

Central American Bank for Economic Integration

Type of Engagement: Annual Review

Date: July 12, 2021

Engagement Team:

Jhankrut Shah, jhankrut.shah@sustainalytics.com, (+1) 647 264 6641

Flora Mile, flora.mile@sustainalytics.com, (+31) 20 205 0087

Introduction

In 2019, the 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 impact. In July 2021, CABEI engaged Sustainalytics to review the projects funded through the issued green bonds and provide an assessment as to whether the projects met the Use of Proceeds criteria and that the Management of Proceeds and Reporting complied commitments outlined in the Central American Bank for Economic Integration Green Bond Framework.^{1,2}

Evaluation Criteria

Sustainalytics evaluated the projects and assets funded in 2020 based on whether the projects and programmes:

1. Met the Use of Proceeds and Eligibility Criteria outlined in the Central American Bank for Economic Integration Green Bond Framework;
2. Complied with the Management of Proceeds commitments outline in the CABEI Green Bond Framework; and
3. Reported on at least one of the Key Performance Indicators (KPIs) for each Use of Proceeds criteria outlined in the Central American Bank for Economic Integration Green Bond 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	Key performance indicators (KPIs)
Renewable Energy	Investments in renewable energy production including equipment, development, manufacturing, construction, operation, distribution and maintenance from sources including: <ul style="list-style-type: none"> ▪ Onshore and offshore wind energy ▪ Solar energy³ ▪ Geothermal energy producing direct emissions <100g CO₂/kWh ▪ Bioenergy with 80% GHG emission reduction compared to fossil fuels, and sourced from sustainable feedstock⁴ ▪ Small run-of-river hydro plants (under 25 MW), as well as the maintenance, refurbishment or repowering of existing hydro facilities Investments into new 	<ul style="list-style-type: none"> • Installed capacity (GW or MW) • Energy production (MWh) • Reduced and/or avoided GHG emissions (tonnes CO₂e /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 Wind and solar facilities shall not have more than 15% of electricity generated from non-renewable sources (CBI certification requirements).

⁴ CABEI ensures that bioenergy inputs are from sources that do not deplete existing terrestrial carbon pools. In addition, projects must protect biodiversity and should not involve the burning of peat. The projects will produce bioenergy from agricultural residues or forestry residues and will not compete with food production.

	transmission lines with >85% of energy dedicated in the distribution and transmission of renewable energy	
Sustainable Water 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 produced⁵ • Area under irrigation (ha)⁵ • Number of upgraded facilities⁵ • Number of new connections to drinking water⁵ • Number of new connections to the sewerage system⁵ • Number of people with access to drinking water⁵

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 Central American Bank for Economic Integration Green Bond Framework.

Sustainalytics has relied on the information and the facts presented by CABEI with respect to the Nominated 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,⁶ nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, the reviewed bond projects, funded through proceeds of CABEI's Green Bond, are not in conformance with the Use of Proceeds and Reporting Criteria outlined in the Central American Bank for Economic Integration Green Bond Framework.

⁵ Sustainalytics notes the addition of this KPI for the Sustainable Water Management Category.

⁶ 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.

Detailed Findings

Table 3: 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 2020 to determine if projects aligned with the Use of Proceeds Criteria outlined in the Central American Bank for Economic Integration Green Bond 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 used and loans granted aligned with the Management of Proceeds outlined in the CABEL Green Bond Framework.	CABEL's tracking mechanism reviewed met the Management of Proceeds criteria.	None
Reporting Criteria	Verification of the projects funded by the green bond in 2020 to determine if impact of projects was reported in line with the KPIs outlined in the Central American Bank for Economic Integration Green Bond 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

Appendices

Appendix 1: Proceeds Assigned Based on Eligibility Category

CABEI issued a green bond amounting to USD 375 million. As of December 31, 2020 the remaining unallocated amount to be disbursed was USD 57.4 million. CABEI has communicated to Sustainalytics that the USD 57.4 million has been assigned to selected Sustainable Water and Wastewater Management projects as described in Appendix 2. CABEI has allocated the following amounts:

Use of Proceeds Category	Signed Amount ⁷ (in million USD)	Allocated amount as of June 30, 2020 (in million USD)	Allocated Amount as of December 31, 2020 (in million USD)	Remaining amount to be disbursed as of December 31, 2020 (in million USD)
Renewable Energy	\$255.08	\$144.58	\$144.6M	-
Sustainable Water Management	\$332.07	\$169.1	\$173.0	\$57.4
Total	\$587.15	\$313.68	\$317.6	\$57.4

Appendix 2: Impact Reporting by Eligibility Criteria

Use of Proceeds Category	Project Description	Location	Environmental Impact Reported by Eligibility Criteria
Renewable Energy	Eólico Cerro de Hula Project: construction and commissioning of a wind power plant.	Honduras	Projects Completed <ul style="list-style-type: none"> Installed capacity from wind and hydropower energy (MW): 417.70 Annual energy produced (GWh): 1,257,053 Tons of CO₂ avoided per year: 705,700⁸
	Eólico Cerro de Hula Project: Expansion of the existing Cerro de Hula wind farm.	Honduras	
	Hidroeléctrico Ojo de Agua Project: design, construction and commissioning of a run-off-river hydroelectric power plant.	Honduras	
	Eólico Amayo Fase I Project: Construction and operation of a generation wind farm	Nicaragua	
	Central Hidroeléctrica Larreynaga Project: Design and construction and start-up of a run-off-river Hydroelectric Power Station.	Nicaragua	
	Eólico Penonomé II Project: increase the efficiency of the renewable energy transmission and distribution system.	Panama	
Sustainable Water Management	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	Projects Completed: <ul style="list-style-type: none"> 0.0032 (m³/s) water produced 33,857 (ha) under irrigation
	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	Projects in progress: <ul style="list-style-type: none"> 1.0829 (m³/s) water produced

⁷ Signed amount refers to the total amount of a specific project, whereas, allocated amount refers to the amount that is being refinanced or will be financed with funds received from the 2019 green bond issuance.

⁸ Reference is made to grid emission factors issued by the Institute of Global Environmental Strategies (IGES) for: Honduras, Panama and Nicaragua. Also, data on net energy generation for these countries is published by UN's ECLAC, as well as from specific reports of each project.

	Rehabilitation Project of Las Pavas Water Treatment Plant: rehabilitation of water treatment plant and its three pumping stations.	Nicaragua	<ul style="list-style-type: none"> • 89 facilities built • 80 upgraded facilities • 337,305 new connections to the drinking-water supply • 14,118 new connections to the sewerage system • 1,202,213 people with access to drinking water in Costa Rica
	Project for the Improvement and Expansion of Drinking Water Supply and Sanitation Systems in 19 Nicaraguan Cities: supplying access to drinking water and sanitary sewerage.	Nicaragua	
	Rural Water and Sanitation Sustainability Program: providing reliable access of water supply and sanitation in the poor municipalities.	Nicaragua	
	Water and Sanitation Program: expand the coverage of drinking water and sanitation services in various cities.	Honduras	

Disclaimer

Copyright ©2021 Sustainalytics. All rights reserved.

The information, methodologies and opinions contained or reflected herein are proprietary of Sustainalytics and/or its third party suppliers (Third Party Data), and may be made available to third parties only in the form and format disclosed by Sustainalytics, or provided that appropriate citation and acknowledgement is ensured. They are provided for informational purposes only and (1) do not constitute an endorsement of any product or project; (2) do not constitute investment advice, financial advice or a prospectus; (3) cannot be interpreted as an offer or indication to buy or sell securities, to select a project or make any kind of business transactions; (4) do not represent an assessment of the issuer's economic performance, financial obligations nor of its creditworthiness; and/or (5) have not and cannot be incorporated into any offering disclosure.

These are based on information made available by the issuer and therefore are not warranted as to their merchantability, completeness, accuracy, up-to-dateness or fitness for a particular purpose. The information and data are provided "as is" and reflect Sustainalytics' opinion at the date of their elaboration and publication. Sustainalytics accepts no liability for damage arising from the use of the information, data or opinions contained herein, in any manner whatsoever, except where explicitly required by law. Any reference to third party names or Third Party Data is for appropriate acknowledgement of their ownership and does not constitute a sponsorship or endorsement by such owner. A list of our third-party data providers and their respective terms of use is available on our website. For more information, visit <http://www.sustainalytics.com/legal-disclaimers>.

The issuer is fully responsible for certifying and ensuring the compliance with its commitments, for their implementation and monitoring.

In case of discrepancies between the English language and translated versions, the English language version shall prevail.

About Sustainalytics, a Morningstar Company

Sustainalytics, a Morningstar Company, is a leading ESG research, ratings and data firm that supports investors around the world with the development and implementation of responsible investment strategies. The firm works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. The world's foremost issuers, from multinational corporations to financial institutions to governments, also rely on Sustainalytics for credible second-party opinions on green, social and sustainable bond frameworks. In 2020, Climate Bonds Initiative named Sustainalytics the "Largest Approved Verifier for Certified Climate Bonds" for the third consecutive year. The firm was also recognized by Environmental Finance as the "Largest External Reviewer" in 2020 for the second consecutive year. For more information, visit www.sustainalytics.com.

