



ENVIRONMENTAL AND SOCIAL POLICY OF THE CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

V e r s i o n 2

C A B E I

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I. INTRODUCTION

Pursuant to article 2 of the Constitutive Agreement of CABEI, the Bank's objective is to promote the economic integration and the balanced economic and social development of the Central American region, which includes the founding countries and the non-founding regional member countries. In this sense, the Bank will attend programs or projects related to the conservation and protection of natural resources and the environment, as well as those involving climate change mitigation and adaptation, among others.

CABEI recognizes that the impact of climate change and variability represents a clear threat to economic and social development. In this sense, the Bank is committed to helping the Central American region and its member countries to combat the adverse effects of climate change. By means of Agreement No. ACDI-29/2015, on December 18, 2015, the Bank's Board of Directors expressed its satisfaction with the agreements reached at the 2015 United Nations Climate Change Conference (COP 21) of the United Nations Framework Convention on Climate Change (UNFCCC). It also reiterated the Bank's commitment to support projects aimed at reducing greenhouse gas emissions, mainly by promoting clean energy generation, sustainable transportation, urban development and food production.

Moreover, in April of 2016, the Board of Governors made a Declaration of Commitment to Promote and Support Actions to Finance Climate Change Adaptation and Mitigation¹. This Declaration reiterated CABEI's commitment to supporting its member countries to achieve the goals established at the United Nations Climate Change Conference (COP 21) as a fundamental step for combating climate change, as well as promoting the necessary measures and investment to ensure a resilient and sustainable, low-carbon future. The declaration also reiterated the Institution's commitment to promoting and supporting financing for climate change adaptation and mitigation, with a focus on the development of sustainable cities, the promotion of resilient infrastructure in vulnerable communities, food and nutritional security and sustainable natural resource management, from a constant perspective of social inclusion and gender equality.

In July 2016, CABEI was admitted as an intergovernmental observer organization under the UNFCCC, which reaffirms the Bank's commitment to achieving the goals set out at the 2015 United Nations Climate Change Conference (COP 21).

From this perspective, it is also important to mention that, within its Institutional Strategy, CABEI has established a cross-cutting axis of environmental sustainability for all its operations, as well as guidelines that contribute to environmental sustainability in all its institutional initiatives.

¹ The Declaration was formalized through Resolution No. AG-11/2016, in the framework of the LVI Ordinary Meeting of the CABEI Board of Governors, held in Panama City.

II. OBJECTIVE

Establish guidelines and an action framework, aligned with the cross-cutting axis of environmental sustainability, that will ensure that operations financed by the Bank and all activities involved in its own operations are environmentally and socially sustainable, thereby contributing to the reduction of carbon emissions and the promotion of resilience to climate change.

III. SCOPE

This Policy applies to all operations financed by the Bank and the activities involved in its own operations, with regard to environmental and social aspects.

Also, the Policy must be applied by all CABEI's collaborators and respective interest groups, pursuant to the provisions of the Policy.

IV. ABBREVIATIONS AND TERMS

- CABEI or Bank: Central American Bank for Economic Integration
- COP 21: 2015 United Nations Climate Change Conference
- CSO: Civil Society Organization
- EHS: Environmental, Health and Safety Guidelines established by the World Bank Group
- GERCRED: Credit Division
- GERFIN: Finance Division
- GEROP: Operations and Technology Division
- GERSYP: Sectors and Countries Division
- IFC: International Finance Corporation
- MEI: Institutional Strategic Framework
- ODE: Office of Evaluation
- OFRI: Institutional Relations Office
- OPEP: Office of Strategic Planning and Programming
- SDGs: Sustainable Development Goals
- UN: United Nations
- UNFCCC: United Nations Framework Convention on Climate Change
- Senior Management: CABEI Presidency and Executive Vice Presidency

V. DEFINITIONS

- **Project Cycle:** Process through which CABEL structures financial products with the purpose of promoting operations that have a significant impact on the integration and the balanced economic and social development of the beneficiary countries. This process includes every stage, from identification, determining eligibility, analysis, approval and implementation to recovery and closing of an operation.
- **Stakeholder Engagement and Consultation:** is an organized and thorough interchange of impressions and information between the client and the surrounding communities and interest groups regarding issues related to the execution of an operation that directly affect them (such as proposed mitigation measures, the sharing of benefits, opportunities and implementation issues) in order to be considered during the decision-making process.
- **Institutional Strategy:** is CABEL's planning framework, which serves as a reference for the other instruments that make up the Strategic Institutional Framework. This instrument harmonizes the regional development needs of each five-year period with the objectives established in article No. 2 of the Constitutive Agreement, pursuant to the provisions of the CABEL Modernization Plan. Additionally, it includes specific strategic guidelines regarding impact on development, financial management, the management of the organizational structure and institutional learning.
- **Interest Groups:** are those affected directly by the operations financed by the Bank and the operational activities related to its functioning, or that have an interest in the same, such as communities in the area of influence, developers, civil society organizations (CSOs) and other key actors.
- **Strategic Institutional Framework:** is the mechanism that establishes the set of guidelines that must be put into practice to ensure the correct interaction between the Bank's different strategic planning instruments, responding appropriately and in a timely fashion to the development needs and priorities of the countries and to the focus areas established to guide institutional actions for every five year period. In this context, the objective is that CABEL's operations maintain their focus on the region and each member country, while at the same the Bank works to strengthen its own framework of institutional and strategic evaluation.

The instruments that make up the Strategic Institutional Framework are: the Institutional Strategy, the Frameworks for Sector Intervention, the Country Strategies and the Annual Operating Plan.
- **The Environmental and Social Grievance Mechanism:** is an instrument that allows the Bank to register, analyze, and amend irregularities with respect to environmental and social risks considered critical by the Bank that are related with any intervention it finances in order to strengthen the Institution's environmental and social performance and that of its customers.

- **Operation:** This refers to programs/projects, global credit lines, and products and services that CABEI funds and/or executes in order to promote economic integration and positively impact the balanced economic and social development of its member countries.

VI. RELATED DOCUMENTS

- Declaration of CABEI's Commitment to Promote and Support Funding Actions for Climate Change Adaptation and Mitigation
- Institutional Strategy
- Environmental and Social Strategy
- Gender Equity Policy
- Regulations of the CABEI Reporting Channel
- SIEMAS manual
- Manual of the System for Environmental and Corporate Social Responsibility
- Institutional Strategic Alignment Manual
- Manual of the Institutional Responsibility Committee
- Guidelines for SIEMAS

VII. DEVELOPMENT

GENERAL GUIDELINES

Article 1. Environmental and Social Mandate: In the exercise of its functions, CABEI is committed to adopting guidelines that ensure proper environmental and social management, as well as strategically address the region's challenges and opportunities.

Article 2. General Principles: The principles that govern the CABEI Environmental and Social Policy are as follows:

- a. Best International Practices: CABEI must seek to adopt standards and best international environmental and social practices with regard to the implementation of the present Policy and its components.
- b. Sustainable Development Financing: CABEI must pay close attention to promoting and financing operations that are consistent with achieving the United Nations Sustainable Development Goals (SDGs) in its member countries, pursuant to the provisions of its Constitutive Agreement.
- c. Transparency, Stakeholder Engagement and Consultation: CABEI must promote transparency, disclosure and effective communication with regard to this Policy. This must be carried out on the CABEI web page, as well as through other media.

Article 3. Approval: The Bank's Board of Directors is responsible for the approval of the CABEI Environmental and Social Policy at the proposal of the Institution's Senior Management.

Article 4. Responsibility for implementation: The Bank's Senior Management, through the Executive Vice President's Office, is responsible for the implementation of the Environmental and Social Policy and for proposing regular updates to the Policy and its elements, as well as for publicizing it at all levels of the Institution and designating the areas responsible for its implementation.

Article 5. Elements of the Environmental and Social Policy: The Policy is executed through the following elements:

- a. CABEI Social and Environmental Strategy
- b. CABEI Environmental and Social Risk Management System, which is composed of:
 - Environmental and Social Risk Identification, Evaluation and Mitigation System (SIEMAS).
 - System for Environmental and Corporate Social Responsibility (SASC).²

² New Name for the Institutional Responsibility Plan (PRI).

CABEI's SOCIAL AND ENVIRONMENTAL STRATEGY

Article 6. The CABEI Environmental and Social Strategy defines its frame of action, which includes strategic components and actions that contribute to the implementation of the Environmental and Social Strategy, with the purpose of supporting initiatives that are environmentally sustainable and that foster social development, competitiveness and regional integration. In that context, the formulation and development of the Institutional Strategy, Country Strategies, Sector Intervention Frameworks and Annual Operating Plans, as instruments of the Strategic Institutional Framework (MEI), will be carried out considering the implementation of elements under an environmental and social perspective.

Article 7. GERSYP and the Office of Strategic Planning and Programming are responsible for the process of preparing the Social and Environmental Strategy in the framework of the cross-cutting axis of environmental sustainability defined in the Institutional Strategy. GERSYP, GEROP, OFRI and GERFIN will be responsible for the implementation of this strategy.

Article 8. The Office of Strategic Planning and Programming ensures the alignment between the Environmental and Social Strategy and the CABEI Institutional Strategic Framework.

Article 9. The Office of Evaluation (ODE) is responsible for the evaluation of the Bank's Environmental and Social Strategy.

ENVIRONMENTAL AND SOCIAL RISK IDENTIFICATION, EVALUATION AND MITIGATION SYSTEM (SIEMAS).

Article 10. SIEMAS enables the Bank to carry out the identification, evaluation and systematic mitigation of the social and environmental impacts of operations financed by CABEI. Through SIEMAS, CABEI must promote and facilitate the participation of stakeholders in order to avoid or minimize risks and adverse impacts to people and the environment.

Article 11. SIEMAS requires that operations financed by the Bank and its environmental and social risk categorization be aligned with the performance standards of the International Finance Corporation (IFC), the Equator Principle and the Environmental, Health and Safety (EHS) guidelines of the World Bank Group, as well as with relevant national legislation. CABEI must ensure compliance with the rules and regulations through a formal process of monitoring that includes a review of the customer's periodic reports, as well as possible on-site visits and audits.

When the regulations of the host country are different from the guidelines presented in SIEMAS, CABEI requires compliance with the more stringent in terms of environmental and social protection.

Article 12. CABEI must allow a reasonable duration for consultations prior to the approval of an operation, making publically available the relevant documentation, in order to ensure the participation of interest groups, paying special attention to operations involving higher risk and environmental and social impact.

Article 13. CABEI must establish an Environmental and Social Grievance Mechanism in order to strengthen CABEI's environmental and social performance and that of its clients, allowing documentation, analysis, and amendment of environmental and social risks irregularities that are deemed critical, pursuant to the provisions of SIEMAS.

Article 14. The Sectors and Countries Division (GERSYP) is responsible for implementing the SIEMAS. The Credit Division (GERCRED) is responsible for supervision of SIEMAS.

Article 15. CABEI must not finance operations that are on its List of Exclusions, pursuant to the corresponding regulations. In addition, the Bank must refrain from financing and supporting operations that violate: (i) these guidelines and other related regulations; (ii) the legal environmental and social framework in force in the country concerned; and (iii) any international environmental and social agreements and conventions.

Article 16. The Office of Evaluation (ODE), in coordination with the technical area designated by Senior Management, will carry out an independent review of SIEMAS every two years. In addition, the ODE will carry out annual independent reviews to determine compliance with the environmental and social standards established in the Social and Environmental Plans, in order to verify the system's effectiveness.

SYSTEM FOR ENVIRONMENTAL AND CORPORATE SOCIAL RESPONSIBILITY (SASC).

Article 17. CABEI must establish practices that reduce the environmental and social impacts of its own activities, through the implementation of a Corporate Environmental and Social Responsibility System.

Article 18. The Corporate Environmental and Social Responsibility System must facilitate the consistent adoption of international standards in the Bank's internal operations, in order to ensure their direct impact. This system has two areas of action:

- a. **Environmental Responsibility:** CABEI must adopt and promote best environmental practices to avoid or minimize the direct adverse impact of its own facilities and daily operations on the environment and promote environmental sustainability in its immediate environment.
- b. **Social Responsibility:** CABEI must adopt good social responsibility practices and promote them to its collaborators, suppliers, communities and other stakeholders in the Bank in order to avoid or minimize adverse impacts and maximize the positive social impact of its activities.

Article 19. The Committee for Oversight of the Corporate Environmental and Social Responsibility System is responsible for overseeing the implementation of the Corporate Environmental and Social Responsibility System.

Article 20. This Environmental and Social Responsibility may be revised periodically by both Senior Management and the Bank's Board of Directors.