

Second-Party Opinion

CABEI Social Bond Framework



Evaluation Summary

Sustainalytics is of the opinion that the CABEI Social Bond Framework is credible and impactful and aligns with the four core components of the Social Bond Principles 2020. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds – Access to Essential Services, Employment Generation, Socioeconomic Empowerment, Affordable Basic Infrastructure, and Food Security and Sustainable Agriculture – are aligned with those recognized by the Social Bond Principles that seek to achieve positive socio-economic outcomes for target populations. Sustainalytics considers that the eligible categories will lead to positive social impacts and advance the UN Sustainable Development Goals, specifically, SDGs 1,2,3,4,5,6,7,8,11 and 13.



PROJECT EVALUATION / SELECTION CABEI's internal process for evaluating and selecting projects is to establish a Social Bond Working Group that will select eligible projects against CABEI's Environmental and Social Risk Identification, Evaluation and Mitigation System. Sustainalytics considers the project selection process in line with market practice.



MANAGEMENT OF PROCEEDS CABEI will take specific measures to track the invested amounts used, and loans granted. Pending allocation, the net bond proceeds will be managed within the Bank's treasury liquidity portfolio, in cash or other liquid instruments. The Social Bond Working Group will monitor the pool of eligible projects and replace projects which no longer comply with the criteria. This is in line with market practice.



REPORTING CABEI intends to report annually, until full allocation, on the total amount of proceeds and projects allocated per category; on the total amount of unallocated proceeds; and on the share of financing and refinancing. CABEI will also publish an annual impact report which will include relevant indicators and metrics per category. These reports will be made publicly available to all stakeholders. Sustainalytics views CABEI's allocation and impact reporting as aligned with market practice.

Evaluation date January 6, 2021

Issuer Location Tegucigalpa, Honduras

Report Sections

Introduction.....	2
Sustainalytics' Opinion	3
Appendices.....	10

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Introduction

The Central American Bank for Economic Integration (“CABEI”, the “Bank”, or the “Issuer”) is a multilateral development financial institution composed of 15 countries. It was established in 1960 by Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica as founding members and later joined by Panama, the Dominican Republic and Belize as non-founding regional members, and Mexico, Colombia, Argentina, The Republic of China (Taiwan), Spain, Cuba and The Republic of Korea as non-regional members.

CABEI has developed the Social Bond Framework (the “Framework”) under which it intends to issue social bonds and use the proceeds to finance/refinance, in whole or in part, existing and future projects that are intended to deliver positive social outcomes. The Framework defines eligibility criteria in five areas:

1. Access to Essential Services
2. Employment Generation
3. Socioeconomic Empowerment
4. Affordable Basic Infrastructure
5. Food Security and Sustainable Food Systems

CABEI engaged Sustainalytics to review the Social Bond Framework, dated December 2020, and provide a Second-Party Opinion on the Framework’s social credentials and its alignment with the Social Bond Principles 2020 (SBP).¹ This Framework has been published in a separate document.²

Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent³ opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Social Bond Principles 2020, as administered by ICMA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.6, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of CABEI’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. CABEI representatives have confirmed (1) they understand it is the sole responsibility of CABEI to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics’ opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and CABEI.

Sustainalytics’ Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market

¹ The Social Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp/>

² The Social Bond Framework is available on Central American Bank for Economic Integration’s website at: <https://www.bciei.org/en/investor-relations/social-bank/social-bond-framework-1>

³ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

In addition, the Second-Party Opinion opines on the intended allocation of proceeds but does not guarantee the realized allocation of the bond proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that CABEL has made available to Sustainalytics for the purpose of this SPO.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Social Bond Framework

Sustainalytics is of the opinion that the Social Bond Framework is credible and impactful and aligns with the four core components of the SBP. Sustainalytics highlights the following elements of CABEL's Social Bond Framework:

- Use of Proceeds:
 - The eligible categories – (i) Access to Essential Services (ii) Employment Generation, (iii) Socio-Economic Empowerment (iv) Affordable Basic Infrastructure, (v) Food Security and Sustainable Food Systems – are recognized as impactful by the SBP.
 - Within the 'Access to Essential Services' category, CABEL intends to finance health and education-related projects including healthcare institutions and equipment. The focus is to finance projects sought by public healthcare institutions, although private healthcare institutions may also receive financing if (a) they are located in municipalities with Human Development Index ("HDI") scores below the average for that particular country and (b) provided they guarantee free or subsidized access to vulnerable individuals.
 - Sustainalytics notes that financing of private healthcare facilities should only be considered eligible where there is a commitment for such facilities to guarantee access and encourages CABEL to report on outcomes in this area.
 - For education projects under the 'Access to Essential Services' category, CABEL intends to finance investments aiming to enhance infrastructure and buildings, as well as technical training for teachers and staff. Eligible projects may include the construction or refurbishment of early childhood facilities, public schools or public universities, scholarships for underserved populations, and the construction or refurbishment of private primary, secondary or tertiary educational facilities provided that (a) they are located in municipalities with Human Development Index scores below the average for that particular country and (b) they guarantee free or subsidized access to vulnerable individuals.
 - Sustainalytics notes that financing of private educational facilities should only be considered eligible where there is a commitment for such facilities to guarantee access and encourages CABEL to report on outcomes in this area.
 - Within the 'Employment Generation' category, CABEL intends to finance projects developed by micro, small and medium-sized enterprises ("MSMEs") in order to generate employment and reduce inequalities. CABEL has determined that projects should be located in areas where the HDI is below the average for that particular country and/or the area has been impacted by either natural disasters or pandemics.
 - CABEL defines MSMEs by number of employees: micro enterprises have fewer than 10 employees; small enterprises have 10-49; and medium-sized enterprises have 50-199 employees.
 - Sustainalytics considers the financing of MSMEs in these developing countries to be aligned with market practice.

- Within the 'Socioeconomic Empowerment' category, CABEL intends to finance women owned businesses and to encourage female entrepreneurship.
 - CABEL defines "women-owned" as MSMEs where at least 50% of the capital stock has been owned by women for at least six months.
- For the 'Affordable Basic Infrastructure' category, CABEL intends to finance projects that expand clean drinking water, improve sanitation and sewage treatment, and reduce untreated wastewater from entering bodies of water, with a particular focus and attention to underserved, rural and vulnerable communities. CABEL also intends to finance rural electrification projects, with a particular focus on underserved populations and communities impacted by natural or human disasters and pandemics.
- Also, under the 'Affordable Basic Infrastructure' category, CABEL intends to finance projects to increase the supply of housing to those without adequate housing and to support populations facing socio-economic difficulties. CABEL intends to do so by targeting the most vulnerable populations and those affected by natural or human disasters following their Sustainable Housing Program.
- Also under the 'Affordable Basic Infrastructure' category, CABEL intends to finance projects to prevent impacts caused by natural disasters and to support activities in communities affected by natural and human disasters. Projects under this category may include response preparedness, and basic services restoration such as clean water, food and energy and the operation of humanitarian shelters.
- CABEL also intends to provide financing towards 'food security and sustainable food systems'. This includes financing for agricultural crops, machinery to increase productivity and/or reduce environmental impacts, and food security and nutrition projects targeted towards vulnerable populations.
 - Sustainalytics notes that this category may be financed under the Employment Generation category whereby the Bank finances MSMEs, in this case in the agricultural sector.
 - CABEL has confirmed that it will promote sustainable agriculture techniques to the greatest extent that is practical.
- Project Evaluation and Selection:
 - CABEL intends to establish a Multidisciplinary Social Bond Working Group, that will be responsible for evaluating and selecting eligible projects to be financed with the social bond proceeds. The Working Group will be responsible for verifying that eligible projects comply with the Use of Proceeds categories outlined in the Framework, as well as compliance with the Bank's Environmental and Social Policy.
 - The Social Bond Working Group will meet annually and will monitor whether projects no longer satisfy the eligibility criteria.
 - Composition of the Working Group will consist of relevant parties including CABEL's Finance Department, Environment and Sustainability Office, Public Sector Department, Private Sector Department and the Continuous Improvement Unity.
 - Projects will be identified and assessed through CABEL's Environmental and Social Risk Identification, Evaluation and Mitigation System (SIEMAS, for its acronym in Spanish). SIEMAS promotes and facilitates stakeholder involvement in order to avoid any social or environmental risks through a three-level categorization of projects and programs. Through SIEMAS, CABEL intends to consult relevant stakeholders in the participation of project selection.
 - CABEL has included an Exclusion List in Annex 1 of the Framework and has stated the Bank will not finance any projects that infringe upon their environmental and social policy, environmental and social regulations of the host country and international environmental and social agreements and conventions.
 - Based on CABEL's detailed project evaluation process, Sustainalytics considers this process to be in line with market practice.
- Management of Proceeds:
 - Net proceeds of each social bond will be managed within CABEL's treasury liquidity portfolio. CABEL will hold net bond proceeds in cash or other liquidity instruments pending allocation. The

Bank intends to fully allocate proceeds of the social bond within five years of the issuance of the bond.

- Sustainalytics considers market expectation to be full allocation within 36 months and notes that the issuer intends to allocate within 60 months.
- Notwithstanding the above comment, based on CABEL's approach to management of proceeds, Sustainalytics considers CABEL's process to be in line with market practice.
- Reporting:
 - CABEL has committed to report publicly on the allocation of proceeds associated with each social bond on an annual basis until full allocation. The allocation report will include the total amounts of proceeds and the projects that they have been allocated to per category and average size of each allocation. This report will also include the total amount of unallocated proceeds and a description of selected projects.
 - In addition, the Bank has committed to providing a report on the impacts of projects funded by each social bond issuance. CABEL will provide this reporting in accordance with their existing Development Impact Evaluation System, which identifies the impacts of investments. CABEL has included in their Framework a list of example indicators and metrics which they intend to use.
 - The Finance Department will be responsible for the collection of data and the consolidation of the allocation and impact reports annually.
 - Based on CABEL's allocation and impact reporting commitments, Sustainalytics considers the process outlined to be in line with market practice.

Alignment with Social Bond Principles 2020

Sustainalytics has determined that the Social Bond Framework aligns to the four core components of the SBP. For detailed information please refer to Appendix 1: Social Bond/Social Bond Programme External Review Form.

Section 2: Sustainability Strategy of CABEL

Contribution of framework to issuer's sustainability strategy

CABEL's sustainability strategy integrates sustainable development into the bank's mission and aims to promote economic integration and social development in the Central American region. CABEL's 2020-2024 Institutional Strategy defines five strategic axes, including the cross-cutting theme of 'Environmental and Social Sustainability'.⁴ In addition to their Institutional Strategy, in 2016, CABEL published an Environmental and Social Policy with three principles: Adoption of Best International Practices, Sustainable Development Financing with alignment to the SDGs and Consultation and Citizen Participation.⁵ The policy is managed by the Committee for Oversight of Corporate Environmental and Social Responsibility through the following:

- CABEL's Environmental and Social Strategy; and
- CABEL's Environmental and Social Risk Management System, composed of: (i) the System for Identification, Evaluation and Mitigation of Environmental and Social Risks (SIEMAS for its acronym in Spanish), and (ii) the Environmental and Social Corporate Responsibility System (SASC for its acronym in Spanish), discussed below.

In addition to CABEL's Environmental and Social Policy and Institutional Strategy, the Bank has also committed to other key social policies including supporting funding related to climate change adaptation and mitigation, and gender equity. CABEL's social development objectives include the eradication of extreme poverty, universal primary education, gender equity, reduction in child mortality, combating disease and improving mental health services.⁶ CABEL has demonstrated its commitment to these objectives through the following initiatives:

⁴ CABEL, "CABEL'S 2020-2024 Institutional Strategy", (2020), at: https://www.bcie.org/fileadmin/bcie/english/files/news-and-media/publications/strategies/CABEL_2020_2024_Institutional_Strategy.pdf

⁵ CABEL, "Environmental and Social Policy, (2016), at https://www.bcie.org/fileadmin/bcie/english/files/news-and-media/publications/regulations/cabei_environmental_and_social_policy_01.pdf

⁶ CABEL, "Social Development", (2020), at: <https://www.bcie.org/en/about-us/institutional-strategy/strategic-axes/social-development>

- The Program for the Reduction of Poverty and Economic and Social Exclusion (PRPEES) - a program created at the request of the Bank's Board of Governors to reach the poorest and most vulnerable people in the region. The PRPEES became operational in May 2019 with an initial investment availability of over USD 569.1 million, of which USD 50.7 million has already been disbursed.
- The Central American Program for Resilient Reconstruction – a program launched in November 2020 following the region being hit by two destructive hurricanes. The program approved up to USD \$2.5 billion being made available to member countries to assist with the disaster mitigation, adaptation and recovery.
- The Program for Housing and Sustainable Habitat Development – a program for the housing sector aimed at improvements in slums, the construction and acquisition of housing and mechanisms available to disadvantaged populations to finance housing.
- CABEL Social Support Foundation – initiative created out of a need for resourcing to address social inequalities including education for development, community development, climate change adaptation, and human development.

Based on CABEL's policies and initiatives listed above, Sustainalytics views the Bank's social bond programme as aligned with CABEL's institutional strategy and overall sustainability mission.

Well positioned to address common environmental and social risks associated with the projects

While Sustainalytics recognizes that the use of proceeds outlined in the Framework will be directed towards eligible projects that are recognized by the SBP to have positive social and environmental impacts, Sustainalytics is aware that such eligible projects could also lead to negative social and environmental outcomes. Some key social and environmental risks associated with the eligible projects could include occupational health and safety, community/stakeholder engagement issues, as well as risks associated with being exposed to controversial companies or projects as a result of the Bank's lending activities. To help mitigate these risks, CABEL has in place the following mitigation policies and procedures:

CABEL has a Development Impact Evaluation System (SEID, for its acronym in Spanish) which measures the development impact of the Bank's projects. In its current iteration, SEID 2.0 is applied across the evaluation cycle, which carries out project evaluations ex-ante, half term and until ex-post, and its methodology is updated every two years by the Environmental and Social Sustainability Office (Oficina de Sostenibilidad Ambiental y Social, in Spanish) and the Evaluation Office (ODE, for its acronym in Spanish).¹⁴ CABEL measures the impact of its operations on the region's development through the CABEL Development Impact Index (I-BCIE, for its acronym in Spanish).¹⁵

While SEID controls the advancement of the development agenda, the Bank also uses a System for the Identification, Evaluation, and Mitigation of Environmental and Social Risks (SIEMAS, for its acronym in Spanish) to identify and mitigate environmental and social impacts. The Environmental and Social Sustainability Office is also responsible for overseeing the implementation of SIEMAS, as well as the Bank's alignment with the performance standards set by the IFC, the Equator Principles¹⁶, and the World Bank Group Environmental, Health, and Safety Guidelines (EHS Guidelines)¹⁷ as well as national legislation in each country.¹⁸ SIEMAS guarantees that relevant measures for mitigation are incorporated into environmental and social action plans. It also established the Mechanism of Environmental and Social Complaints (Spanish: Mecanismo de Denuncias Ambientales y Sociales) that allows the general public to report to the Bank of any potential environmental or social risks linked to the operations financed by CABEL.¹⁸

In its current form, SIEMAS 3.0 defines the process of analysing environmental and social risks through CABEL's project cycle including categories of each intervention and the ability of clients to manage them and it divides them in three categories:

- i. Category A: Projects with potential risks or significant adverse social and environmental impact that are diverse, irreversible, or unprecedented.
- ii. Category B: Projects with potential risks or limited adverse social and environmental impacts that are scarce and could be managed with mitigation measures.
- iii. Category C: Projects that involve minimal or no adverse environmental or social risks or impacts.¹⁹

Sustainalytics is of the opinion that CABEL's internal processes and mechanisms to mitigate risks associated with its financing activities ensure that the Bank is well-positioned to address common social and environmental risks and are in line with market best practice.

Section 3: Impact of Use of Proceeds

All five use of proceeds categories are aligned with those recognized by the SBP. Sustainalytics has focused on three below where the impact is specifically relevant in the local context.

Importance of employment generation for reducing inequalities and poverty reduction in Latin America

Prior to several notable events in 2020, namely COVID-19 and two major hurricane disasters, the region had 53.7 million people experiencing severe food insecurity. Current estimates are that this figure has risen to 83.4 million due to economic hardship caused by COVID-19 and the natural disasters.⁷ The pandemic has the potential to set the region back significantly, especially after having made socio-economic advancements at the beginning of the 21st century. By 2019, the OECD reported that Latin America and the Caribbean ("LAC") had been experiencing stalled socio-economic progress and that inequality remained high compared to other regions, and extreme poverty rates had increased by 12.96% in the period between 2014-2016 compared to the period between 2002-2008.⁸ The IMF anticipates that the LAC economies will contract by 8.1% in 2020 mainly as a result of the COVID-19 pandemic.⁹ The World Economic Forum attributed the significant economic slowdown in the region to the fact that 45% of jobs are in contact-intensive sectors and telework is less feasible for many jobs in the region.¹⁰

S&P Global predicts that most Latin American economies will return to their pre-pandemic GDP levels in the second half of 2022, and that the recovery will be fragile as there will be limited resources available for stimulus.¹¹ Regional experts writing for the World Economic Forum recommend that governments should invest in health, education and infrastructure to help with pandemic economic recovery, and that the private sector should be encouraged to embrace formal employment to provide stability to citizens.¹² Given the focus of CABEL's intended social bond categories in employment generation, as well as healthcare, education, and disaster prevention and recovery, Sustainalytics is of the opinion that CABEL's social bond investments will assist in COVID-19 and hurricane recovery and ultimately help reduce inequality and poverty in the region.

Importance of creating greater access to quality public education to improve economic outcomes

In 2019, UNICEF found that in LAC, only 25 percent of countries in the region had education systems that are equitable, and it advocated for improvement in education systems across the region.¹³ Investments in education in the region are poorly directed to those most in-need and spending on elementary education systems is low throughout the region. Universities in the region receive a disproportionate amount of the education dollars compared to primary education, which leans towards favoring high-income students.¹⁴ The UN Development Programme (UNDP) found that between 1990 to 2014, the share of students going to private

⁷ Economic Commission for Latin America and the Caribbean, "Millions of People May Slide into Extreme Poverty and Hunger in 2020 in Latin America and the Caribbean due to Pandemic's Impact", (2020), at: <https://www.cepal.org/en/pressreleases/fao-and-eclac-millions-people-may-slide-extreme-poverty-and-hunger-2020-latin-america>

⁸ OECD, "Socio-Economic Risks and Challenges: A Macro-Perspective", (2019), at: <https://www.oecd.org/dev/americas/LEO-2019-Chapter-1.pdf>

⁹ IMF, "Regional Economic Outlook for Western Hemisphere", (2020), at: <https://www.imf.org/en/Publications/REO/WH/Issues/2020/10/13/regional-economic-outlook-western-hemisphere#ch1>

¹⁰ World Economic Forum, "What we can expect for the latin American and Caribbean economy", (2020), at: <https://www.weforum.org/agenda/2020/10/imf-latin-central-america-economics-finance-pandemic-disease/#:~:text=GDP%20in%20Latin%20America%20and,IMF's%20Regional%20Economic%20Outlook%20report.&text=The%20IMF%20warns%20that%20unless,more%20economic%20damage%20is%20likely.>

¹¹ S&P Global, "Economic Research: Latin America's Economic Recovery From The Pandemic Will Be Highly Vulnerable To Setbacks", (2020), at: <https://www.spglobal.com/ratings/en/research/articles/201201-economic-research-latin-america-s-economic-recovery-from-the-pandemic-will-be-highly-vulnerable-to-setbacks-11760209>

¹² World Economic Forum, "The Covid-19 reset Latin America needs, according to three experts", (2020), at: <https://www.weforum.org/agenda/2020/11/covid-reset-latin-america-needs-recovery-pandemic-economics-jobs/>

¹³ UNICEF, "Global Annual Report – Goal Area 2", (2020), at: <https://www.unicef.org/media/71801/file/Global-annual-results-report-2019-goal-area-2.pdf>

¹⁴ Educando, "Education Gap in Latin America", (2020), at: <https://educando.org/education-latin-america/>

schools for primary education rose from 12% to 19%, and that as the population attending private schools increases, investment in social services for more marginalized populations generally declines.¹⁵

Due to the COVID-19 pandemic, research suggests that 97% of students in LAC are spending more time out of the classroom, losing 4 times more days of schooling than children in the rest of the world.¹⁶ The challenge is, therefore, that the COVID-19 pandemic will increase social inequalities, inequity, and exclusion, particularly for groups already at risk in the region, including women and indigenous populations and will require education financing to assist with additional costs as a result of the pandemic, and the subsequent financial resourcing constraints following.¹⁷ As a result of both the existing challenges to public education in the region and the added impacts resulting from the COVID-19 pandemic, Sustainalytics is of the opinion that CABEL's investments in public education will help to address the inequalities the region faces.

Importance of access to healthcare for improving quality of life in Latin America

In 2020, the OECD found that despite improvements in population health in LAC countries, there is still a need to improve access to healthcare in the region.¹⁸ The same report found that health expenditure per capita in LAC countries is well below that of OECD countries and that there is a dependency on private spending, with an average of 54.3% healthcare costs being covered by government and compulsory health insurance. The COVID-19 Pandemic added extra strain on the health care infrastructure of many LAC countries that already have few critical care resources and are experiencing exasperated economic inequalities because of the crisis.¹⁹ Based on the ongoing challenges to providing quality public healthcare, and due to added pressure imposed by the COVID-19 pandemic, Sustainalytics is of the opinion that CABEL's investments in improving healthcare infrastructure in LAC will help to alleviate inequalities the region faced prior, during and following the COVID-19 pandemic.

Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. This social bond advances the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Access to Essential Services – Health	3 – Good Health and Well-being	3.8 - Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all
Access to Essential Services – Education	4 – Quality Education	4.1 - By 2030, ensure that all girls and boys complete free, equitable and quality primary and secondary education leading to relevant and effective learning outcomes.
Employment Generation - Micro and small enterprises financing	1 – No Poverty 8 – Decent Work and Economic Growth	1.2 - By 2030, reduce at least by half the proportion of men, women and children of all ages living in poverty in all its dimensions according to national definitions 8.5 - By 2030, achieve full and productive employment and decent work for all women and men, including for young people and

¹⁵ UNDP, "UNFAIR and unequal: new UNDP report sheds light on discontent in Latin America", (2019), at: <https://www.latinamerica.undp.org/content/rblac/en/home/presscenter/pressreleases/2019/unfair-and-unequal-new-undp-report-sheds-light-on-discontent-in.html>

¹⁶ UNICEF, "Education on hold", (2020), at: <https://www.unicef.org/lac/en/education-on-hold#fast>

¹⁷ UNESCO, "Education in the time of COVID-19", (2020), at: https://repositorio.cepal.org/bitstream/handle/11362/45905/1/S2000509_en.pdf

¹⁸ OECD, "Health at a Glance: Latin America and the Caribbean 2020", (2020), at: Affordable Basic Infrastructure – Clean Drinking Water, Sanitation and Sewages

¹⁹ Centre for Strategic and International Studies, "Covid-19 Exposes Latin America's Inequality", (2020), at <https://www.csis.org/analysis/covid-19-exposes-latin-americas-inequality>

		persons with disabilities, and equal pay for work of equal value
Socio-Economic Empowerment. - Gender Inclusion	5 – Gender Equality	5.a - Undertake reforms to give women equal rights to economic resources, as well as access to ownership and control over land and other forms of property, financial services, inheritance and natural resources, in accordance with national laws
Affordable Basic Infrastructure – Clean Drinking Water, Sanitation and Sewages	6 – Clean Water and Sanitation	6.1 - By 2030, achieve universal and equitable access to safe and affordable drinking water for all.
Affordable Basic Infrastructure – Electrification	7 – Affordable and Clean Energy	7.1 - By 2030, ensure universal access to affordable, reliable and modern energy services.
Affordable Basic Infrastructure – Social Housing	11 – Sustainable Cities and Communities	11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums
Affordable Basic Infrastructure – Disaster Prevention and Economic Recovery	13 – Climate Change	13.1 - Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries
Food Security and Sustainable Food Systems – Access to Adequate Food for Low-Income Populations	2 – No Hunger	2.4 - By 2030, ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality

Conclusion

CABEL has developed the Social Bond Framework under which it will issue one or more social bonds and use the net proceeds to finance greater access to healthcare and education, employment generation, access to clean water and electricity, social housing, disaster prevention and recovery and financing for sustainable agriculture. Sustainalytics considers that the projects funded by the social bond proceeds can be expected to deliver positive social impact.

The Framework outlines a process by which proceeds will be tracked, distributed, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the Framework is aligned with the overall sustainability strategy of the company and that the social use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goals 1,2,3,4,5,6,7,8,11 and 13. Additionally, Sustainalytics is of the opinion that CABEL has adequate measures to identify, manage and mitigate social and environmental risks commonly associated with the eligible projects funded by the use of proceeds.

Based on the above, Sustainalytics is confident that CABEL is well-positioned to issue social bonds and that the Social Bond Framework is robust, transparent, and in alignment with the core components of the Social Bond Principles 2020.

Appendix

Appendix 1: Social Bond/ Social Bond Programme -External Review Form

Section 1. Basic Information

Issuer name: Central American Bank for Economic Integration

Social Bond ISIN or Issuer Social Bond Framework Name, if applicable: Social Bond Framework

Review provider's name: Sustainalytics

Completion date of this form: January 6, 2021

Publication date of review publication:

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the SBP:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

ROLE(S) OF REVIEW PROVIDER

- | | |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (please specify): | |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (if applicable)

Please refer to Evaluation Summary above.

Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

1. USE OF PROCEEDS

Overall comment on section (if applicable):

The eligible categories for the use of proceeds – Access to Essential Services, Employment Generation, Socioeconomic Empowerment, Affordable Basic Infrastructure, and Food Security and Sustainable Agriculture – are aligned with those recognized by the Social Bond Principles that seek to achieve positive socio-economic outcomes for target populations. Sustainalytics considers that the eligible categories will lead to positive social impacts and advance the UN Sustainable Development Goals, specifically, SDGs 1,2,3,4,5,6,7,8,11 and 13.

Use of proceeds categories as per SBP:

- | | |
|---|--|
| <input checked="" type="checkbox"/> Affordable basic infrastructure | <input checked="" type="checkbox"/> Access to essential services |
| <input checked="" type="checkbox"/> Affordable housing | <input checked="" type="checkbox"/> Employment generation (through SME financing and microfinance) |
| <input checked="" type="checkbox"/> Food security | <input checked="" type="checkbox"/> Socioeconomic advancement and empowerment |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBP | <input type="checkbox"/> Other (please specify): |

If applicable please specify the social taxonomy, if other than SBP:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

CABEI's internal process for evaluating and selecting projects is to establish a Social Bond Working Group that will select eligible projects against CABEI's Environmental and Social Risk Identification, Evaluation and Mitigation System. Sustainalytics considers the project selection process in line with market practice.

Evaluation and selection

- | | |
|---|---|
| <input checked="" type="checkbox"/> Credentials on the issuer's social objectives | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Social Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input checked="" type="checkbox"/> Summary criteria for project evaluation and selection publicly available | <input type="checkbox"/> Other (please specify): |

Information on Responsibilities and Accountability

- Evaluation / Selection criteria subject to external advice or verification In-house assessment
- Other (please specify):

3. MANAGEMENT OF PROCEEDS

Overall comment on section (if applicable):

CABEI will take specific measures to track the invested amounts used, and loans granted. Pending allocation, the net bond proceeds will be managed within the Bank's treasury liquidity portfolio, in cash or other liquid instruments. The Social Bond Working Group will monitor the pool of eligible projects and replace projects which no longer comply with the criteria. This is in line with market practice.

Tracking of proceeds:

- Social Bond proceeds segregated or tracked by the issuer in an appropriate manner
- Disclosure of intended types of temporary investment instruments for unallocated proceeds
- Other (please specify):

Additional disclosure:

- Allocations to future investments only Allocations to both existing and future investments
- Allocation to individual disbursements Allocation to a portfolio of disbursements
- Disclosure of portfolio balance of unallocated proceeds Other (please specify):

4. REPORTING

Overall comment on section (if applicable):

CABEI intends to report annually, until full allocation, on the total amount of proceeds and projects allocated per category; on the total amount of unallocated proceeds; and on the share of financing and refinancing. CABEI will also publish an annual impact report will include relevant indicators and metrics per category. These reports will be made publicly available to all stakeholders. Sustainalytics views CABEI's allocation and impact reporting as aligned with market practice.

Use of proceeds reporting:

- Project-by-project On a project portfolio basis

- Linkage to individual bond(s) Other (please specify):

Information reported:

- Allocated amounts Social Bond financed share of total investment
- Other (please specify):

Frequency:

- Annual Semi-annual
- Other (please specify):

Impact reporting:

- Project-by-project On a project portfolio basis
- Linkage to individual bond(s) Other (please specify):

Information reported (expected or ex-post):

- Number of beneficiaries Target populations
- Other ESG indicators (*please specify*):

Frequency:

- Annual Semi-annual
- Other (please specify):

Means of Disclosure

- Information published in financial report Information published in sustainability report
- Information published in ad hoc documents Other (please specify):
- Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

- | | |
|--|--|
| <input type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification / Audit | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (please specify): | |

Review provider(s):

Date of publication:

ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE SBP

- i. **Second-Party Opinion:** An institution with social expertise, that is independent from the issuer may issue a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Social Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Social Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to social sustainability, and an evaluation of the social features of the type of projects intended for the Use of Proceeds.
- ii. **Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or social criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the socially sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Social Bond proceeds, statement of social impact or alignment of reporting with the SBP, may also be termed verification.
- iii. **Certification:** An issuer can have its Social Bond or associated Social Bond framework or Use of Proceeds certified against a recognised external social standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. **Social Bond Scoring/Rating:** An issuer can have its Social Bond, associated Social Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on social performance data, process relative to the SBP, or another benchmark. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material social risks.

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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.



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