

Central American Bank for Economic Integration

Type of Engagement: Annual Review

Date: June 19, 2020

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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 June 2020, CABEI engaged Sustainalytics to review the projects funded with green bond proceeds and to provide an assessment as to whether the projects met the Use of Proceeds criteria and that CABEI’s Management of Proceeds and Reporting complied with the commitments outlined in the CABEI Green Bond Framework.

Evaluation Criteria

Sustainalytics evaluated the projects and assets funded in 2019 based on whether the projects and programmes:

1. Met the Use of Proceeds and Eligibility Criteria outlined in the CABEI 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 CABEI Green Bond Framework.

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

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

Use of Proceeds	Eligibility Criteria	Key performance indicators (KPIs)
Renewable Energy	<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 energy¹ ▪ Geothermal energy producing direct emissions <100g CO₂/kWh ▪ Bioenergy with 80% GHG emission reduction compared to fossil fuels, and sourced from sustainable feedstock² ▪ 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) • Power Energy production (MWh) • Reduced and/or avoided GHG emissions (in tons CO₂e /year)

¹ Wind and solar facilities shall not have more than 15% of electricity generated from non-renewable sources (CBI certification requirements).

² 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 produced³ • Area under irrigation (ha)³ • Number of upgraded facilities³ • Number of new connections to drinking-water³ • Number of new connections to the sewerage system³ • Number of people with access to drinking water³

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, estimated and realized costs of projects, 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 CABEI 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,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 CABEI’s Green Bond, are not in conformance with the Use of Proceeds and Reporting Criteria outlined in the CABEI Green Bond Framework.

³ Sustainalytics notes the addition of this KPI for the Sustainable Water Management Category.

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.

Detailed Findings

Table 2: Detailed Findings

	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of the projects funded by the green bond in 2019 and 2020 to determine if projects aligned with the Use of Proceeds Criteria outlined in the CABEL 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 2019 and 2020 to determine if impact of projects was reported in line with the KPIs outlined in the CABEL Green Bond Framework and above in Table 1. For a list of KPIs reported please refer to Appendix 2.	All projects reviewed reported on at least one KPI per Use of Proceeds criteria.	None

Appendices

Appendix 1: Proceeds Assigned Based on Eligibility Category

CABEL issued a green bond amounting to USD 375 million. CABEL has allocated the following amounts:

Use of Proceeds Category	Assigned Amount (in million USD)	Allocated Amount as of December 31, 2019 (in million USD)	Amount Allocated January 1 – May 31, 2020 (in million USD)	Remaining Amount to be Disbursed as of June 1, 2020 (in million USD)
Renewable Energy	\$144.58	\$144.58	\$0.0	\$0.0
Sustainable Water Management	\$230.42	\$163.40	\$5.7	\$61.32
Total	\$375.0	\$307.98	\$5.7	\$61.32

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	<p>Projects Completed</p> <ul style="list-style-type: none"> Installed capacity from wind and hydropower energy (MW): 417.70 Annual energy produced (GWh): 1,194,90 Tons of CO₂ avoided per year: 793,065.67⁵
	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.	Costa Rica	<p>Projects Completed:</p> <ul style="list-style-type: none"> 0.0032 (m³/s) water produced 33,857 (ha) under irrigation <p>Projects in progress:</p> <ul style="list-style-type: none"> 1.0829 (m³/s) water produced 89 facilities built
	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	
	Rehabilitation Project of Las Pavas Water Treatment Plant: rehabilitation of water treatment plant and its three pumping stations.	Nicaragua	

⁵ 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.

	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	<ul style="list-style-type: none"> • 80 upgraded facilities • 337,305 new connections to the drinking-water supply • 14,188 new connections to the sewerage system • 1,202,213 people with access to drinking water in Costa Rica
	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	

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