative and regulatory frameworks.²³ MSMEs' situation worsened as the COVID-19 pandemic produced a decline in demand, deepened cash flows' weakness and disrupted supply chains, causing shortages in production.²⁴ In addition, the pandemic caused a rise in unemployment rates across the region in which women, youth and informal workers were most affected.²⁵

Although the BMCs have progressed in the provision of education services, particularly as it relates to performance in the national and regional assessments as well as in the provision of tertiary education, there are still important challenges confronting the

¹⁸ Caribbean Development Bank (2020). *Strategic Plan Update 2022 - 2024: Repositioning for Resilience*. p. 12. Available Online: <https://www.caribank.org/about-us/policies-and-strategies/strategic-plan-update-2022-24-repositioning-resilience>

¹⁹ Ibid, p.12.

²⁰ Ibid, p.13.

²¹ Caribbean Development Bank (2018). *Climate Resilience Strategy 2019-2024*. p. 9. Available Online: https://www.caribank.org/sites/default/files/publication-resources/CDB_ClimateResilienceStrategy_2019-2024.pdf

²² Caribbean Development Bank (2021). *MSME sector's big impact on economies*. Available online: <https://www.caribank.org/newsroom/news-and-events/msme-sectors-big-impact-economies>

²³ Caribbean Development Bank (2017). *Private Sector Development Policy and Strategy*. p. 9. Available Online: <https://www.caribank.org/about-us/policies-and-strategies/private-sector-development-policy-and-strategy>

²⁴ Caribbean Development Bank (2020). *Strategic Plan Update 2022 - 2024: Repositioning for Resilience*. p. 9. Available Online: <https://www.caribank.org/about-us/policies-and-strategies/strategic-plan-update-2022-24-repositioning-resilience>

²⁵ Caribbean Development Bank (2018). *Annual Report 2020*. p. 23. Available Online: <https://www.caribank.org/publications-and-resources/resource-library/annual-reports/cdbs-annual-report-2020>

education system related to access, equity, participation, and effectiveness.²⁶ The transition to a remote learning environment as a result of the pandemic, for example, deepened disparities in access to education in the region, and left vulnerable students unable to participate or access virtual learning materials.²⁷ Most BMCs have institutional deficits in Information and Communication Technology (ICT) infrastructure and human resource capacity, which restricts students in fulfilling their academic development. Another challenge BMCs face is related to the issue that boys typically outnumber girls who underperform in basic education, which means they have higher risks of education failure.²⁸

BMCs also encounter challenges in improving food security, as there is a lack of clear guidelines and protocols for the movement of agricultural products, in which hinders intra-regional trade. Furthermore, other vulnerabilities in food security include deficiencies in food production and distribution systems, as well as an excessive reliance on imports to meet populations' food and nutrition needs. The COVID-19 pandemic heightened these challenges and demonstrated the need for national and regional interventions to strengthen BMCs' food and nutrition security.²⁹

Given this context, CDB has focused its Sustainable Finance Framework on financing key projects across various sectors that help address socio-economic and environmental challenges of the region:

- **Access, Quality and Equity of Public Education:** building or upgrading infrastructure and strengthening institutional capacity to provide better quality education with inclusive and gender responsive perspective.
- **Climate Change Adaptation:** improving climate resilience and capacity to manage disaster risk and climate change impacts in BMCs and integrating climate change adaptation measures in construction or upgrades of infrastructure projects.
- **Energy Efficiency:** implementing and improving energy-efficient technologies to multiply energy savings.

²⁶ Caribbean Development Bank (2020). *Strategic Plan Update 2022 - 2024: Repositioning for Resilience*. p. 12. Available Online: <https://www.caribank.org/about-us/policies-and-strategies/strategic-plan-update-2022-24-repositioning-resilience>

²⁷ Ibid, p. 8.

²⁸ Ibid, p. 8.

²⁹ Caribbean Development Bank (2018). *Annual Report 2020*. p. 23. Available Online: <https://www.caribank.org/publications-and-resources/resource-library/annual-reports/cdbs-annual-report-2020>, p. 34.

- **Financing and Support for MSMEs:** addressing the various challenges MSMEs face in the region, such as access to finance and technology, low productivity, and disproportionate opportunities for the most vulnerable groups.
- **Renewable Energy:** increasing penetration of renewable energy sources in the BMCs.
- **Sustainable Food Systems and Food Security:** improving productivity and resource-use efficiency in the agricultural sector to address food security challenges in the region.
- **Sustainable Water and Wastewater Management:** improvements in new or existing potable water systems and sewerage systems, as well as other activities related to improving access, reliability and quality of water and wastewater supply systems.

The areas of focus of this framework demonstrate CDB's commitment to support the BMCs in achieving more resilient and sustainable development.

1.4 Objectives of Developing a Sustainable Finance Framework

As the key regional financial development institution of the Caribbean, CDB's purpose is to contribute to the economic growth and development of its BMCs.³⁰ CDB will expand its efforts to fulfill its central purpose by setting up a Sustainable Finance Framework (the "Framework") that is aligned with: the Green Bond Principles (GBP)³¹, the Social Bond Principles (SBP)³², and the Sustainability Bond Guidelines (SBG)³³ published by the International Capital Market Association (ICMA) in June 2021; as well as the Green Loan

³⁰ Caribbean Development Bank (2014). *CDB – Its Purpose, Role, and Function*. Available Online: <https://www.caribank.org/publications-and-resources/resource-library/document/cdb-purpos-role-and-functions>

³¹ ICMA (2021). *Green Bond Principles*. Available Online: <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Green-Bond-Principles-June-2021-140621.pdf>

³² ICMA (2021). *Social Bond Principles*. Available Online: <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Social-Bond-Principles-June-2021-140621.pdf>

³³ ICMA (2021). *Sustainability Bond Guidelines*. Available Online: <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Sustainability-Bond-Guidelines-June-2021-140621.pdf>

Principles (GLP)³⁴ and the Social Loan Principles (SLP)³⁵ published by the Loan Market Association (LMA) in 2021.

Under the Framework, CDB can issue the following instruments (herein referred to as “Sustainable Finance Instruments):

- **Green Bonds:** “any type of bond instrument where the proceeds or an equivalent amount will be exclusively applied to finance or re-finance, in part or in full, new and/or existing eligible Green Projects and which are aligned with the four core components of the GBP.”³⁶
- **Social Bonds:** “any type of bond instrument where the proceeds, or an equivalent amount, will be exclusively applied to finance or re-finance in part or in full new and/or existing eligible Social Projects and which are aligned with the four core components of the SBP.”
- **Sustainability Bonds:** “are any type of bond instrument where the proceeds or an equivalent amount will be exclusively applied to finance or re-finance a combination of both Green and Social Projects. Sustainability Bonds are aligned with the four core components of both the GBP and SBP with the former being especially relevant to underlying Green Projects and the latter to underlying Social Projects.”³⁷
- **Green Loans:** “any type of loan instrument made available exclusively to finance or re-finance, in whole or in part, new and/or existing eligible Green Projects.”³⁸
- **Social Loans:** “any type of loan instrument made available exclusively to finance or re-finance, in whole or in part, new and/or existing eligible Social Projects.”³⁹

These instruments are an effective source of financing for the bank to expand its funding pool and leverage private sector funds to drive the sustainable development and resilience of the region.

³⁴ LMA (2021). *Green Loan Principles*. Available Online: [https://www.lsta.org/content/green-loan-principles/#:~:text=The%20Green%20Loan%20Principles%20\(GLP,of%20the%20green%20loan%20product.](https://www.lsta.org/content/green-loan-principles/#:~:text=The%20Green%20Loan%20Principles%20(GLP,of%20the%20green%20loan%20product.)

³⁵ LMA (2021). *Social Loan Principles*. Available Online: <https://www.lsta.org/content/social-loan-principles-slp/>

³⁶ ICMA (2021). *Social Bond Principles*. Available Online: <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Social-Bond-Principles-June-2021-140621.pdf>

³⁷ ICMA (2021). *Sustainability Bond Guidelines*. Available Online: <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Sustainability-Bond-Guidelines-June-2021-140621.pdf>

³⁸ LMA (2021). *Green Loan Principles*. Available Online: [https://www.lsta.org/content/green-loan-principles/#:~:text=The%20Green%20Loan%20Principles%20\(GLP,of%20the%20green%20loan%20product.](https://www.lsta.org/content/green-loan-principles/#:~:text=The%20Green%20Loan%20Principles%20(GLP,of%20the%20green%20loan%20product.)

³⁹ LMA (2021). *Social Loan Principles*. Available Online: <https://www.lsta.org/content/social-loan-principles-slp/>

2. CDB's Sustainable Finance Framework

CDB's Framework presents the guiding principles for CDB to issue Green, Social, and/or Sustainability Bonds as well as Green and/or Social Loans. The Framework has been developed taking into consideration the best market practices as established by ICMA (under the GBP⁴⁰, SBP⁴¹, and SBG⁴²) and LMA (under the GLP⁴³ and SLP⁴⁴).

CDB's Sustainable Finance Framework includes the following four core components:

1. Use of proceeds
2. Process for project evaluation and selection
3. Management of proceeds
4. Reporting

It is CDB's intention to follow market best practices as the standards develop over time, therefore CDB may update this Framework.

2.1 Use of Proceeds

The use of proceeds for the CDB's Sustainable Finance Instruments will be allocated to finance or refinance, in whole or in part, future and/or existing eligible Green or Social Projects. Eligible Green or Social Projects correspond to projects that have been funded in whole or in part with the Bank's Ordinary Capital Resources (OCR) ⁴⁵ with the following characteristics:

⁴⁰ ICMA (2021). *Green Bond Principles*. Available Online: <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Green-Bond-Principles-June-2021-140621.pdf>

⁴¹ ICMA (2021). *Social Bond Principles*. Available Online: <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Social-Bond-Principles-June-2021-140621.pdf>

⁴² ICMA (2021). *Sustainability Bond Guidelines*. Available Online: <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Sustainability-Bond-Guidelines-June-2021-140621.pdf>

⁴³ LMA (2021). *Green Loan Principles*. Available Online: [https://www.lsta.org/content/green-loan-principles/#:~:text=The%20Green%20Loan%20Principles%20\(GLP,of%20the%20green%20loan%20product.](https://www.lsta.org/content/green-loan-principles/#:~:text=The%20Green%20Loan%20Principles%20(GLP,of%20the%20green%20loan%20product.)

⁴⁴ LMA (2021). *Social Loan Principles*. Available Online: <https://www.lsta.org/content/social-loan-principles-slp/>

⁴⁵ The bank's operations are divided into two categories: ordinary operations and special operations. Ordinary operations are financed from CDB's OCR, which comprises share capital, borrowings raised in the capital markets, lines of credit from commercial and other multilateral institutions, and internally generated equity. Special operations are financed from the Special Funds Resources (SFR), comprising the Special Development Fund (SDF) and Other Special Funds (OSF).

- Have been disbursed within the 24 months prior to the bond issuance; or,
- Are expected to be disbursed within 24 months after the bond issuance.

CDB commits to provide information on the share of refinancing at the bond level before each issuance to its investors.

CDB will determine eligibility based on whether the funds are applied to projects or project components that are aligned with green or social eligibility criteria. For all projects, CDB applies the MDB Joint Climate Finance Tracking Methodology⁴⁶ to determine the project components related to climate mitigation and climate adaptation that will be eligible.

Further details on the green and social eligibility criteria are presented in Table 1 and Table 2, respectively. All eligible Green and Social Projects are focused on financing projects in CDB's BMCs.⁴⁷

Table 1. Green Eligibility Categories

Category	Eligibility Criteria	SDG	SDG Target
Climate Change Adaptation	Expenditures that increase climate resilience and capacity to manage disaster risk and climate change impacts in CDB's BMCs.^{48, 49} Related expenditures include, but are not limited to: • Implementation of climate resiliency measures in the design, construction, maintenance, or upgrades of infrastructure projects based on climate risks identified by a Climate Vulnerability Risk Assessment (CRVA) (e.g., wind, flood, and sea level rise resilient infrastructure).		1.5 (Build resilience of the poor and reduce exposure and vulnerability to climate-related extreme events) 13.1 (Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters) 13.3 (Improve institutional capacity on climate change mitigation, adaptation, impact reduction and early warning)

⁴⁶ Group of MDBs (2020). *Joint Report on Multilateral Development Banks' Climate Finance*. Available Online: https://www.miga.org/sites/default/files/2021-08/2020-Joint-MDB-report-on-climate-finance_Report_final-web.pdf

⁴⁷ The borrowing members are Anguilla, Antigua and Barbuda, Barbados, Belize, British Virgin Islands (BVI), Cayman Islands, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, the Bahamas, Trinidad and Tobago, and Turks and Caicos Islands.

⁴⁸ To be eligible all projects must have undergone a Climate Vulnerability Risk Assessment (CRVA).

⁴⁹ Any project that relates to unabated fossil fuel use is excluded.

Category	Eligibility Criteria	SDG	SDG Target
	Implementation of preventative measures and/or infrastructure against flood related disasters (e.g., drainage infrastructure, sea defenses, landslip protection, stabilization of road slope embankment).		13.B (Promote mechanisms for raising capacity for effective climate-change related planning and management in Small Island Developing States (SIDS))
Energy Efficiency	Expenditures that contribute to significant energy savings (at least 20%) through the implementation of energy-efficient technologies or the improvement of existing assets. ^{50, 51}	 	7.3 (Double the global rate of improvement in energy efficiency) 7.B (Expand infrastructure and upgrade technology for supplying modern and sustainable energy services for SIDS) 9.4 (Upgrade infrastructure and retrofit industries to make them sustainable)
Renewable Energy	Expenditures related to the construction, operation, and/or installation of the following types of renewable energy sources: - Solar photovoltaic plants (including roof-top solar), where facilities have no more than 15% of electricity generated from non-renewable sources. - Dedicated battery storage systems for renewable energy systems. - Dedicated transmission or distribution systems that are exclusively connected to renewable energy sources or that are connected to a low carbon grid (< 100 gCo2/kWh). - Hydropower plants whose power density >10W/m2; or GHG		7.2 (Increase substantially the share of renewable energy in the global energy mix) 7.B (Expand infrastructure and upgrade technology for supplying modern and sustainable energy services for SIDS)

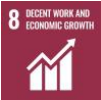
⁵⁰ Limited to equipment/systems that are powered by non-fossil fuel-based sources.

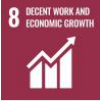
⁵¹ The EE projects are focused on streetlight retrofitting and lighting, which have clear decarbonization pathways.

Category	Eligibility Criteria	SDG	SDG Target
	emissions GHG emissions are <50 gCO₂e/kWh and have completed an environmental and social assessment based on international guidelines. For pumped storage the facility will not be charged with carbon intensive energy, or the facility is contributing to a grid which has at least 20% share of intermittent renewables • Geothermal plants whose direct emissions are less than 100gCO₂/kWh • Wind power plants.		
Sustainable Water and Wastewater Management	Expenditures that improve access, reliability, and quality of water and wastewater supply systems.⁵² Related expenditures include, but are not limited to: • Investments in new or existing potable water systems that improve efficiency (e.g. network upgrades, reducing non-revenue water), quality, capacity and/or reduce energy consumption/water losses. • Investments in conservation efforts that preserve the quality of water bodies by reducing runoff. • Investment in new or existing sewerage systems that increase the volume of wastewater treated, improve system efficiency and/or reduce water consumption through reuse. • Installation of climate monitoring or water quality monitoring instrumentation.	 	6.1 (Achieve universal and equitable access to safe and affordable drinking water for all) 6.3 (Improve water quality by reducing pollution) 6.4 (Substantially increase water-use efficiency) 11.6 (Reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management)

⁵² In line with CDB's Exclusionary Policy, these projects are excluded from the fossil fuel, mining, and nuclear industries.

Table 2. Social Eligibility Categories

Category	Eligibility Criteria	SDG	SDG Target
Access, Quality and Equity of Public Education	Expenditures aimed at improving quality, access, and equity of public pre-primary, primary, secondary, tertiary, and/or vocational education to students in CDB's BMCs. Related expenditures include, but are not limited to: • Construction, rehabilitation, and/or upgrades of education facilities. • Capacity building for teachers to meet the learning needs of students, including those with disabilities. • Institutional and infrastructural enhancement to provide quality education and equitable access to children with special educational needs. • Institutional and capacity strengthening to promote inclusive and gender responsive student engagement. • Institutional and capacity strengthening to enhance the effectiveness and efficiency of the system to deliver quality Technical Vocational Educational Training (TVET), and through its focus on skills development designed to enhance the competitiveness of the workforce in the long-term. • Digital transformation to democratize access to virtual learning (technology hardware, technology platforms for teaching and learning, accessibility or	 	4.1 (Ensure that all girls and boys complete free, equitable and quality primary and secondary education) 4.2 (Ensure that all girls and boys have access to quality early childhood development, care and preprimary education) 4.3 (Ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education) 4.4 (Substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills) 4.5 (Eliminate gender disparities in education and ensure equal access to all levels of education and vocational training for the vulnerable) 4.A (Build and upgrade education facilities that are child, disability, and gender sensitive) 4.C (Substantially increase supply of qualified teachers) 8.6 (Substantially reduce the proportion of youth

Category	Eligibility Criteria	SDG	SDG Target
	assistive technology or software for students with special needs).		not in employment, education, or training)
Financing and Support for MSMEs	Expenditures related to increasing access to finance, access to markets, capacity, technology adoption and adaptation, improving productivity, and/or improving competitiveness for MSMEs⁵³⁵⁴ in BMCs, within CDB's areas of focus: youth in business⁵⁵, women in business, agribusiness, tech entrepreneurship, blue economy, and creative industries. Related expenditures include, but are not limited to: • Institutional strengthening and training for financial institutions. • Capacity building to MSMEs so that they can better leverage funding opportunities, build operational capacity.	  	1.4 (Ensure that all men and women have equal rights to economic resources) 5.5 (Ensure women's full and effective participation and equal opportunities for leadership) 8.3 (Promote growth of MSMEs, including through access to financial services) 8.5 (Achieve full and productive employment and decent work for all women and men,

⁵³ CDB applies a simplified regional definition for MSMEs based on number of employees:

- Micro: 1-5 employees.
- Small: 6-15 employees.
- Medium: 16-50 employees

However, on a project-by-project basis CDB may apply the definition of MSME from the financial intermediary that is implementing the project.

⁵⁴ Lending to MSMEs is restricted to those that are not working in high-risk industries, such as tobacco, fossil fuel operations, etc. as per the CDB's exclusionary policy.

⁵⁵ CDB defines youth as someone between the ages of 18-35.

Category	Eligibility Criteria	SDG	SDG Target
	Lines of credit to MSMEs through approved financial intermediaries.		8.6 (Substantially reduce the proportion of youth not in employment, education, or training) 8.9 (Promote sustainable tourism that creates jobs and promotes local culture and products) 8.10 (Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all)
Sustainable Food Systems and Food Security	Expenditures focused on improving productivity and providing tools to increase resource-use efficiency in the agricultural sector, and for smallholder farmers⁵⁶ and disadvantaged or marginalized groups (including poor households, women, and youth). Related expenditures include, but are not limited to: - Starter-kits or production inputs to farmers to enhance their capacity and thereby agricultural production. - Improvements in irrigation (i.e., off-farm supply and conveyance systems and on-farm distribution using drip irrigation) and drainage infrastructure for farmers. - Training of farmers/farmer groups in irrigation system operations and management.		2.3 (Double the agricultural productivity and incomes of small-scale food producers) 2.A (Increase investment, including through enhanced international cooperation, in rural infrastructure, agricultural research and extension services, technology development and plant and livestock gene banks)

⁵⁶ To define smallholder farmers, CDB applies the definition for small businesses which is based on number of employees:

- Micro: 1-5 employees.
- Small: 6-15 employees.
- Medium: 16-50 employees

Category	Eligibility Criteria	SDG	SDG Target
	• Rehabilitation and climate proofing of agriculture/rural roads and drainage systems. • Rehabilitation and/or expansion of off-farm irrigation systems incorporating climate resilient measures. • Implementation of climate smart agriculture⁵⁷ (i.e., aquaponics, drip irrigation, climate resilient seeds).		

⁵⁷ CDB employs the Food and Agriculture Organization's (FAO) definition of climate smart agriculture, which is considered an approach that helps guide actions to transform agri-food systems towards green and climate resilient practices. More information can be found at: <https://www.fao.org/climate-smart-agriculture/overview/en/>

2.2 Process for Project Evaluation and Selection

The process for project evaluation and selection for any Sustainable Finance Instrument will be integrated in CDB's current project cycle. CDB will create a checklist that will be included in the project appraisal document. During project appraisal, the responsible project manager will determine, during the initial review of the project, whether it fits under one of the eligible categories defined in the Framework and tag the project as a potentially eligible project.

Within the Adjudicatory Review Committee, there will be a Sustainable Finance Approval Working Group, whose function is to review and either: (i) approve or (ii) reject the potentially eligible projects. The Working Group will be composed of the: Vice President of Operations, Director of the Projects Department, Director of the Economics Department, Director of Finance and Information Technology Solutions, General Counsel, and Chief Risk Officer. The group will have a final veto on whether a project can be considered an eligible Green or Social Project, and therefore eligible for inclusion in a Sustainable Finance Instrument.

The Working Group's decision will be based on whether the project:

1. Is in line with CDB's strategy related to building environmental and social resilience,
2. Follows the eligible project category requirements defined in this Framework, and
3. Meets Environmental and Social Review Procedure (ESRP) requirements.

The Working Group will meet at least once every quarter to review projects. Minutes of the meeting will be prepared to ensure the traceability of decisions taken on project evaluation, selection, and monitoring.

In the case of any material change, issue, or ESG controversy with one of the eligible Green or Social Projects included in a Sustainable Finance Instrument, the Sustainable Finance Approval Working Group will meet and replace it with an eligible project.

2.2.1 Environmental and Social Review Procedures

Environmental and social assessments are required for the appraisal of all investment projects proposed for CDB financing, to determine their suitability for financing. The ESRP outlines how CDB manages environmental and social risks. The ESRP includes eight environmental and social Performance Requirements (PR) that reflect best practice approaches in the treatment of sensitive environmental and social issues by the

multilateral financial and development community. Environmental and social appraisal is integrated into CDB's wider due diligence and project appraisal process with the scope of said appraisal determined by an initial screening and categorization on a case-by-case basis⁵⁸.

Projects are assessed for their potential environmental and social risks, opportunities for introducing enhanced environmental and social benefits, the capacity of the BMC to implement the project in keeping with CDB's PR, and the wider context of the national legislative and regulatory requirements within which it will operate⁵⁹. The Head of ESU assigns staff to screen each project for environmental, disaster, or climate change risks, while the DC of SSD assigns social analysts to assess social and gender risks.⁶⁰

The environmental and social assessment (i) considers all potential direct, indirect, transboundary, and cumulative impacts and risks the proposed project may cause; (ii) assesses alternatives to the project; and (iii) assesses possible measures to avoid or mitigate environmental and social risks and/or impacts of the proposed project. The Bank will then use the environmental and social assessments submitted by the BMC to evaluate the significance of potential impacts and risks, the willingness and capacity of the BMC to address those risks and the relevance of those risks to the project.⁶¹

In general, CDB supports the "precautionary principle", meaning that when avoidance or prevention is not possible, then the damage should be rectified at the source. CDB uses analytical tools such as Environmental and Social Impact Assessments (ESIAs), Environmental Audits (EAs), Social Impact Analysis (SIA), Natural Hazard Impact Assessment (NHIA), and Climate Vulnerability Risk Assessment (CVRA) to systematically identify, analyze, assess, and evaluate potential risks and provide mitigation and adaptation measures required to manage impacts.⁶²

Gender equality is a cross-cutting consideration in the ESRP. All operations are screened and assessed for gender impacts and findings incorporated in the design of interventions

⁵⁸ Caribbean Development Bank (2014). *Environmental and Social Review Procedures*, p. 2. Available Online: <https://www.caribank.org/sites/default/files/publication-resources/EnvironmentalandSocialReviewProcedures.pdf>

⁵⁹ Ibid, p. 2.

⁶⁰ Ibid, p. 6.

⁶¹ Ibid, p. 8.

⁶² Ibid, p. 8.

to reduce any gender-specific and disproportionate adverse gender impact and enhance gender equality.⁶³

A single category is assigned to each project that reflects the issue(s) with the greatest potential for environmental or social impact. Projects are classified according to the following risk categories:

- Category A: are defined as projects with significant irreversible, or otherwise adverse environmental or social impacts and/or risks where comprehensive formal analysis is required.
- Category B: are defined as projects with potential for limited risks or those that are easily identified.
- Category C: are defined as projects that have little or no potential for adverse environmental and social impacts, therefore environmental and social appraisal is generally not required for these projects.
- Category FI: are defined as those projects where the financing is available through a line of credit provided by the CDB to a Financial Intermediary (FI) who is responsible for appraisal and monitoring⁶⁴.

2.2.2 Exclusion Criteria

Any projects identified as category A by the ESRP are excluded in the Sustainable Finance Instrument. Additionally, any projects that are listed in CDB's Exclusion List, which is presented in Appendix I are also excluded.

2.3 Management of Proceeds

CDB will establish a dedicated sub-account managed by the Accounting Unit, which will receive the net proceeds from the issuance of the Sustainable Finance Instrument.

Funds from the sub-account will be used to finance new, or refinance existing, eligible Green and/or Social Projects as defined in this Framework. CDB commits to allocate funds within 24 months or less from the issuance of the bond.

Unallocated proceeds will be invested in liquid, highly rated, short-term securities, or investments (according to CDB's OCR Financial Policies and Operating Guidelines) until they are allocated to eligible Green and/or Social Projects. In the case that a project

⁶³ Caribbean Development Bank (2014). *Environmental and Social Review Procedures*, p. 2. Available Online: <https://www.caribank.org/sites/default/files/publication-resources/EnvironmentalandSocialReviewProcedures.pdf>, p. 9

⁶⁴Ibid, p. 6.

ceases to be eligible the net proceeds will be allocated to another eligible Green or Social Project.

The Accounting Unit will track the use of proceeds and periodically update the balance of funds assigned to eligible Green and/or Social Projects until full allocation. The allocation of funds will be externally verified and will be reported in the Annual Sustainable Finance Report.

2.4 Reporting

CDB will provide an Annual Sustainable Finance Report within the first 12 months of the instrument's issuance, and every year until full allocation. In case of material developments, issues or ESG controversies, CDB will provide a report to investors on a timely basis.

The Corporate Strategy team will prepare the report, and the Sustainable Finance Working Group will provide the final approval of each report. The report will be made available on CDB's website and will include allocation and impact reporting.

2.4.1 Allocation Reporting

The allocation reporting section of the annual report will include the following:

- List of eligible Green and/or Social Projects financed or refinanced through the instrument, including a brief project description and amounts allocated,
- The percentage of financing versus refinancing of the proceeds,
- Proceeds allocated per eligible category, with information on types of temporary investments, and
- The remaining balance of unallocated proceeds at the reporting period end.

2.4.2 Impact Reporting

The impact reporting section of the report will provide a summary of the impacts of the eligible Green and/or Social Projects using quantitative indicators. These indicators were selected based on ICMA's Harmonized Framework for Impact Reporting for Green

Bonds⁶⁵ and Social Bonds⁶⁶, as well as the indicators used by CDB to measure project outputs and outcomes.

CDB commits to report at least one of the following green and/or social impact indicators associated with the eligible categories (see Table 3 and Table 4). The reporting methodology and assumptions used to report impact indicators will be disclosed in the annual report. Some case studies of specific projects may be included in this section to illustrate positive project outputs.

Table 3. Green Impact Indicators

Category	Environmental Impact Indicator
Climate Change Adaptation	• Roads constructed / rehabilitated / upgraded (km) • Infrastructure constructed / rehabilitated / upgraded (#) • River / Sea defenses built (km) • Landslip protection implemented (km) • Urban drainage implemented (km) • Direct beneficiaries of resilient infrastructure construction / enhancement projects (#)
Energy Efficiency	• Energy savings as a result of energy efficiency interventions (MWh/year) • Greenhouse gas emissions avoided (t CO₂ eq/year) • Smart meters installed (#) • Average reduction in number of meter reading trips per customer per year (%)
Renewable Energy	• Greenhouse gas emissions reduction (t CO₂ eq/year) • Energy savings from Renewable Energy substitution for fossil fuel generated electricity (MWh/year) • Installed Renewable Energy Capacity (MW) • Transmission or distribution lines installed or upgraded (length in km)
Sustainable Water and Wastewater Management	• Supply lines installed or upgraded (length of network in km) ○ Of which urban (km) ○ Or which rural (km) • Number of households with access to improved sanitation and water supply ○ Of which urban (#) ○ Of which rural (#) • Installed Water capacity (m³/day) ○ Of which urban (#) ○ Of which rural (#) • Reductions in non-revenue water in the water system (%)

⁶⁵ ICMA (2021). *Harmonized Framework for Impact Reporting*. Available Online: <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Handbook-Harmonised-Framework-for-Impact-Reporting-June-2021-100621.pdf>

⁶⁶ ICMA (2020). *Working Towards a Harmonized Framework for Impact Reporting for Social Bonds*. Available Online: <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Harmonized-Framework-for-Impact-Reporting-for-Social-BondsJune-2020-090620.pdf>

Category	Environmental Impact Indicator
	• Reduction in the annual number of days with disruption in water supply (#) • Watershed forest lands restored (ha) • Additional volume of wastewater treated in m³/year • Additional volume of wastewater treated in m³/year

Table 4. Social Impact Indicators

Category	Social Impact Indicator
Access, Quality and Equity of Public Education	• Number of classrooms/workshops/laboratories built or upgraded according to minimum standards (#) • Of which pre-primary (#) • Of which basic (primary and secondary) (#) • Of which post-secondary/tertiary (#) • Number of teachers trained/certified (#) • Of whom female (#) • Number of students benefiting from improved physical classroom conditions and/or enhanced teacher competence (#) • Of whom female (#) • Of whom PWD (#) • Schools fully accessible to PWDs – (physically challenged) (#) • Services⁶⁷ fully accessible in the cloud (#)
Financing and Support for MSMEs	• Value of credit made available to MSMEs (\$'mn) (disaggregated by sector) • MSMEs benefiting from credit (#) • Of which female owned • Beneficiaries of TA interventions targeted at MSMEs • Of whom female beneficiaries • Business climate and competitiveness enhancement initiatives completed (#)
Sustainable Food Systems and Food Security	• Agriculture-stakeholders trained in improved production technology (#) • Of whom female • Land improved through irrigation, drainage, and flood management (ha) • Beneficiaries of improved agriculture, land management and land conservation and climate smart agricultural practices (#) • Number of starter kits provided (#)

2.5 External Review

⁶⁷ Services include things like: E-learning Platform, customer relationship management, single domains, websites, etc.

The Framework will undergo a Second Party Opinion (SPO) by an internationally recognized and accredited third-party external review provider to confirm its alignment with the ICMA's GBP, SBP, and SBG and LMA's GLP and SLP. In addition, CDB commits to an external verification of the tracking and allocation of funds to eligible Green and/or Social Projects until allocation and in case of material changes. Additionally, CDB commits to one external verification of the environmental and/or social benefits and impacts of eligible Green and/or Social Projects.

Appendix 1: CDB's Exclusion List

Table 5 presents CDB's list of exclusionary activity with typical examples and clarifications.

Table 5. CDB's Exclusion List

Type of Activities	Typical Examples and Clarifications
Ammunition and weapons, military/police equipment or infrastructure. Radioactive Materials.	Radioactive material does not apply to quality control (measurement) equipment where it can be demonstrated that the radioactive source is to be trivial or adequately shielded.
Projects which result in limiting people's individual rights and freedom, or violation of human rights.	Non-compliance with fundamental principles and rights at work International Labor Organization (ILO).
Projects unacceptable in environmental and social terms.	Projects that significantly degrade protected areas, critical habitats and heritage sites, without adequate compensation/mitigation. Materially significant unmitigated negative impacts on the environment of sensitive social groups for example, poor indigenous peoples.
Activities prohibited by national legislation, regulations or ratified international conventions.	Genetically Modified Organisms (GMOs); abortion clinics; nuclear energy; etcetera. Wildlife or wildlife products regulated under Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES). Pesticides, herbicides, ozone depleting substances subject to international phase out or bans defined by the International Convention on the Reduction and Elimination of Persistent Organic Pollutants and the Rotterdam, Stockholm Conventions and Montreal Protocol Lists. Trans-boundary trade in waste or waste products defined under Basel convention and except for non-hazardous waste bound for recycling.
Ethically or morally controversial projects.	Sex trade and related infrastructure, services and media; animal testing*, gambling and related equipment, hotels with in-house casinos, tobacco (production, manufacturing, processing and distribution) alcoholic beverages excluding beer and rum.