CLASSIFICATION OF THE LEVEL OF ENVIRONMENTAL AND SOCIAL RISK OF OPERATIONS

- **Category I. High environmental and social risk**. Includes operations with the potential to cause significant, widespread, irreversible, difficult-to-assess, or unprecedented negative environmental and/or social impacts. It also includes operations developed in environmentally sensitive areas or ecosystems, those that irreversibly affect natural resources, or those that significantly alter the nature, characteristics, or functional relationships of communities. These impacts generally extend beyond the immediate physical intervention area. [1]

> These projects may involve highly complex works, such as the construction of primary roads, large-scale hydroelectric power generation facilities, watershed transfers, among others. They may entail the resettlement of more than 200 people, affect the livelihoods and land tenure of Indigenous communities, impact ecosystems protected under national legislation or international conventions, disturb critical habitats, lead to the introduction of exotic or invasive species, and cause permanent damage to cultural heritage, among other effects.
>
> The prevention and mitigation of such impacts require the implementation of complex, specific, and/or specialized measures.

- **Category II. Moderate environmental and social risk.** Includes operations with the potential to cause localized, short-term negative environmental and/or social impacts, for which effective mitigation measures are available and within the reach of the executing entities and other involved stakeholders. These impacts typically occur specifically within the areas of physical intervention.

[1] Operations classified as high risk according to the Risk Management Matrix must be submitted to the Credit and Investment Committee (Spanish acronym CCI) for consideration. In this case, the Executive President, who chairs the CCI, is responsible for approving these high-risk operations within the established limits and as required by regulations.

BANCO DE DESARROLLO DE AMÉRICA LATINA Y EL CARIBE

Examples of projects in this category may include the rehabilitation of roads with varying levels of service, the construction or rehabilitation of potable water and/or sewerage networks, the construction or rehabilitation of power transmission and distribution lines, urban renewal works, among others. In these cases, most impacts tend to be localized and occur during the construction phase. Therefore, effective mitigation measures are required, such as standard environmental and social management plans and community engagement and outreach initiatives.

- **Category III. Low environmental and social risk.** This includes operations with the potential to cause low-intensity, temporary, and reversible environmental and/ or social impacts, or no impacts at all. These operations may not require a due diligence process, without prejudice to any requirements CAF deems necessary to ensure environmental and social management aligned with the bank's principles and standards.

Some examples include projects such as the construction of office buildings, small-scale community facilities (e.g., health centers, dispensaries, schools, or the rehabilitation of urban parks), or the development of information technology (IT) infrastructure. These projects typically generate low-intensity or negligible impacts that are reversible and can be easily mitigated through basic measures or good practices. As such, they may not require a exhaustive due diligence process. However, compliance with CAF's environmental and social management standards is still required.

- **Category FI (Financial Intermediaries)**. This category includes operations where CAF-provided funds are allocated to banking institutions, microfinance entities, investment funds, solidarity or cooperative sector financial entities, and other financial institutions that typically channel these resources for multiple purposes or third parties. In these operations, the responsibility for managing environmental and social risks associated with financed projects, works, or activities lies with these financial intermediaries.

Some examples include operations in which CAF provides funding to financial institutions such as commercial banks, microfinance institutions, cooperative banks, or investment funds. These intermediaries channel resources to multiple projects—such as loans to small businesses, agricultural financing, or investments in local infrastructure—and are responsible for managing the environmental and social risks associated with their portfolios.

In such cases, the financial institution is required to have adequate capacity to manage environmental and social risks within its lending operations.

MARCH 2025