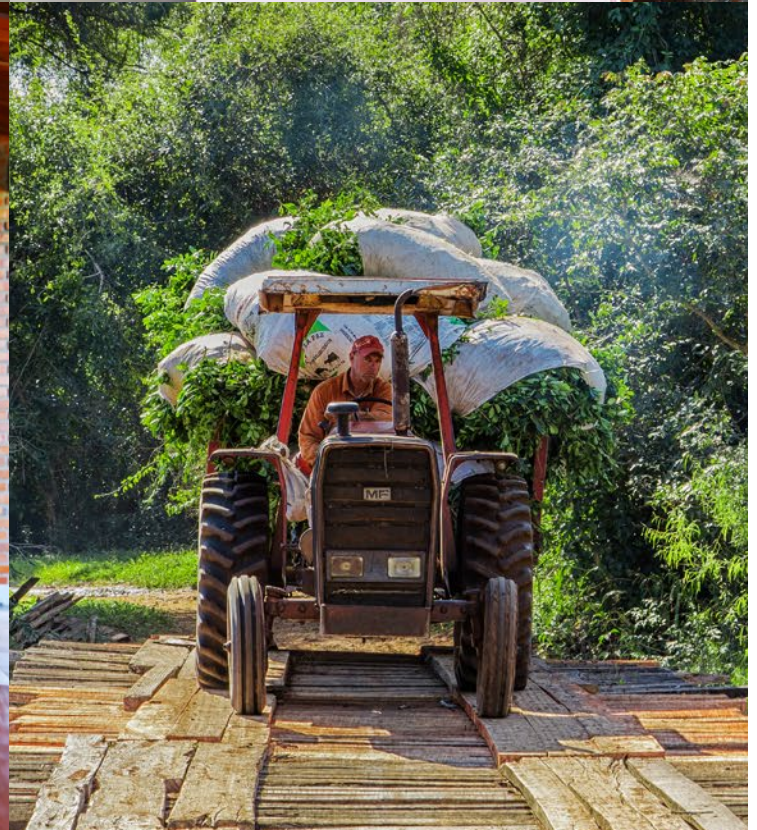


# Sustainability Bond Framework



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# Sustainability Bond Framework

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# 1.

## **Sustainable Development in Paraguay**

## 1.1 National Development Plan

In its National Development Plan 2030 (PND)<sup>1</sup>, Paraguay committed to promoting a country with a skilled labor force, that supplies products and services with technology, towards a knowledge economy; with top social development indexes in South America; connected and open to neighbors and the world; environmentally and economically sustainable; with high levels of legal and citizen security; including indigenous peoples, giving a strong role to women; with visionary and trained young people leading the country; with a democratic, supportive, subsidiary, transparent State that promotes equal opportunities.

And all this to be driven by a broad alliance between an open government, socially responsible private companies, and an active civil society.

“with attention to indigenous peoples, strong prominence of women; with visionary and trained young people leading the country”



1 National Development Plan.

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## Illustration 1. Strategic Axes

**Axe 1.**  
**Poverty reduction  
and social  
development**

**It aims at focusing public efforts in people's dignity, well-being, freedoms and possibilities for thorough fulfillment at the center of public efforts.**

This line intends to achieve basic social objectives such as the eradication of extreme poverty and chronic child malnutrition, the universalization of drinking water, improved sanitation, decent housing, as well as the provision of quality social services.

The quality criterion requires particular emphasis on the relevance of education and health models throughout the life cycle, and on improving community resilience through the accurate and effective connection of people to economic income and social safety networks.

**Axe 2.**  
**Inclusive  
economic  
growth**

**It means focusing on attention to productive employment.**

Growth is inclusive when it creates economic opportunities and promotes equal access to them in a multicultural approach. It also implies maintaining macroeconomic stability, improving institutional arrangements to ensure competition, promoting employability, freedom of entrepreneurship, competitiveness and the rational use of primary proceeds.

**Axe 3.**  
**Insertion  
of Paraguay  
in the world**



**It consists of positioning and improving the country's image; strengthening national participation in international forums; allocating resources to expand economic integration; and strengthening links for the use of technology and knowledge.**

It means setting the conditions to facilitate investment in the country, as well as access to investment opportunities abroad and provide people with greater availability of goods at lower costs. It also means fostering access to markets and scientific and technological transfer, accompanied by a more competitive financial market that contributes to risk diversification.

**Axe 4.**  
**Institutional  
Political  
Strengthening**

**It proposes to focus public efforts on dignity, well-being, freedom and possibilities for a thorough development of people; to ensure national defense** from any type of internal or external threat, and the preservation of the ecosystem; to protect and promote human and cultural rights guaranteed by the State, facilitating the necessary means for their unrestricted fulfillment.

Illustration 2. Cross-sectional Lines of the National Development Plan

Cross-sectional Lines					
	A. Equal Opportunities	B. Efficient and Transparent Public Management	C. Territorial Planning and Development	D. Environmental Sustainability	
Strategic Axes	Eje 1. Poverty Reduction and Social Development	1.1 Achieve equitable social development	1.2 Provide quality social services	1.3 Achieve participatory local development	1.4 Develop an adequate and sustainable habitat
	Eje 2. Inclusive Economic Growth	2.1 Promote employment and social security	2.2 Foster competitiveness and innovation	2.3 Expand regionalization and productive diversification	2.4 Enhance environmental capital
	Eje 3. Projection of Paraguay in the World	3.1 Ensure equal opportunities in a globalized world	3.2 Promote the attraction of investment, foreign trade, tourism and country image	3.3 Strengthen regional economic integration	3.4 Contribute to the sustainability of the global habitat
	Eje 4. Political and Institutional Strengthening	4.1 Guarantee access to human rights, improve justice and safety	4.2 Modernize public administration	4.3 Move towards effective decentralization	4.4 Protect and defend environment and natural resources
	Social Policy 	Economic Policy 	Environmental Policy 	Institutional Policy 	

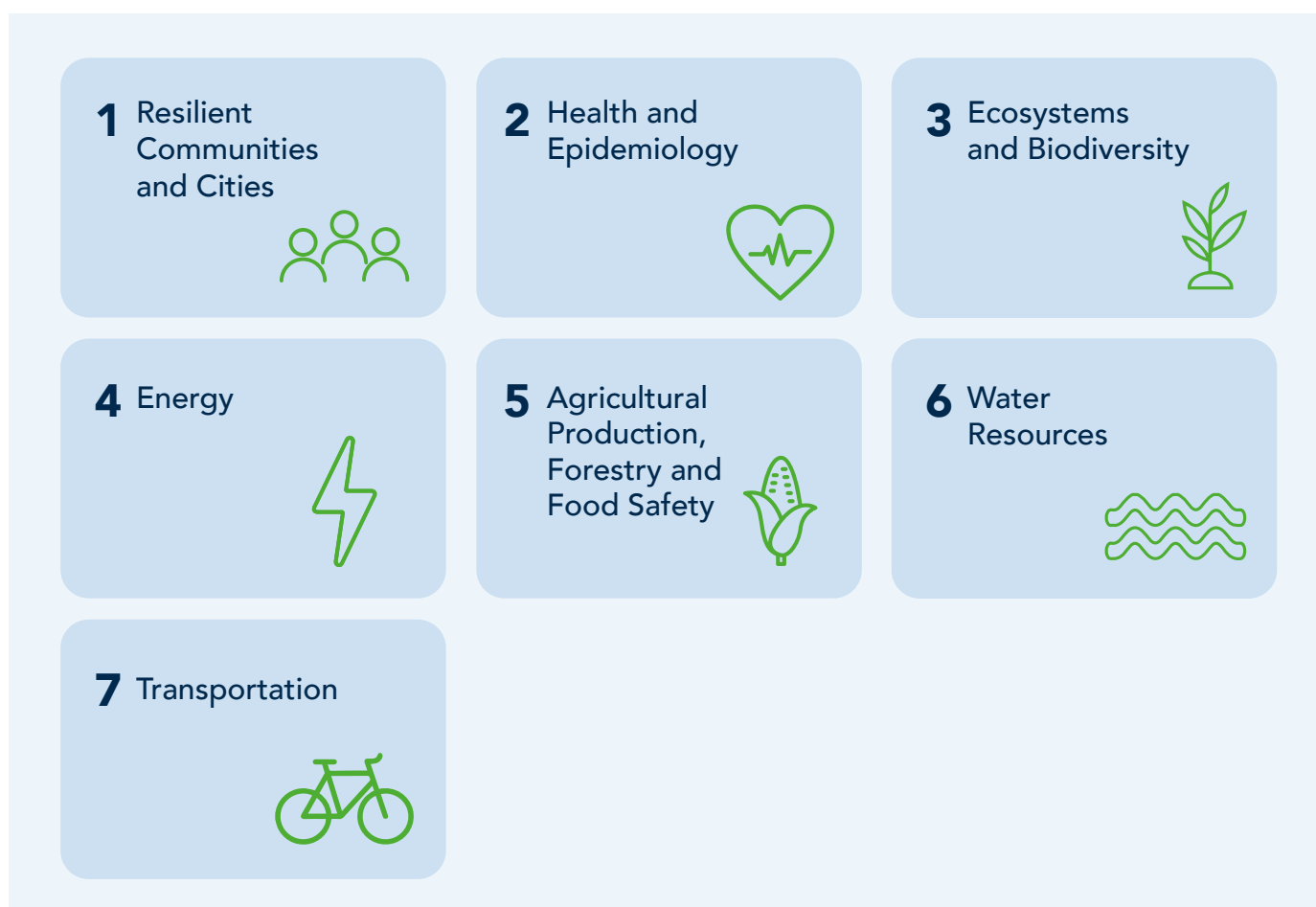
## 1.2 Contribuciones Determinadas a Nivel Nacional

The Nationally Determined Contribution (NDC) of the Republic of Paraguay was presented in 2016. By then, the national goal was to reduce 20% of GHG emissions by 2030; out of that percentage, 10% is a unilateral and unconditional target, and the remaining 10% conditional on international cooperation in terms of financing, technological exchange and capacity building. The benchmark for national GHG emissions is the National GHG Inventory (INGEI) -which base year is 2000- presented in the Second National Communication. The period of application of the NDC covers the years 2014-2030 and a review is scheduled every 5 years.

In July 2021, the government of Paraguay submitted to the UNFCCC the update of its NDC with climate change commitments to 2030, based on the definition of adaptation and mitigation components. The adaptation component (National Adaptation Communication) defines 25 objectives with lines of action, as well as gaps and needs, for 7 priority sectors).

These sectors seek to increase national resilience to the impacts of climate change. The Mitigation Component is made up of 45 measures, in process and projected, that seek to reduce or capture GHG emissions in the 5 sectors established in the National Greenhouse Gas Inventory (INGEI).

Illustration 3. Seven Priority Sectors







### 1.3 Paraguay SDG Commission

In order to meet the challenge of achieving the goals established in the 2030 Agenda for Sustainable Development, Paraguay set up an Inter-Institutional Coordination Commission for the Implementation, follow-up and monitoring of the international commitments assumed in the framework of the SDGs (ODS Paraguay 2030 Commission)<sup>2</sup>.

The commission goal is to lead inter-institutional coordination and partnership building and to promote dialogue and community participation, generating public policies so that the design and execution of sector projects use a sustainable development approach.

“The commission goal is to lead inter-institutional coordination and partnership building and to promote dialogue and community participation”

<sup>2</sup> Decree No. 5887 establishing the ODS Commission Paraguay, 2016.

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# 2.

## Agencia Financiera de Desarrollo (AFD)





“AFD is the only public sector agency that executes agreements, grants or loans for the financing of development programs and projects”

The AFD (Development Finance Agency) was created by Law 2640 in 2005<sup>3</sup>, as amended by Law No. 6769/2021. It is a legal entity under public law, autonomous and self-governed.

AFD is the only public sector agency that executes agreements, grants or loans for the financing of development programs and projects; in addition, it is the only channel for public sector loans to intermediary financial institutions (IFIs).

In addition, the legal framework grants it special privileges in operations carried out with Intermediary Financial Institutions (IFIs) in case of they start a winding-up or liquidation process.

AFD is the only second-tier public bank and its mission is to promote economic development and creation of jobs by streaming financial resources and providing specialized services with the aim of being an institution recognized for its role of high economic and social impact with permanent innovation and competent staff committed to excellence<sup>4</sup>.

The AFD also manages the Guarantee Fund of Paraguay, which is an autonomous legal entity under public law with separate assets governed by Law No. 5628/16 as amended by Law No. 6579/2020.

## 2.1 Corporate Governance

AFD is managed by a board of directors made up by a president and 4 regular members, who are appointed by the executive branch of the National Government. Their term of office is 5 years, with the possibility of being renewed on a staggered basis, with the possibility of being reelected for an additional term. The Board of Directors is responsible for units such as: Fiduciary Management, Institutional Internal Audit and Legal/Compliance.

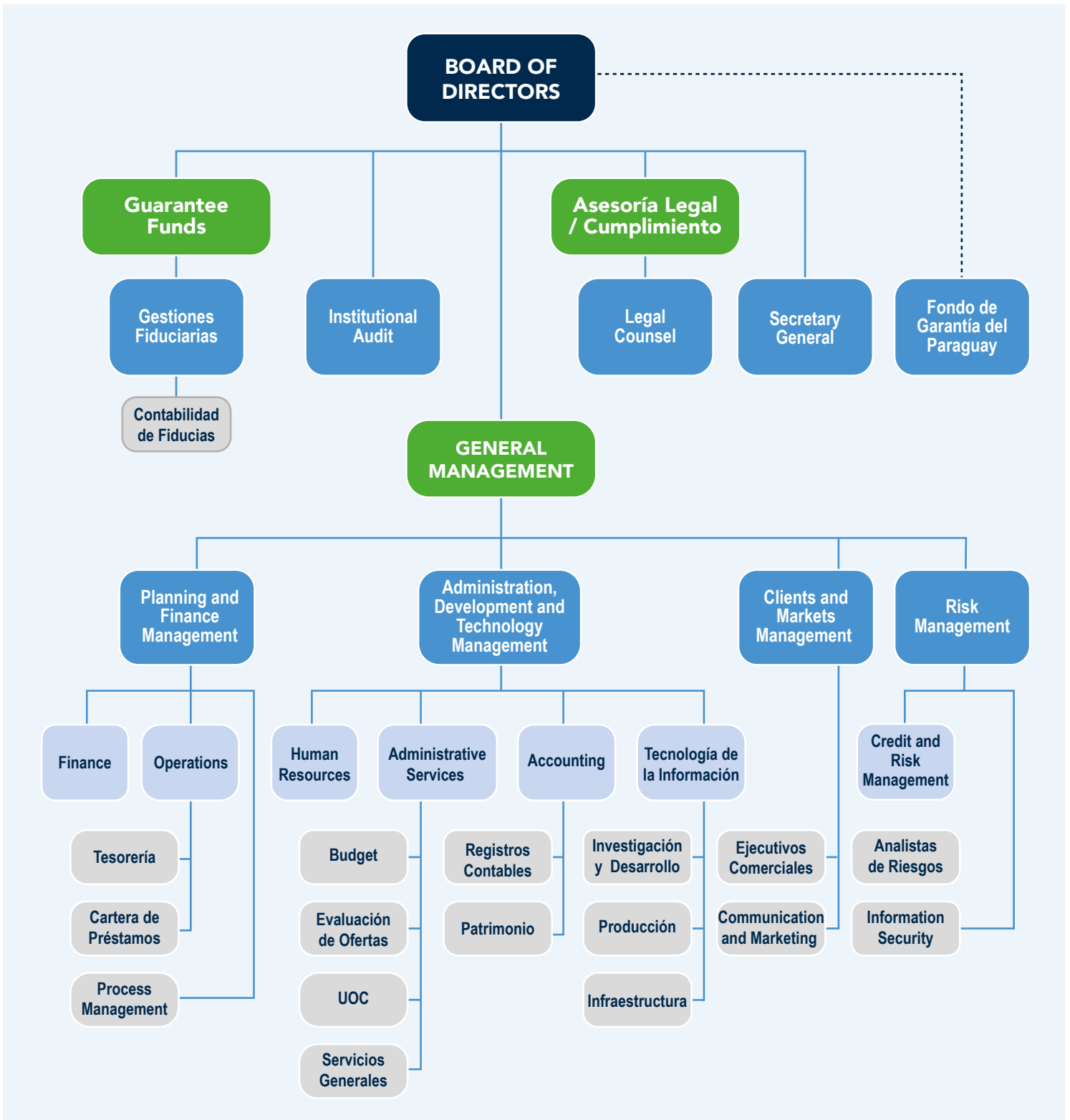
<sup>3</sup> Regulated by Decree 7395. Law 3330 (year 2007) amended some articles of the Law creating AFD.

<sup>4</sup> <https://www.afd.gov.py/que-es-la-afd>

Approved by AFD Resolution No. 03 of Board Minutes No. 82 of October 13, 2023.

Likewise, the Board of Directors rests on an executive structure headed by the General Manager (Illustration 2 AFD Organization Chart).

Illustration 4. AFD Organizational Chart



Source: AFD Institutional Presentation, 2022

The Administration, Human Development and Technology Management (GADHT), Risk Management (GR), Planning and Finance Management (GPF) and Clients and Markets Management (GCM), in accordance with their competencies, are responsible for managing and reporting to the General Management on sustainability-related issues.

In addition, the institution has 10 internal committees focused on auditing, internal control, compliance, assets and liabilities, credit, information technology, ethics and good governance, operational risk, information security and MECIP team.

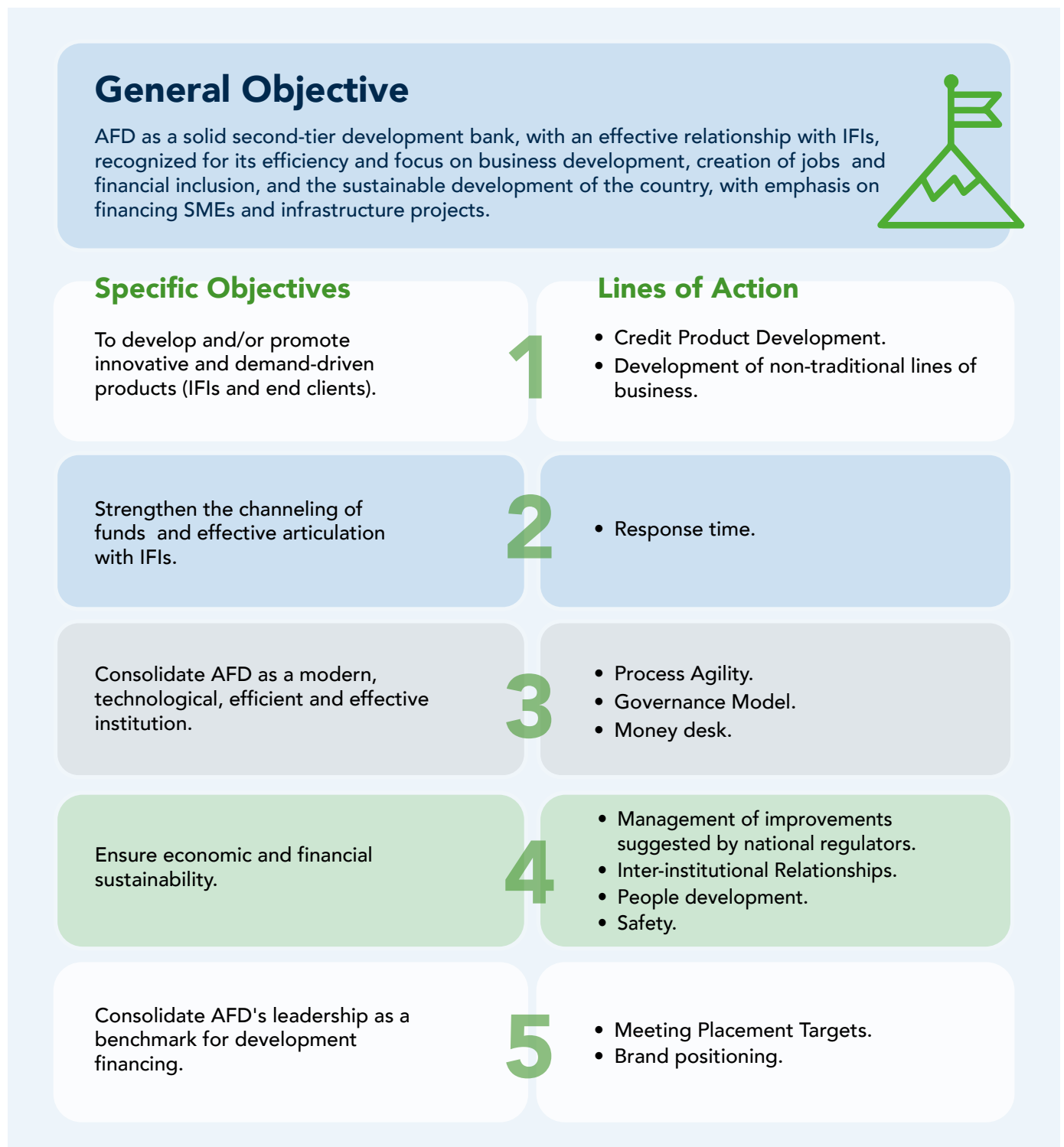
## **2.2 Legal and Regulatory Framework**

In order to promote the country's development, the Government of Paraguay formalized and established AFD's responsibilities through the following laws and decrees:

- **Law N° 2.640/2005** "That creates the Agencia Financiera de Desarrollo (Development Finance Agency)", with the following responsibilities:
  - a. To be the only second-tier public bank,
  - b. To be the sole executing agency of loan or grant agreements for the financing of development projects and programs through the financial intermediation of the State, to be guaranteed by the Paraguayan State; and;
  - c. To be the sole channel of loans from the public sector to first-tier public and private financial intermediation entities, cooperatives supervised and regulated by the National Institute of Cooperatives of Paraguay (INCOOP).
- **Law N° 6.769/2021** "Amending and expanding Law N° 2640/2005".
- **Decree No. 9213/2023:** Regulating Law No. 2640/2005 "Creating the Agencia Financiera de Desarrollo", as amended by Law No. 6769/2021.
- Additionally, the AFD is governed by other special laws such as: Law N° 5628/16 modified by Law N° 6579/2020 which governs the Paraguayan Guarantee Fund, Law N° 4758 which creates the National Fund for Public Investment and Development (FONACIDE) and the Fund for Excellence in Education and Research", as amended.

**The Institutional Strategic Plan (ISP) 2020-2023**, contains one general objective, 5 specific objectives and 12 lines of action, including one or more indicators for each of them. The strategic objectives focus on having better products to be placed through IFIs in an effective manner, being an efficient, technologically advanced and sustainable institution, as well as being identified as a reference in financial support for development within the indicators.

Illustration 5. ISP Objective and Lines of Action



Source: Institutional Strategic Plan 2020-2023.



### 2.3 AFD in figures

The AFD business model divides the loan portfolio by sectors based on:

- For the first-tier Credit segment, the portfolio includes the credits placed directly to the public sector and the private sector, while for second-tier, the portfolio includes the credits placed through bank and non-bank financial intermediaries.
- The balances of the Financial Agent segment correspond to activities instructed by the National Government to manage on its behalf funds from International Financial Institutions.

AFD currently operates with 14 banks, 5 finance companies and 23 cooperatives, most of them savings and credit cooperatives<sup>5</sup>. It currently offers 10 products focused on 8 strategic lines: 1. Agriculture and Livestock, 2. Energy Efficiency and Alternative Energies, 3. Education, 4. Forestry and Silvopasture, 5. Livestock Investment, 6. MSMEs, 7. Housing (Illustration 6. AFD Products and Business Lines).

<sup>5</sup> <https://www.afd.gov.py/leyes-y-decretos>

<sup>6</sup> AFD, Institutional Strategic Plan (ISP) 2020-2023.

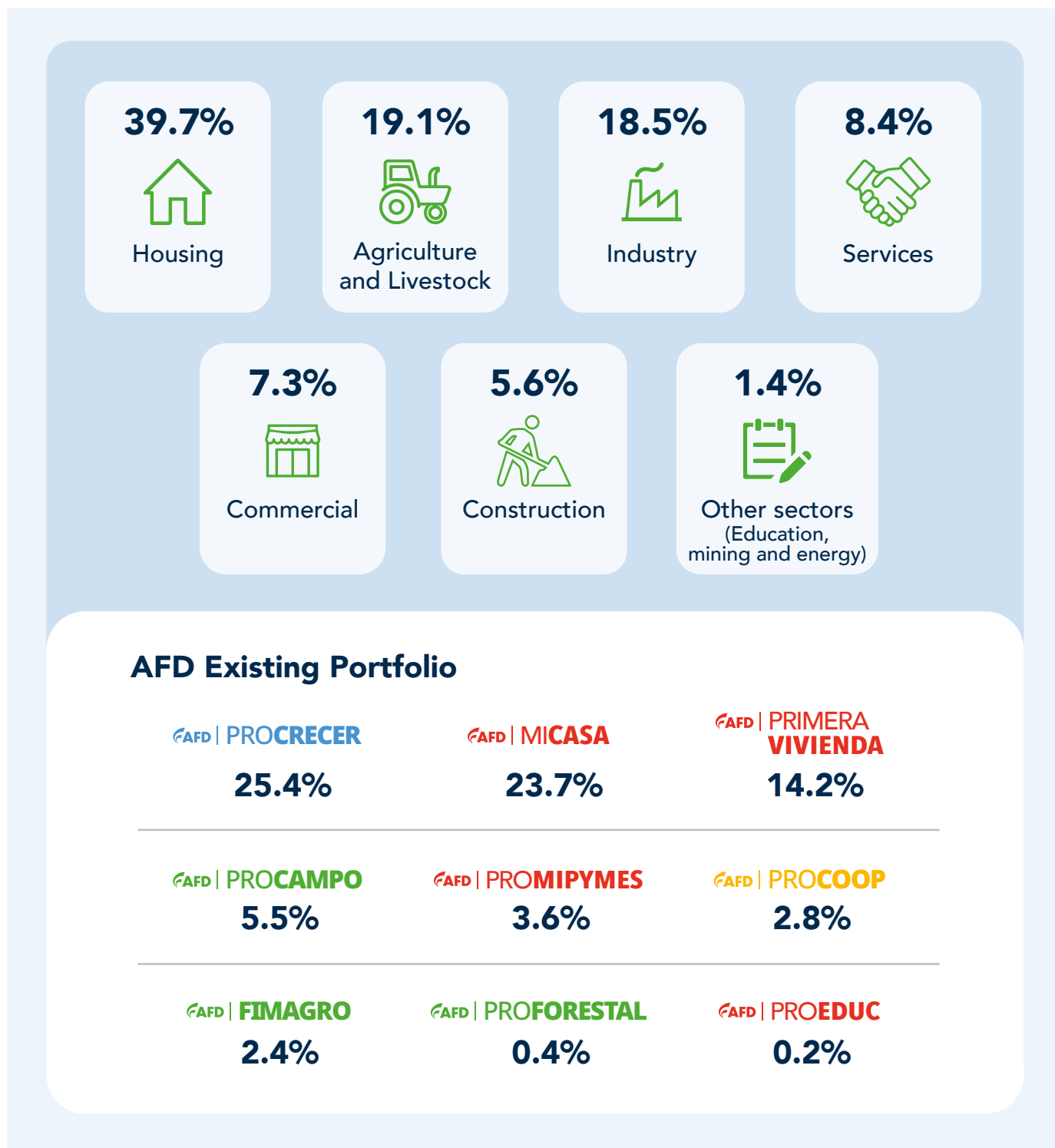
Illustration 6. AFD Products and Business Lines





Within the economic sectors, housing accounts for 39.7%, followed by livestock with 19.1%, industry 18.5%, services 8.4%, commercial 7.3%, 5.6% construction and 1.4% other sectors including education, mining and energy. The existing portfolio is led by PROCRECER with 25.4%, followed by MICASA 23.7%, PRIMERA VIVIENDA 14.2%, PROCAMPO 5.5%, PROPYMES 3.6%, PROCOP 2.8%, FIMAGRO 2.4%, PROFORESTAL 0.4%, PROEDUC 0.2%<sup>7</sup>.

Illustration 7. Economic Sectors AFD



<sup>7</sup> AFD Institutional Report, 2022.

Aprobado por Resolución AFD N° 03 del Acta de Directorio N° 82 del 13 de octubre de 2023.

As part of AFD’s sustainable portfolio, the following products are included<sup>8</sup>:

Illustration 8. AFD Sustainable Portfolio



8 <https://www.afd.gov.py/#>



## 2.4 AFD and Sustainable Development Goals

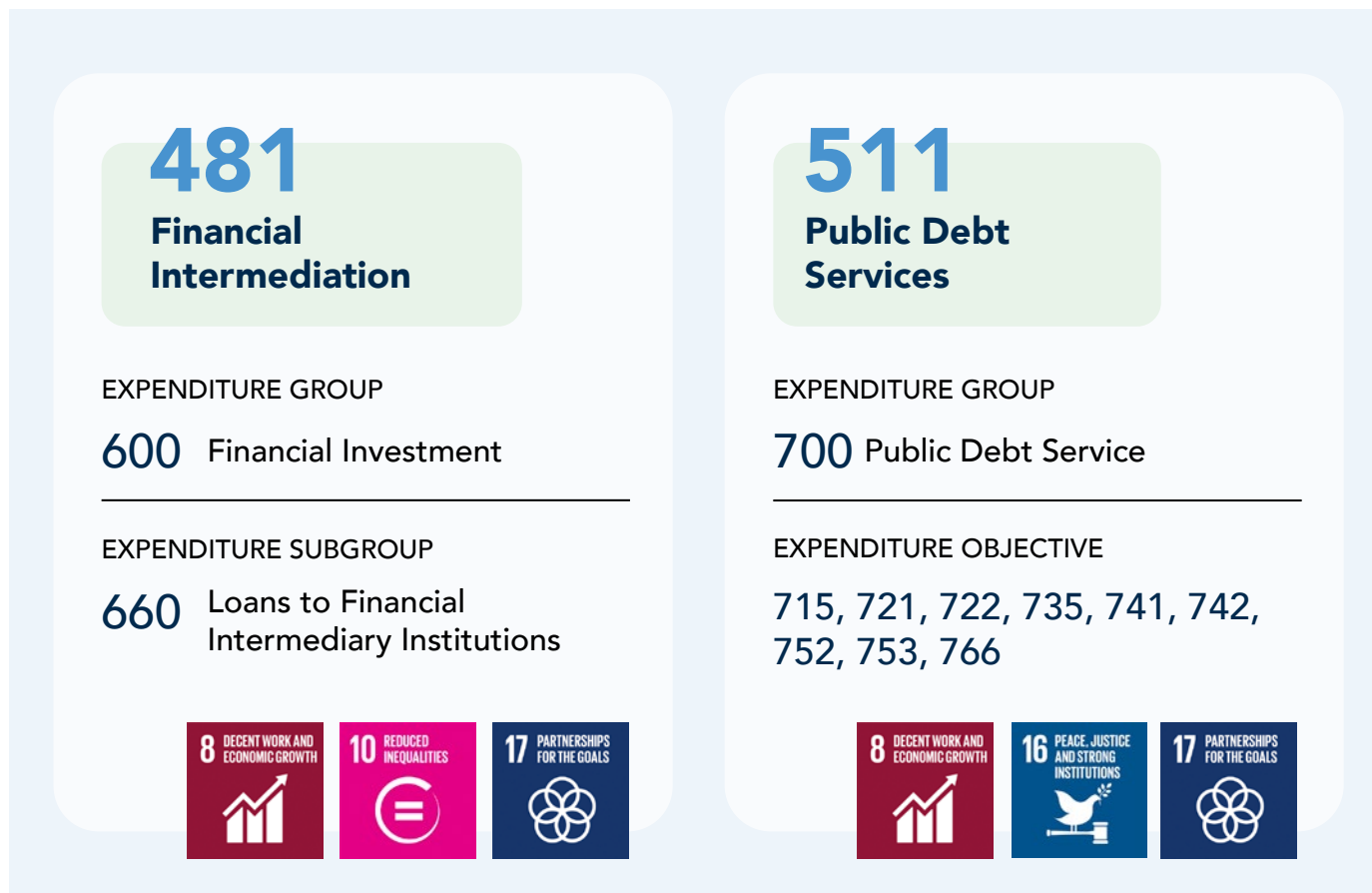
AFD is a key stakeholder in financing national and international companies fostering programs and projects that promote or enable sustainable economic development in Paraguay, based on the responsible use of natural resources and respect for human rights.

In this respect, the AFD is linked in the NDP to the Strategic Axis 2<sup>o</sup> Inclusive Economic Growth; Strategy 2.1 Promote Employment and Social Security; Objective 2.1.4 Increase Financial Inclusion of the Population, and report the progress of the goals of its mission statement that contribute to this objective through the Result-based Planning System (RPS) of the Planning Technical Secretariat through the Institutional Operational Plan (IOP). On the other hand, the relationship of the Country General Budget to the SDGs is based on the methodology established by the Ministry of Finance whose objective is to “quantify the contribution in budgetary terms of the public sector to each Sustainable Development Goal. This initiative, in addition to measuring the contribution made by the different State Agencies and Entities (SAE) to the fulfillment of the Agenda, identifies strengths, room for improvement and challenges”.

“AFD is a key stakeholder in financing national and international companies fostering programs and projects that promote or enable sustainable economic development in Paraguay”

The “Methodological Guide for Linking the Budget to the SDGs<sup>10</sup>” established the relationship with the goals following the “Budget Functional Classification” based on two (2) specific Expenditure Groups (600 Financial Investment and 700 Public Debt Service). Thus, all institutions that have projected expenditures from these groups within their institutional budget are linked to SDGs 8, 10, 16 and 17 respectively, as can be seen in the following graphs:

Illustration 9. Budget Functional Classification



Then, the AFD is indirectly linked to the targets of several Sustainable Development Goals through Expenditure Item 660 “Loans to financial intermediary institutions” through the financial products offered to IFIs (SDGs 4, 7, 8, 9, 11, 15).

Moreover, in the budget and institutional management of some activities, such as those carried out by the Paraguay Guarantee Fund (which is a legal entity of public law administered by the AFD) and in the framework of compliance with the Minimum Requirements Standard - MECIP, there is a link with other goals (9 and 16), as well as with the economic reactivation programs during the pandemic and the policy of financial inclusion of women, implemented in the institution. Furthermore, the cooperation agreements signed with national and international organizations must be also considered.

Finally, based on the scope and budgetary contribution of the products and their relationships, the objectives that are indirectly affected by the execution and disbursement of these products was established, thus corresponding 100% with the Sustainable Development Goals and Agencia Financiera de Desarrollo.

10 [https://ppr.hacienda.gov.py/?page\\_id=1491](https://ppr.hacienda.gov.py/?page_id=1491)

# 3.

## Sustainability bond framework





“This general framework was developed following the highest market standards”

This general framework was developed following the highest market standards. The eligible categories set out in this framework are aligned with the following:

- Green Bond Principles (GBP) 2022\*<sup>11</sup>
- Social Bond Principles (SBP) 2023\*<sup>12</sup>
- The Sustainability Bond Guidelines 2021\*<sup>13</sup>.
- The United Nations Sustainable Development Goals (SDGs).
- Paraguay’s Nationally Determined Contributions.
- Applicable national regulations.

\* Published by the International Capital Market Association (ICMA).

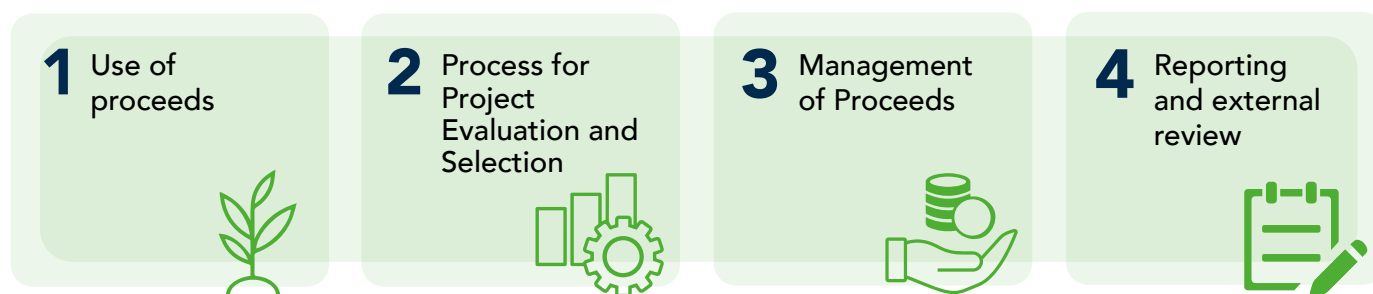
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11 ICMA, 2022. Green Bond Principles. Voluntary Process Guidelines for Issuing Green Bonds.

12 ICMA, 2023. Social Bond Principles. Voluntary Process Guidelines for Issuing Social Bonds.

13 ICMA, 2021. Sustainability Bond Guidelines

The central components of this framework are detailed below:

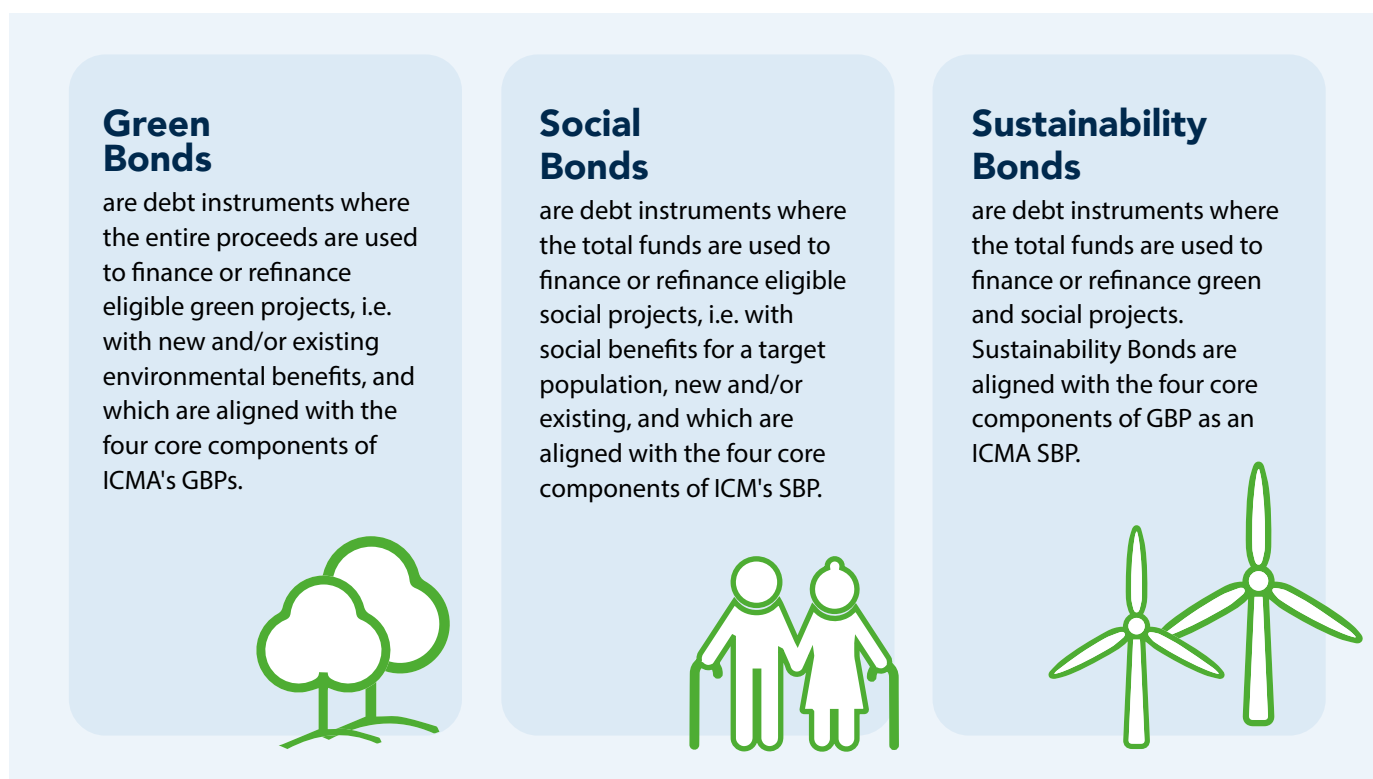


**Based on this framework, AFD may issue:**

- **Green Bonds:** Where an amount equal to the funds raised will be used exclusively to finance and/or refinance eligible green projects and investments (see: Illustration 11: Eligible Green and Social Categories).
- **Social Bonds:** Where an amount equal to the funds raised will be used exclusively to finance and/or refinance eligible social projects and investments (see: Illustration 11: Eligible Green and Social Categories).
- **Sustainability Bonds:** Where an amount equal to the funds raised will be used exclusively to finance and/or refinance eligible projects and investments that fall within the eligible green and social categories.

Illustration 10.

Definition of green, social and sustainability bonds according to ICMA



Source of information: International Capital Market Association (ICMA) ,2023.

### 3.1 Use of proceeds

The net funds from the issuance of green, social or sustainability bonds under this framework will be used to finance and/or refinance new and/or existing green and/or social credits and loans, both those arising from direct and indirect operations of the bank, that meet the criteria described in this section.



To this end, AFD has identified three eligible green categories and three eligible social categories based on ICMA principles and international best practices.

Illustration 11. Eligible Green and Social Categories





Table 1. Eligible Green Categories








Eligible Green Categories	Eligibility Criteria	Direct and indirect benefits	Priority NDCs (sectors or component) <sup>14</sup>	Contribution to SDG <sup>15</sup>
Sustainable management of natural resources, land use	<p>Eligible expenditures include the financing and refinancing of loans and credits related to the sustainable management, care, protection and restoration of natural resources, biodiversity and protected areas, including, but not limited to:</p> <p><b>1. Sustainable forest management<sup>16</sup>:</b></p> <ol style="list-style-type: none"> <li>Commercial management of forests in a sustainable manner for the production of timber.</li> <li>Conservation and restoration programs of native and exotic forests.</li> <li>The commercialization, cultivation and/or extraction of goods derived from forests that are tangible and physical objects of biological origin other than timber.</li> <li>Afforestation and reforestation.</li> </ol> <p><b>2. Management and maintenance of protected natural areas or other conservation and environmental management schemes<sup>17</sup>.</b></p> <p><b>3. Infrastructure supporting and linked to the forestry sector supply chain and the initial processing of timber for projects eligible under this Framework:</b></p> <ol style="list-style-type: none"> <li>Machinery and equipment to manage ecosystems and/or land.</li> <li>Storage.</li> <li>Information systems and other technologies including: early warning systems, systems for capturing and analyzing climate, soil and plant information (e.g., weather stations), technologies to promote precision forest harvesting, systems for warning or satellite monitoring of fires, illegal incursions, epidemics, invasion of damaging invasive species, flood and drought conditions.</li> </ol>	<ul style="list-style-type: none"> <li>Climate Change Mitigation.</li> <li>Conservation and sustainable use of land systems.</li> <li>Biodiversity conservation and protection of land systems.</li> </ul>	<ul style="list-style-type: none"> <li>Ecosystems and Biodiversity</li> <li>Water Resources</li> <li>Agriculture,</li> <li>Land Use, Land Use Change and Forestry (LULUCF).</li> </ul>	 

<sup>14</sup> SDG Guidance developed by the Ministry of Finance of Paraguay.

<sup>15</sup> Update of the NDC of the Republic of Paraguay, 2021.

<sup>16</sup> In accordance with the provisions of Forestry Law No. 422, or projects certified by the Forest Stewardship Council (FSC) or the Programme for the Endorsement of Forest Certification (PEFC).








<sup>17</sup> In accordance with the corresponding Management Program and the provisions of Article 14 of Law No. 352/94 "On Protected Wildlife Areas".





Eligible Green Categories	Eligibility Criteria	Direct and indirect benefits	Priority NDCs (sectors or component)	Contribution to SDG
<p>Energy Efficiency and Renewable Energy</p>	<p>Eligible expenditures include support to MSMEs for energy efficiency improvements, including, but not limited to<sup>18</sup>:</p> <ol style="list-style-type: none"> <li>1. Building insulation improvements</li> <li>2. Air conditioning</li> <li>3. Refrigeration systems</li> <li>4. Solar, thermal and photovoltaic systems.</li> <li>5. Replacement of lighting fixtures with more efficient fixtures and systems (e.g., LED technology).</li> </ol>	<ul style="list-style-type: none"> <li>• Climate Change Mitigation.</li> <li>• Energy savings.</li> <li>• Reduction of GHG emissions.</li> <li>• Reduction of short-lived pollutants.</li> </ul>	<ul style="list-style-type: none"> <li>• Energy</li> </ul>	  
<p>Sustainable agriculture</p>	<p>Eligible expenses include:</p> <ol style="list-style-type: none"> <li>i. Climate-smart agriculture that increases agricultural productivity, adaptation and resilience building to climate change, and GHG emissions reduction and/or absorption.</li> <li>ii. Agricultural production that considers land used for the production of agroforestry systems<sup>19</sup>.</li> <li>iii. Agricultural inputs, including seeds and fertilizers for agricultural practices classified as eligible under this framework;</li> <li>iv. Agricultural monitoring, information and data management systems and software, e.g., climate monitoring stations for agricultural practices identified as eligible under this framework;</li> <li>v. Irrigation systems with improved water use efficiency compared to existing systems and practices; and</li> <li>vi. Infrastructure supporting and linked to the agriculture and livestock sector supply chain related to activities under this framework including:             <ol style="list-style-type: none"> <li>a. Farming machinery and equipment to support eligible projects under this Framework.</li> <li>b. Information systems and other technologies that support the eligible activities.</li> </ol> </li> </ol>	<ul style="list-style-type: none"> <li>• Climate Change Mitigation.</li> <li>• Energy Savings.</li> <li>• GHG reduction.</li> <li>• Reduction of short-lived pollutants.</li> <li>• Reduction of water consumption.</li> </ul>	<ul style="list-style-type: none"> <li>• Agricultural Production, Forestry and Food Safety.</li> <li>• Water Resources.</li> </ul>	   

18 Energy efficiency measures with motor driven equipment using fossil fuels are not eligible.

19 In accordance with the application of forestry and environmental regulations. Forest areas (or areas with high carbon stocks) that are converted to agricultural production units may not be considered; vegetation higher than 3 m in height may not be removed in the production unit.

Table 2. Social Categories

Eligible Green Categories	Eligibility Criteria	Direct and indirect benefits	Priority NDCs (sectors or component)	Contribution to SDG
Affordable Housing	<ul style="list-style-type: none"> <li>Financing for the acquisition, repair, expansion and improvement of social housing or to support the acquisition of housing.</li> <li>Priority will be given to vulnerable groups, including women and young people.</li> </ul>	<ul style="list-style-type: none"> <li>Close the housing gap and increase quality and access to housing.</li> <li>Promote equitable access to essential services without gender discrimination according to the financial inclusion policy of women, ethnicity, religion, socioeconomic status or others.</li> </ul>	<ul style="list-style-type: none"> <li>Resilient Communities and Cities.</li> <li>Health and Epidemiology.</li> </ul>	  
Access to essential services	Financing of programs aimed at improving the quality of and access to vocational, secondary and higher education for children and young people.	<ul style="list-style-type: none"> <li>Increasing quality and access to essential services.</li> </ul>	<ul style="list-style-type: none"> <li>Resilient Communities and Cities.</li> <li>Cross-sectional Axes.</li> </ul>	   

Eligible Green Categories	Eligibility Criteria	Direct and indirect benefits	Priority NDCs (sectors or component)	Contribution to SDG
<p>Support for MSMEs and social programs to alleviate and/or prevent unemployment<sup>20</sup></p>	<ul style="list-style-type: none"> <li>Loans or other financial support to MSMEs with financial challenges, prioritizing MSMEs led by women.</li> <li>Lines of financing or other financial support to MSMEs that promote their competitiveness.</li> <li>Financial support to promote employment and/or prevent unemployment.</li> </ul>	<ul style="list-style-type: none"> <li>Prevent and reduce unemployment.</li> <li>Increase access to financing for MSMEs.</li> <li>Regional development, increased competitiveness and productivity.</li> <li>Promote gender equality through AFD’s financial inclusion policy for women.</li> </ul>	<ul style="list-style-type: none"> <li>Resilient Communities and Cities.</li> <li>Cross sectional Axes.</li> </ul>	   

<sup>20</sup> Relevant sectors established in the MSMEs Strategic Plan: Industry, Commerce, Tourism and Handicrafts, Agribusiness, Information and Communication Technologies (ICT), Creative Economy and Entrepreneurship.

## 3.2 Project Evaluation and Selection Process

The selection and evaluation process for projects and investments eligible for funding under this bond will ensure that funds are allocated to projects and investments that meet the criteria defined in the Use of Proceeds section of this Framework. It will also ensure that the funds do not finance other activities outside of the eligible projects or included in AFD's Exclusion List (See Exclusion List).

"The process of selection and evaluation of projects and eligible investments to be financed with this bond will ensure that proceeds are allocated to projects and investments meeting with the criteria"

AFD, as a second-tier financial institution, operates by granting loans to different productive projects through a network of bank financial intermediaries, cooperatives and non-bank institutions, which are the ones that grant the loans to the borrowers or final beneficiaries. The relationship and flow of information between AFD and its financial intermediaries is managed by the Clients and Markets Management and the Planning and Finance Management, responsible for collecting and managing financial and non-financial information on the different loans granted by AFD through its financial intermediaries. The Planning and Finance Management plays a key role in the process of identification, classification, selection, monitoring and reporting of eligible investments.

Planning and Finance Management will be in charge of the process of identifying and validating AFD programs and products that meet the eligibility criteria defined in the Use of Funds section.

Eligible projects and investments will be assigned a unique source of identification to facilitate monitoring, matching and reporting of funds use, and to ensure that resources are accurately allocated on a regular basis. Eligible projects and investments will be differentiated using a unique identifier for each bond issue issued under this Framework.

### 3.2.1 Environmental and Social Risk Management System

AFD has had an Environmental and Social Risk Management Policy since 2020. It creates the Environmental and Social Risk Management System (ESMS) to identify and manage the aforementioned risks with the following objectives:

- Identify environmental and social risks associated with the activities to be financed in accordance with defined criteria and thresholds.
- Identify and evaluate the environmental and social risk management performed by IFIs operating with the AFD.
- Establish mechanisms to consider environmental and social aspects in risk analysis processes for decision making in product development and financing operations presented by IFIs.
- Enable access to international funding sources, aligning AFD's E&S risk management to international best practices.
- Disseminate the system and train officials involved in each stage of the environmental and social (E&S) risk assessment process.
- Ensure that the system is updated and verified in accordance with methodological improvements and/or new products and programs that may be provided, as well as ongoing dissemination and training.

The institution's ESMS includes E&S risk management in its credit evaluation process through the integration of environmental and social dimensions in the management of its credit products, as well as promoting and encouraging the inclusion of sustainability criteria within the credit process by the financial institutions linked to AFD. The system establishes responsibilities for all areas involved, including the Board of Directors, General Management, Risk Management, Client and Market Management, IFI responsibilities, credit committee, among others. Likewise, risk assessment is categorized as follows:

- **Financial Institution category IF-1, High management level, rating 3:** It includes IFIs that have developed and implemented an ESMS in accordance with current regulations and the environmental and social risk profile of their portfolio, apply a self-regulation guide, are part of the Sustainable Finance Roundtable and have the capacity to address environmental and social risks, apply the corresponding measures and action plans and their respective monitoring, among other fundamental aspects.
- **IF-2 category financial institution, Medium management level, rating 2:** It includes IFIs that are in the process of implementing an environmental and social risk management system, have defined environmental and social policies and include some capacity to address environmental and social risks associated with the portfolio profile.
- **Financial Institution Category IF-3, Low Management Level, Rating 1:** It includes IFIs that may have defined environmental and social policies, but do not have very strong management, and do not have sufficient capacity to address the environmental and social risks associated with the portfolio profile, among other criteria evaluated.

Also, its ESMS identifies the E&S risks associated with each AFD product and credit program, according to the following criteria:

- **High Risk-3.** Products with potential significant adverse social or environmental impact, yet diverse, irreversible or unprecedented, affecting sensitive habitats, natural resources, or vulnerable ethnic minority groups, involving involuntary displacement, or affecting significant cultural heritage.
- **Medium Risk- 2.** Products with potential limited adverse social or environmental impacts, yet low, usually site-specific, largely reversible and easily addressed by mitigation measures.
- **Low Risk-1.** Products with minimal or no adverse social or environmental impact.

Applicable thresholds for E&S Risk review of submitted projects can be found in the Environmental and Social Risk Management Manual.

### 3.2.2 Exclusion List

Borrowers may not obtain credits that: (i) include financing for direct production, trade or end use (included in projects) of products, substances or activities listed below; or (ii) whose subjects are individuals or legal persons whose activities relate to the products, substances or activities listed below:

#### Part A: Ineligible Activities

- Those that are illegal under the laws or regulations of the country or under international conventions and agreements signed and ratified or adopted by the country, including, but not limited to, the country's requirements related to environmental, health and safety and labor aspects
- Speculative investment or buying and selling real estate.
- Use of hazardous or exploitative forms of forced labor or child labor<sup>21</sup>.
- Weapons and ammunition.
- Alcoholic beverages, excluding wine and beer<sup>22</sup>.
- Tobacco<sup>23</sup>.
- Gambling, casinos and similar businesses<sup>24</sup>.
- Wild animals or plants or products of wild animals or plants protected by CITES<sup>25</sup>.
- Radioactive materials<sup>26</sup>.
- Unbound asbestos fibers. This does not apply to the purchase and use of asbestos cement sheeting where the asbestos content is less than 20%.

21 Forced labor means any work or service, not voluntarily performed, that is imposed on a person under threat of force or penalty. Hazardous child labor means the employment of children in economic exploitation, or in situations of high risk or interference with their education, or that jeopardizes their health or is detrimental to their physical, mental, spiritual, moral or social development.

22 This does not apply to companies in which the operations or activities related to these criteria account for less than 10% of their total annual income.

23 This does not apply to companies in which the operations or activities related to these criteria account for less than 10% of their total annual income.

24 This does not apply to companies in which the operations or activities related to these criteria account for less than 10% of their total annual income.

25 Convention on International Trade in Endangered Species of Wild Fauna and Flora ([www.cites.org](http://www.cites.org)).

26 It does not apply to the purchase of medical equipment, quality control (measuring) equipment, or other equipment where it can be demonstrated that the radioactive source is insignificant and/or properly shielded.

- Commercial logging operations or the purchase of logging equipment for use in tropical rainforests and primary forests<sup>27</sup>.
- Forestry projects or operations in fragile or environmentally sensitive areas that do not have an approved forest management plan and environmental permit.
- Forestry projects or operations that do not have sustainable management, forestry projects in areas of high ecological value with the exception of preservation and moderate and non-extractive use of forest resources.
- Projects that require the removal of existing non-degraded natural forests, or activities within, adjacent to, adjacent to, or upstream of, critical natural habitats<sup>28</sup>.
- Introduction of invasive species<sup>29</sup>.
- Compounds containing polychlorinated biphenyls (PCBs)<sup>30</sup>.
- Drugs subject to phase-out or mandatory cessation of production or international sales ban<sup>31</sup>.
- Pesticides or herbicides subject to phase-out or mandatory cessation of production or international sales ban<sup>32</sup>.
- Toxic pesticides as defined by the World Health Organization (WHO), classes 1a, 1b and 2.
- Persistent organic pollutants (POPs)<sup>33</sup>.
- ODS subject to mandatory interruption of production or ban on international sale<sup>34</sup>.
- Transboundary (international) trade in wastes or waste products, excluding non-hazardous wastes used for recycling (defined in the Basel Convention, [www.basel.int](http://www.basel.int)).
- Non-compliance with fundamental principles of workers and rights at work<sup>35</sup>.
- Involuntary resettlement.

27 Primary forest is defined as a relatively intact forest that has been essentially unmodified by human activity for the past 60 to 80 years; while tropical rainforest is generally defined as a forest biome located in areas that receive no less than 100 mm. of rain per month for two out of three years with an average annual temperature of 24° C or more.

28 Critical natural habitats are areas designated as protected under national legislation or international agreements, sites of known scientific interest, habitats of rare or threatened species, economically important fishing areas, ecologically important primary forests. In addition to designated areas in the country, other areas include natural world heritage sites (defined by the World Heritage Convention, <http://whc.unesco.org/nwhc/pages/doc/main.htm>), United Nations List of National Parks and Protected Areas, designated wetlands of international importance (defined by the RAMSAR Convention, [www.ramsar.org](http://www.ramsar.org)) or selected areas (e.g., strict nature reserves or wilderness areas, natural parks, natural monuments or habitat or species management areas) defined by the International Union for Conservation of Nature (IUCN).

29 Invasive species are defined as species that: (i) are not native to the ecosystem under consideration; (ii) whose introduction causes or has the potential to cause economic or environmental damage, or harm to human health.

30 PCBs are polychlorinated biphenyls, a group of highly toxic chemicals. PCBs are commonly found in oil-filled electrical transformers, capacitors and electrical devices built between 1950 and 1985.

31 Pharmaceuticals included in the book entitled United Nations, Banned Products: Consolidated List of Products Whose Consumption and/or Sale Have Been Banned, Withdrawn, Severely Restricted or not Approved by Governments) latest version 2003: <http://whqlibdoc.who.int/hq/2003/EDM.OSM.2003.5.pdf>.

32 Pesticides and Herbicides listed in the Rotterdam Convention ([www.pic.int](http://www.pic.int)) and the Stockholm Convention ([www.pops.int](http://www.pops.int)).

33 Defined by the International Convention on the Reduction or Elimination of Persistent Organic Pollutants (POPs) (September 1999) and currently include the pesticides aldrin, chlordane, dieldrin, endrin, heptachlor, mirex and toxaphene, and the chemical compound industrial chlorobenzene ([www.pops.int](http://www.pops.int)).

34 ODS are Ozone Depleting Substances: Chemical compounds that react with and damage the stratospheric ozone layer, causing the widely publicized 'ozone holes'. The Montreal Protocol mentions the ODSs and their reduction targets and deadlines for their reduction and phase-out. Among the ODSs regulated by the Montreal Protocol are aerosols, refrigerants, foam blowing agents, solvents and fire protection agents. <https://www.unep.org/ozonaction/who-we-are/about-montreal-protocol>


35 Fundamental principles of workers and labor rights are defined as (i) freedom of association and the effective recognition of the right to collective bargaining; (ii) prohibition of all forms of forced or compulsory labor; (iii) prohibition of child labor, including, without limitation, the prohibition of work under 18 years of age in hazardous conditions (which includes construction activities), the prohibition of night work for persons under 18 years of age, and that persons under 18 years of age be found fit for work after medical examination; (iv) elimination of discrimination in respect of employment and occupation, discrimination being defined as any distinction, exclusion or preference based on race, color, sex, religion, political opinion, national extraction or social origin. (International Labour Organization: [www.ilo.org](http://www.ilo.org))



- Activities within, adjacent to, or upstream, lands occupied by indigenous or vulnerable groups, including lands and water bodies used for subsistence activities such as animal husbandry, grazing, hunting or fishing, or gathering.
- Activities that may damage critical cultural sites<sup>36</sup>.
- Companies that have environmental claims (such as fines, penalties, clean-up costs, government response costs, damages, imprisonment of key company officers, reduced value of collateral due to damage to environmental liabilities, etc.) that have a material adverse effect on the companies' ability to meet their obligations under the financing agreement.
- Activities that do not have their respective approved Environmental License or a statement from the corresponding enforcement authority (including the generic Plan, in accordance with the Environmental Impact Law and its regulatory decrees).
- Activities with untreated effluent discharges into watercourses (outside legal parameters) and without treatment capacity.
- Activities in urban areas that do not have the basic infrastructure necessary to respond to emergency situations, and that represent an imminent risk to the safety and health of the community.
- Activities that do not have the authorization for the establishment of animal products and by-products, granted by the Bureau of Animal Product Quality and Safety (DIGECIPOA) and Division of Refrigerated Slaughterhouses; both for domestic consumption and export.

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<sup>36</sup> Sitios culturales críticos incluyen sin limitarse a ello las áreas protegidas (o propuestas oficialmente por el Gobierno para protección) tales como Patrimonios de la Humanidad, Monumentos Nacionales, y áreas reconocidas como protegidas por las comunidades locales tradicionales (por ejemplo, sitios y cerros sagrados).



“The AFD will also make its best effort to allocate resources within 24 months of each bond issue, or as soon as reasonably possible”

### 3.3 Management of Proceeds

This Framework establishes the general approach applicable to the management of Proceeds. AFD, through its Planning and Finance Management unit, will use its best efforts to ensure that an amount equivalent to the proceeds of issuances under this Framework is allocated to the financing and/or refinancing of recent projects and investments (up to two fiscal years prior to issuance), investments of the year of issuance (up to two fiscal years prior to issuance), investments of the year of issuance, and future investments (to be made until the year of expiration of issuance) that belong to some of the eligible categories described in the section Use of Proceeds under this Framework. Furthermore, the AFD will also make its best effort to allocate resources within 24 months of each bond issue, or as soon as reasonably possible. In addition, AFD will use its best efforts to allocate resources within 24 months of each bond issuance, or as soon as reasonably possible.

The net proceeds from the bond issuance will be credited to an account designated by AFD to ensure transparency and traceability of their use and will be used to finance, in whole or in part, the financial intermediaries participating in the programs that meet the eligibility criteria defined in this Framework, which in turn, will channel the proceeds to the ultimate borrowers. The proceeds from issuances under this Framework will be managed to ensure that the allocation of funds is not duplicated in the accounting of the same project. Any portion of the proceeds from the issuance that is not immediately allocated to eligible projects and investments may be temporarily invested as established in the Investment Manual in accordance with AFD’s internal liquidity management policy, keeping the resources in the assigned account.

In the event that the project or investment initially included in an issue no longer meets the eligibility criteria mentioned above due to changes in its nature or implementation, it will not be counted in the financing or refinancing related to the specific bond. AFD will reallocate the funds to other projects or investments that meet the eligibility criteria described in the Use of Funds section as soon as possible.

## 3.4 Reporting and external review

The Client and Markets Management unit will collect allocation and impact information from financial intermediaries, through credit applications and affidavits, that have channeled the proceeds of the sustainability bond.

The General Management unit will provide investors with an Allocation Report and an Impact Report, according to the frequency defined in subsequent sections, for all bonds issued under this "Framework", pursuant to applicable CNV regulations. This information will be published on AFD's website: <https://www.afd.gov.py/>. The first report will be published one year after issuance.

### 3.4.1 Allocation Report

AFD commits to use its best efforts to provide information to investors and stakeholders on the allocation of resources up to the full allocation of funds, in the form of an annual allocation report, including:

- A brief description of funding and expenditures
- Amounts disbursed by eligible category.
- Percentage of funds allocated by eligible category.
- Percentage of funds allocated for financing and refinancing.
- Remaining balance of unallocated revenues.

In cases where confidentiality agreements, competitive considerations, or a large number of underlying projects limit the amount of detail that can be made available, AFD will present the information in general terms or on an aggregate portfolio basis (e.g., percentage allocated to certain categories of projects).

### 3.4.2 Impact Report

AFD commits to make its best effort to prepare and publish an annual Impact Report at least until full allocation of funds, aligned with ICMA's Harmonized Frameworks for Impact Reporting for green and social bonds and others obtained from internationally recognized sources (e.g. SASB, GRI) which will be chosen by the Institution. AFD will consolidate information on social and/or environmental indicators reported by AFD and/or financial intermediaries on projects financed through the bond. Provided that information is available, impact reporting may include:

- The expected environmental and/or social impact of the projects;
- The methodology and assumptions used to prepare the impact indicators to be disclosed.
- At least one indicator for each eligible category. The indicators shall be the same or similar to those provided in Table 1. Environmental Impact Indicators (page 25) and Table 2. Social Impact Indicators (page 27).

In the event that confidentiality agreements, competitive considerations, or a large number of underlying projects limit the amount of detail that can be made available, AFD will present the information in generic terms or on an aggregate portfolio basis (e.g., the percentage allocated to certain categories of projects). Some of the indicators that could be used are:

**Table 3. Environmental Impact Indicators**

Eligible Green Categories	Reference Indicator
Sustainable management of natural resources, land use	<ul style="list-style-type: none"> <li>• Area (hectares) reforested</li> <li>• Area (hectares) of conserved or recovered land</li> <li>• Area (hectares) of forest reserve under active monitoring</li> <li>• GHG emissions reduced (tonCO<sub>2</sub>e/year)</li> </ul>
Energy efficiency and renewable energy	<ul style="list-style-type: none"> <li>• Annual energy savings in MWh/GWh (electricity)</li> <li>• Estimated annual GHG emissions reduced/avoided (in tons of CO<sub>2</sub> equivalent) (tonCO<sub>2</sub>e year)</li> </ul>
Sustainable agriculture	<ul style="list-style-type: none"> <li>• Area (hectares) cultivated with agroforestry and/or silvopasture systems</li> <li>• Area (hectares) cultivated with technician irrigation system</li> <li>• Area/surface covered by sustainable activities aligned with the framework</li> </ul>

**Table 4. Social Impact Indicators**

Eligible Social Categories	Reference Indicator
Affordable housing	<ul style="list-style-type: none"> <li>• Number of people with access to affordable housing</li> <li>• Number of houses refinanced or expanded</li> <li>• Number of families directly benefited</li> </ul>
Access to essential services: Education	<ul style="list-style-type: none"> <li>• Number of beneficiaries</li> <li>• Number of beneficiaries disaggregated by gender and/or age</li> <li>• Number of beneficiaries for each program implemented</li> <li>• Number of students benefited</li> </ul>
Support for MSMEs and social programs to alleviate and/or prevent unemployment <sup>37</sup>	<ul style="list-style-type: none"> <li>• Number of beneficiary MSMEs</li> <li>• Number of MSME beneficiaries led by women</li> <li>• Value of loans granted to MSMEs</li> <li>• Number of jobs generated</li> </ul>

<sup>37</sup> Relevant sectors established in the MSME Strategic Plan: Industry, Commerce, Tourism and Handicrafts, Agribusiness, Information and Communication Technologies (ICT), Creative Economy and Entrepreneurship.

### **3.4.3 External Audit**

AFD may engage an independent external auditor to ensure that the Allocation and Impact Reports are aligned with the Framework as it deems appropriate, to be performed at least in the first annual report of each bond.

### **3.4.4 Second Party Opinion**

In accordance with international best practice for the issuance of Sustainability Bonds, AFD will seek to obtain a Second Party Opinion of this Framework from an external provider. In the event that any section of the Sustainability Bond Framework is amended in the future, AFD is committed to obtaining a new Second Party Opinion to ensure the transparency of its issuance and that the Framework remains compliant with ICMA standards and applicable CNV regulations.



**4.**  
**Annex**

## Annex: Reference of AFD Categories and Products

### Green Categories

Sustainable management of natural resources, land use

 **PROFORESTAL**

Energy efficiency

 **EFICIENCIA  
ENERGÉTICA**

Sustainable agriculture

 **PROCAMPO**

 **PROCOOP**

### Social Categories

Access to affordable house

 **PRIMERA  
VIVIENDA**

 **MICASA**

Access to Essential Services: Education

 **PROEDUC**

Support for MSMEs and social programs to alleviate and/or prevent unemployment

 **PROMIPYMES**

Approved by AFD Resolution No. 03 of Board Minutes No. 82 of October 13, 2023.



[www.afd.gov.py](http://www.afd.gov.py)