

Central American Bank for Economic Integration

Type of Engagement: Annual Review

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Introduction

In 2019, Central American Bank for Economic Integration (“CABEI”) issued a green bond aimed at financing projects that contribute to the transition to a low-carbon economy and have positive environmental impacts. In July 2022, CABEI engaged Sustainalytics to review the projects funded through the issued green bond and provide an assessment as to whether the projects met the Use of Proceeds criteria, and the Management of Proceeds and Reporting commitments outlined in the Central American Bank for Economic Integration Green Bond Framework (the “Framework”).¹ Sustainalytics provided a Second-Party Opinion on the Framework in September 2019.²

Evaluation Criteria

Sustainalytics evaluated the projects funded in 2021 based on whether the projects:

1. Met the Use of Proceeds and Eligibility Criteria outlined in the Framework;
2. Complied with the Management of Proceeds commitments outlined in the Framework; and
3. Reported on at least one of the Key Performance Indicators (KPIs) for each Use of Proceeds criteria outlined in the Framework.

Table 1 lists the Use of Proceeds, Eligibility Criteria, and associated KPIs.

Table 1: Use of Proceeds, Eligibility Criteria, and associated KPIs

Use of Proceeds	Eligibility Criteria ³	KPIs
Sustainable Land Use	<ul style="list-style-type: none"> • Forest plantations: Investments to finance acquisition, maintenance and sustainable management of certified forests certified by third-party certifications such as Forest Stewardship Council (FSC), Programme for the Endorsement of Forest Certification systems (PEFC) or equivalent • Forest regeneration: Expenditures related to the restoration and conservation of existing native forests, forest plantations, and preservation and extension of indigenous resource rights • The financing of sustainable agriculture projects that uphold soil health through management practices including sustainable water, nutrient and vegetation application techniques and a compatibility with low-carbon agriculture practices (no tillage, diverse cover crops, no or minimal pesticides) 	<ul style="list-style-type: none"> • Surface of FSC and/or PEFC certified forests (in ha) • Area of native forest restored (in ha) • Area covered by sustainable agriculture (km²) • Approximate sequestered and/or avoided GHG emissions (in tCO₂e/year)

¹ CABEI Green Bond Framework, at: <https://www.bcie.org/en/investor-relations/green-bank/green-bond-framework>

² CABEI Green Bond Framework Second-Party Opinion, at: <https://www.bcie.org/en/investor-relations/green-bank/second-party-opinion>

³ Refer to the footnotes noted in the Framework for specific criteria.

	<p>or synthetic fertilizers, and multiple crop rotation and managed grazing).</p> <p>Eligible projects may include:</p> <ul style="list-style-type: none"> ▪ Sustainable farming: Technical assistance, incentives, grants and loans provided to sustainable farms certified by third-party such as UTZ, Rainforest Alliance, and GLOBALG.A.P. ▪ Protected Agriculture: Agroforestry & Agroecology: Technical assistance, incentives, grants and loans sustainable projects maintaining biodiversity for example, utilizing alley cropping, cover crops. Accepted third-party certifications for Agroforestry are: Forest Stewardship Council (FSC) and Rainforest Alliance; while accepted third-party certifications for Agroecology are: BSC-OEKO, BIOLATINA, Rainforest Alliance and Intercultural Federation of Organic Agriculture Movements (IFOAM) ▪ Integrated Production Systems: Improved moisture retention, biota of soil approach which combines crop-forestry-livestock, excluding beef and palm oil production. <ul style="list-style-type: none"> • NAMA Projects: Grants and loans that support the expansion of Nationally Appropriate Mitigation Action (NAMA) projects aimed at coffee and cocoa farmers and mill operators that adopt low-carbon technologies and practices. 	
<p>Renewable Energy</p>	<p>Investments in renewable energy production including equipment, development, manufacturing, construction, operation, distribution and maintenance from sources including:</p> <ul style="list-style-type: none"> • Onshore and offshore wind energy • Solar energy • Geothermal energy producing direct emissions <100g CO₂/kWh • Bioenergy with 80% GHG emission reduction compared to fossil fuels, and sourced from sustainable feedstock • Small run-of-river hydro plants (under 25 MW), as well as the maintenance, refurbishment or repowering of existing hydro facilities <p>Investments into new transmission lines with >85% of energy dedicated in the distribution and transmission of renewable energy</p>	<ul style="list-style-type: none"> • Installed capacity (GW or MW) • Energy production (MWh) • Reduced and/or avoided GHG emissions (tonnes CO₂e /year)

Sustainable Water and Wastewater Management	<ul style="list-style-type: none"> • Flood defenses systems protecting against inundations and construction of reservoirs for the control of water flows • Installation or upgrade of water efficient irrigation systems • Construction or upgrade of sustainable infrastructure for drinking water • Construction of desalination plants and other water treatment facilities to provide inhabitants with drinkable water • Construction and upgrade of sewerage systems to improve wastewater management 	<ul style="list-style-type: none"> • Volume of water treated • Number of facilities built • Reduction in water usage (%) • Increase in water reuse (in m³/year) • Volume of water produced • Area under irrigation (ha) • Number of upgraded facilities • Number of new connections to drinking water • Number of new connections to the sewerage system • Number of people with access to drinking water
Clean Transportation	<p>Investment in clean vehicles, infrastructure and services, including:</p> <ul style="list-style-type: none"> • Private Transport: <ul style="list-style-type: none"> ▪ Electric vehicles ▪ Hybrid and fuel cell vehicles with CO₂ emission threshold of <75gCO₂/p-km • Public Transport: <ul style="list-style-type: none"> ▪ Train: rolling stock and vehicles for electrified public transport, such as electrified rail, trams, and trolleybuses ▪ Buses with no direct emissions (electric or hydrogen). Hybrid and fuel cell buses with CO₂ emission threshold of <75gCO₂/p-km ▪ Transportation infrastructure such as charging station for electric vehicles, expansion of metro/train network, station upgrades • Multimodal infrastructure supporting clean public transportation including system monitoring and control, passenger safety and security infrastructure and bicycle paths 	<ul style="list-style-type: none"> • Number of clean transportation systems financed by type • Number of kilometres of rail constructed or maintained • Reduced and/or avoided GHG emissions (in tCO_{2e}/year)

Issuing Entity's Responsibility

CABEI is responsible for providing accurate information and documentation relating to the details of the projects that have been funded, including description of projects, amounts allocated, and project impact.

Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of CABEI's Green Bond Use of Proceeds. The work undertaken as part of this engagement included collection of documentation from CABEI employees and review of documentation to confirm the conformance with the Framework.

Sustainalytics has relied on the information and the facts presented by CABEI with respect to the funded projects. Sustainalytics is not responsible, nor shall it be held liable if any of the opinions, findings, or conclusions it has set forth herein are not correct due to incorrect or incomplete data provided by CABEI.

Sustainalytics made all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight over the assessment of the review.

Conclusion

Based on the limited assurance procedures conducted,⁴ nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, the reviewed bond projects, funded through proceeds of CABEL's 2019 Green Bond, are not in conformance with the Use of Proceeds, Management of Proceeds, and Reporting criteria outlined in the Framework. CABEL has disclosed to Sustainalytics that the proceeds of the green bond were fully allocated as of June 29, 2022.

Detailed Findings

Table 2: Detailed Findings

Eligibility Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of the projects funded by the green bond in 2021 to determine if projects aligned with the Use of Proceeds Criteria outlined in the Framework and above in Table 1.	All projects reviewed complied with the Use of Proceeds criteria.	None
Management of Proceeds	Verification of net proceeds managed to determine if measures to track the green bond invested amount and loans granted aligned with the Framework criteria.	CABEL's tracking mechanism reviewed met the Management of Proceeds criteria.	None
Reporting Criteria	Verification of the projects funded by the green bond in 2021 to determine if impact of projects was reported in line with the KPIs outlined in the Framework and above in Table 1. For a list of KPIs reported, please refer to Appendix 1.	All projects reviewed reported on at least one KPI per Use of Proceeds criteria.	None

⁴ Sustainalytics limited assurance process includes reviewing the documentation relating to the details of the projects that have been funded, including description of projects, estimated and realized costs of projects, and project impact, which were provided by the Issuer. The Issuer is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

Appendix

Appendix 1: Allocation and Impact Reporting by Eligibility Criteria⁵

Use of Proceeds Category	Project Description	Location	Environmental Impact Reported by Eligibility Criteria	Allocation (USD – Mn)
Renewable Energy ⁶	Projects Completed			
	Central Hidroeléctrica Larreynaga Project: Design and construction and start-up of a run-off-river Hydroelectric Power Station.	Nicaragua	<ul style="list-style-type: none"> Installed capacity (MW): 17.3 Power Energy production (MWh): 50,960 Avoided GHG emissions (in tCO_{2e} /year): 15,600 	30.16
Sustainable Water Management	Projects Completed			
	Integrated Management of Water Resource Project: contribute to sustainable human development through the integrated management of water resources and the availability of water in quantity and quality for agricultural production and the supply of the population as part of PROGIRH.	Costa Rica	33,857 (ha) under irrigation	25.24
	Projects in Progress			
	Water Supply Program for the San José Metropolitan Area, Urban Aqueducts and Sanitary Sewer in Puerto Viejo de Limón: improvement in the quality of water service and in the generation and provision/distribution of water supply.	Costa Rica	1,202,213 people with access to drinking water	64.93
	Supply Program in Metropolitan Area and Sanitary Sewerage in Juanito Mora of Puntarenas: social welfare and quality of life through access to drinking water supply and sanitation services in 14 urban areas in the provinces of San José, Alajuela, Cartago, Puntarenas and Guanacaste.	Costa Rica	<ul style="list-style-type: none"> 35,000 new connections to the sewerage system 1 upgraded facility 	71.28
	Rehabilitation Project of Las Pavas Water Treatment Plant: rehabilitation of water treatment plant and its three pumping stations.	El Salvador	319,997 new connections to the drinking-water supply	16.98
Project for the Improvement and Expansion of Drinking Water Supply and Sanitation Systems in 19 Nicaraguan	Nicaragua	<ul style="list-style-type: none"> 17,308 new connections to the drinking-water supply 	93.40	

⁵ As of June 29, 2022.

⁶ CABEI has confirmed that it has financed small (<25 MW) run-of-river hydropower plants.

	Cities: supplying access to drinking water and sanitary sewerage.		<ul style="list-style-type: none"> • 7,900 new connections to the sewerage system 	
	Rural Water and Sanitation Sustainability Program: providing reliable access of water supply and sanitation in the poor municipalities.	Nicaragua	6,288 new connections to the sewerage system	28.28
	Water and Sanitation Program: expand the coverage of drinking water and sanitation services in various cities.	Honduras	80 upgraded facilities	1.58
	Project for the Improvement and Expansion of Drinking Water and Sanitation Systems in 7 Cities: improve the standard of living through the construction, improvement and expansion of sanitary sewage and drinking water.	Nicaragua	<ul style="list-style-type: none"> • 6 upgraded facilities • 73 automation systems • 5,443 new connections to the drinking-water supply • 51,788 new connections to the sewerage system 	43.14
Total allocation of bond proceeds (USD – Mn)				375
Bond proceeds raised (USD – Mn)				375
Balance of unallocated net proceeds (USD – Mn)				0 ⁷

⁷ While CABEL has achieved full allocation of bond proceeds, it has communicated to Sustainalytics that USD 118.6 (~31.6% of the bond proceeds) are pending for disbursement and that it intends to disburse them by the bond's maturity date (November 15, 2024).

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