

## Introduction

Banco de Comercio Exterior de Colombia S.A. – Bancoldex is a state owned entrepreneurial development bank dedicated to business growth in Colombia. Bancoldex provides companies of all sizes, sectors and regions in the country with financial instruments and knowledge tools. The institution offers a variety of financial instruments and technical support to strengthen and foster innovation in the fields of commerce, industry and tourism, and other foreign trade-related activities, as well as those intended for the domestic market.

Bancoldex mainly operates as a second-tier bank, disbursing credit resources to the business sector through a network of local financial institutions, both regulated and unregulated by the Financial Superintendence of Colombia, and through financial institutions abroad that support the purchase of Colombian products or services or that finance the processes of expansion of Colombian companies abroad. In addition, Bancoldex offers direct credit to companies and prioritizes projects or investments that generate a positive impact on the environment; improve the country's productivity and competitiveness; and contribute to increasing exports or the modernization of its production process, among other aspects.

Bancoldex has a Corporate Environmental and Social Management Policy that includes 3 pillars: a) *Eco-efficiency*, which outlines the internal actions the Bank takes to reduce environmental impact of its operation; b) *Management of Environmental and Social Risks*, through which Bancoldex identifies and classifies the socio-environmental risk of its portfolio; and c) *Design of "green" financial and non-financial products* favoring investments in climate change mitigation and adaptation projects, while generating social benefits.

As a national development bank, Bancoldex has played a very important role connecting the National Government and the business sector to support the fulfillment of Colombia's international commitments in terms of mitigation of, and adaptation to, climate change. In fulfillment of this role, Bancoldex links public and private sustainability initiatives to foster sustainable economic growth. Examples of this work include the Green Protocol, a voluntary agreement between the financial sector and the National Government that Bancoldex has led from its inception, and the Financial Management Committee of SISCLIMA, an instance of inter-institutional coordination and public-private dialogue whose objective is to generate public policy guidelines for the inclusion of climate change criteria in the economic and financial planning of the country.

For several years Bancoldex has had access to reimbursable and non-reimbursable concessional resources from Climate Funds and Multilateral Entities such as the Clean Technology Fund and the Inter-American Development Bank, for which it is required to comply with specific environmental and social standards.

With access to these resources, Bancoldex has been designing several "green" financial instruments, which seek to catalyze investments in the market within the business sector that reduce greenhouse gas emissions. These include the incorporation of clean technologies in the Integrated System of Mass Transportation and electric taxis in Bogota; financing renewable energy investments and energy efficiency at the national level; supporting in the early phase of exploration of geothermal projects, and replacing of fossil fuels in power generation in isolated areas, among other initiatives.

In addition, Bancoldex is in the process of being accredited as an Intermediary Entity to gain direct access to reimbursable and non-reimbursable resources of the Green Climate Fund, a financial mechanism of the United Nations Framework Convention on Climate Change. This process is expected to be finalized this year. Access to these resources will allow Bancoldex, to support national priorities and the specific national contributions made by the country under the Paris Agreement by having preferential funding and technical assistance resources to finance projects of the business sector that have a positive impact on mitigation of, and adaptation to, climate change.

Considering the above, Bancoldex is in the process of issuing a Green Bond that allows it to diversify its sources of funding to finance investments that promote more sustainable economic growth. The projects financed with the resources of this bond will be aligned with the sustainability strategy of the institution and with national priorities. Later sections of this document will explain in detail the Bancoldex Green Bond Framework, which has been developed in accordance with the 2017 Green Bond Principles<sup>1</sup> and its four guidelines: (i) Use of proceeds; (ii) Process for project evaluation and selection; (iii) Management of proceeds; and (iv) Reporting.

## **I. Use of Proceeds**

### **Eligible Projects**

Eligible investments for Bancoldex are business-sector projects that generate environmental and social benefits due to the optimization of the use of natural resources, improved waste management processes, increased energy efficiency, and incorporation of sustainable practices including the replacement of inefficient or fossil-fuel-based technologies with clean technologies in all economic sectors. These projects make an important contribution in the transition to a low-carbon economy.

The Projects to be financed or refinanced with the proceeds from the issuance of the Bancoldex Green Bond may be originated before, from 2013, or after the issue. The proceeds used for refinancing projects represent up to 79% of the resource allocation at the time of the issue. The Projects must fulfill one or more of the following eligibility criteria:

#### **a) Pollution control and resource efficiency**

The resources under this criterion are geared toward the construction, installation and operation of systems of control and monitoring of the productive process for the prevention and mitigation of the negative effects of business activity on the environment, including:

- Acquisition of equipment and adaptations for the treatment of waste water.
- Control systems for the reduction of pollutants in solid, liquid and gaseous waste (for example, filters for controlling atmospheric emissions).
- Acquisition of equipment for the use of solid, liquid or gaseous waste.
- Acquisition of equipment for the efficient use of resources (for example, water-saving devices).

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<sup>1</sup> The Green Bond Principles 2017. Available at <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/GreenBondsBrochure-JUNE2017.pdf>

## **b) Sustainable Transportation**

The resources under this criterion drive the renewal, modernization and modal shift in transport systems toward ones with zero or low emissions:

- Acquisition of all types of hybrid or electric vehicles for public or private transportation of passengers or cargo.
- Electrical infrastructure for the recharging of hybrid or electric vehicles.
- Infrastructure for the operation of mass transport systems.

## **c) Energy efficiency**

The resources under this criterion are intended for projects that optimize the consumption of electric or thermal energy, to increase productivity and improve production processes, including:

- Development of energy auditing.
- Replacement or renewal of equipment by those with higher efficiency (for example, conventional LED lighting, high-efficiency motors, efficient cooling systems, etc.).
- Investments for the optimization of energy consumption in the production process (for example, reduction of energy losses, efficient boilers, etc.).
- Acquisition and installation of energy-measuring and control systems.
- Systems for the recovery and use of residual heat.
- Design, construction and installation of co-generation projects only if there is a net reduction of greenhouse gas emissions.
- The activities required to obtain the certification of ISO 50001 <sup>2</sup>

## **d) Renewable energy**

The resources under this criterion finance projects for the generation of electric or thermal energy from renewable energy sources such as wind, solar, biogas derived from biomass residues, small hydroelectric plants with a capacity of less than 10 MW, and geothermal, including:

- Design of the power generation project
- Adaptations for the construction and installation of power generation projects
- Acquisition of energy generation technology
- Acquisition of storage systems
- Transmission and network connection systems
- Measurement and information technology that allows for the integration of renewable energy into the grid
- Monitoring Systems according to each technology variables

## **e) Sustainable construction**

The resources under this criterion support the set of measures in design and construction of buildings that allow the achieving of improvements in the use of resources, according to Resolution 0549 of 2015 for sustainable constructions issued by the Ministry of

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<sup>2</sup> "The purpose of this International Standard is to enable organizations to establish the systems and processes necessary to improve energy performance, including energy efficiency, use, and consumption. Implementation of this International Standard is intended to lead to reductions in greenhouse gas emissions, energy cost, and other related environmental impacts, through systematic management of energy." ICONTEC, 2015.

Housing, City and Territory, which establishes the minimum percentages and measures of water and energy saving to be achieved in the new constructions

## **II. Process for the selection and evaluation of projects**

### **Objectives of the Green Bond**

Projects financed with the proceeds of this Green Bond will allow for supporting the efforts made by Colombia within the framework of the Intended Nationally Determined Contributions declared in the Paris Agreement and in accordance with the objectives established in the 2014 - 2018 National Development Plan in its Chapter 10 on Green Growth:

- Objective 1: Advance towards sustainable and low-carbon growth.
- Objective 2: Protect and ensure the sustainable use of natural capital and improve environmental quality and governance.
- Objective 3: Achieve resilient growth and reduce vulnerability to climate change risks.

The financing supports the initiatives of Colombian companies mainly in the efficient use and reduction of pollution of resources, air, water and land, and investments in energy efficiency and renewable energy in all economic sectors.

The issue of the Green Bond is aligned with Bancoldex's sustainability strategy, which seeks to respond to the following elements:

- The need to generate value through sustainable economic models
- The opportunities to penetrate new markets, increasing the standards of productivity and competitiveness of Colombian companies
- Consumers' interest in responsible consumption and acquiring products with higher production standards
- The adoption of sustainability standards in the development of cities

Through this bond, Bancoldex follows its guideline of boosting business growth and increasing productivity and competitiveness of the Colombian business sector through the promotion of the rational use of natural resources and of society's welfare in its present and future activities.

### **Green Bonds Committee**

The Green Bonds Committee will be coordinated by the Bank's Financial and Administrative Vice-Presidency and will be attended by representatives from the following areas: Vice-Presidency of Risk, Treasury Department, Legal Department and Office of New Products and Services. Likewise, the Committee will be composed of a representative of the Commercial Vice-Presidency who will have participated in the structuring of the corresponding operation.

The operations to be financed with the proceeds from the issue will be evaluated by the Bancoldex Green Bond Committee, in order to determine:

- a) Their alignment with eligibility and exclusion criteria
- b) The impacts associated with Category A projects

**Portfolio categorization**

Bancoldex has a portfolio composed of several lines of credit with specific eligibility criteria. Some of these lines are directly related to the objective of the Bancoldex Green Bond, for example: (i) *Sustainable Development Line* and (ii) *Energy Efficiency and Renewable Energy Line*. Others include a broader set of investments that could fall within the scope of the bond, for example: (iii) *business modernization* lines.

Credit line operations directed only at green projects, such as those mentioned in (i) and (ii), are automatically eligible if their approach is one of the six eligibility criteria explained in the previous section. The Bancoldex team must verify that said projects are eligible, by means of an additional questionnaire applied to each project.

Larger lines of credit, such as the one mentioned in (iii), will require an individual analysis of each operation and will require that loan recipients sign a statement confirming the use of the resources in accordance with the eligibility criteria.

In summary, all operations financed with current or future Bancoldex credit lines, either through the re-discount mechanism or through direct credit, may integrate the Green Bond, provided they comply with the criteria of eligibility, categorization and other evaluation and selection processes set out in this document. These operations may be disbursed by Bancoldex through all the financing mechanisms available to the Bank.

**Environmental and Social Risk Management**

Bancoldex incorporates environmental and social aspects in the evaluation of its credit operations, for which it has an *Environmental and Social Risk Management System* (ESMS) which has been implemented since 2013 with the support and advice of the Inter-American Development Bank. This system allows the Bank to identify and adequately manage the environmental and social risks of larger credit operations,<sup>3</sup> to have a more comprehensive profile of its clients' portfolio and to make investment decisions in a more informed manner.

Since the establishment of this system, Bancoldex appointed a dedicated team to manage and oversee its activities. This team is part and reports to the Risk Vice-Presidency.

The Bank's Environmental and Social Risk Management System, for the analysis of operations, considers aspects such as the geographical location of the company or project, its historical behavior in social and environmental matters in terms of compliance with applicable legislation, the main impacts generated by the client's economic activity on the environment, the impact of the environment on the client's activity, the management and control practices adopted and the resources used by the company to carry out those control activities (energy, water, natural resources), among other aspects. Based on this information, Bancoldex classifies operations into three socio-environmental risk categories: high risk (Category A), medium risk (Category B) or low risk (Category C).

Projects of all risk categories may be eligible to use the Green Bond resources. Category C and B projects will be automatically eligible, while Category A projects will have to be individually assessed and evaluated by the Bancoldex Green Bonds Committee.

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<sup>3 3</sup> For re-discount operations, an individual environmental and social assessment is carried out for operations with a value of USD 5 million or more.

**Exclusionary criteria**

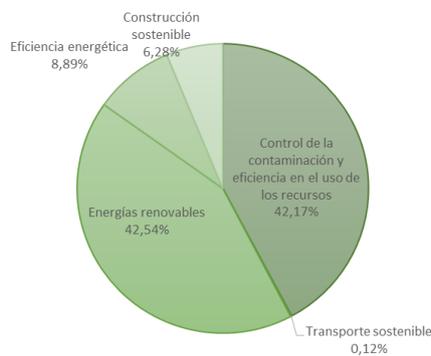
Projects with activities meeting one or more of the following exclusionary criteria cannot be financed by the Bancoldex Green Bond:

- a) Operations for financing of working capital
- b) Projects that have been previously financed by Bancoldex through international development banks
- c) Existing loans with a first disbursement date prior to 2013
- d) Existing loans expiring in 2017

In addition to these exclusionary criteria, all Bancoldex activities comply with an exclusion list included in its environmental and social management policy (Section F of the Environmental and Social Information Form available (in Spanish) at: <https://www.bancoldex.com/documentos/4603 Formato de información ambiental y social.pdf>)

**Current Eligible Green Portfolio**

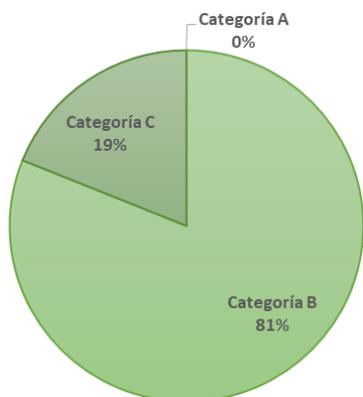
Applying the eligibility and exclusionary criteria, Bancoldex's green portfolio (as of May 26, 2017) is composed of 117 projects eligible to receive financing from the Green Bond. The current balance of these operations amounts to USD 50.81 MM (COP 147,968 MM), on average USD 430,672 (COP 1,253 MM) per project.



In terms of eligibility, most projects fall under the category of Pollution Control and Efficiency in the Use of Renewable Energy and Resources (42% and 43%, respectively<sup>4</sup>). The categories of Energy Efficiency (9%), Sustainable Construction (6%) and Sustainable Transport (<1%) complete Bancoldex's set of eligible operations.

<sup>4</sup> In amount.

Environmental and social categorization according to IDB Methodology<sup>5</sup>.



### **III. Management of Proceeds**

The proceeds of the Bond will be managed by the Bancoldex Treasury Department and will be used to finance existing or new loans. The resources pending disbursement will be exclusively held in cash or other instruments with high liquidity and low risk, and in any case will not be used to finance projects other than eligible green projects.

The processes outlined above will apply throughout the life of the bond.

### **IV. Reporting**

#### **Allocation and reporting**

Bancoldex shall annually disclose the use of the proceeds from the issue, indicating the number of beneficiaries, the average value of the loans, the disbursement by green category and the regional distribution of resource use, through the annual report on "The Use of Green Bond Resources," which must be published in the following media: (i) the bank's website: [www.bancoldex.com](http://www.bancoldex.com); (ii) the National Registry of Securities and Issuers, available in the Relevant Information section of the website of the Colombian Financial Superintendence [www.superfinanciera.gov.co](http://www.superfinanciera.gov.co); and (iii) the website of the Colombian Stock Exchange [www.bvc.com.co](http://www.bvc.com.co).

The use of the Green Bond proceeds shall be audited by an external party.

#### **Impact report**

In addition to financial information, Bancoldex will disclose in the "Use of Green Bond Resources" annual report the projects' positive environmental impacts, selecting up to 4 representative cases in terms of financing used and environmental impact, which significantly contributed to the bond objectives.

The indicators used shall be selected from the list below, depending on the cases chosen.

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<sup>5</sup>The categorization process of socio-environmental risk of the portfolio of eligible projects in accordance with IDB standards was carried out by SITAWI consultancy.

Indicator	Measurement unit
<b>Renewable Energy</b>	
Annual Generation of Renewable Energy (RE's)	MWh/GWh (electricity) or GJ/TJ (other energy forms)
Project's Generation capacity of RE's (new or existing)	MW/GW
RE Consumption	% total energy consumption
Annual reduction in Greenhouse Gas (GHG) emissions/emissions avoided	Metric tons of CO <sub>2</sub> eq.
Absolute (annual) GHG emissions from the project.	Metric tons of CO <sub>2</sub> eq.
<b>Energy Efficiency and Sustainable Construction</b>	
Annual reduction in energy consumption	MWh/GWh or GJ/TJ/kg or product
Annual GHG reduction (emissions avoided)	Metric tons of CO <sub>2</sub> eq.
Absolute annual GHG emissions from the project	Metric tons of CO <sub>2</sub> eq.
<b>Pollution control and efficiency in the use of resources</b>	
Reduction in waste generation	Metric tons
Amount of waste recycled	Metric tons
Contaminated areas recovered	Metric tons of soil/contaminant/pollutants treated
Contaminated areas recovered	m <sup>2</sup>
Reuse of water	m <sup>3</sup> or % of total use
Annual reduction in water consumption	m <sup>3</sup>
Annual reduction in water caption	m <sup>3</sup>
Treatment of water and effluents	m <sup>3</sup> of water/effluents treated
<b>Clean Transport</b>	
Absolute annual GHG reduction (emissions avoided)	Metric tons of CO <sub>2</sub> eq.
GHG reduction/emissions avoided	Metric tons of CO <sub>2</sub> eq./km
Absolute annual reduction of pollutant (non-GHG) emissions	Metric tons of pollutants
Reduction of pollutant (non-GHG) emissions	Metric tons of pollutants/km