

Second-Party Opinion CABEI Green Bond Framework



Evaluation Summary

Sustainalytics is of the opinion that the CABEI Green Bond Framework is credible and impactful, and aligns with the four core components of the Green Bond Principles 2018. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds - (i) Sustainable Land Use, (ii) Renewable Energy, (iii) Sustainable Water Management and (iv) Clean Transport - align with those recognized by the Green Bond Principles 2018. Sustainalytics considers the range of eligible projects will lead to positive environmental impacts and will advance a number of key UN Sustainable Development Goals.



PROJECT EVALUATION / SELECTION CABEI will establish a Multidisciplinary Green Bond Working Group responsible for the evaluation and selection of Eligible Green Projects which will include cross departmental representatives. CABEI has developed detailed internal guidelines for project selection that address environmental and social risk management which Sustainalytics considers in line with market best practice.



MANAGEMENT OF PROCEEDS CABEI will take specific measures to track the invested amounts used, and loans granted. Pending allocation, the net proceeds will be managed within the Bank's treasury liquidity portfolio, in cash or other liquid instruments. This is in line with market practice.



REPORTING CABEI intends to report on the allocation of bond proceeds on an annual basis, and for the duration of the green bond(s). The impact reporting will include relevant metrics. 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	September 2019
Issuer Location	Central America

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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 14 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, Taiwan, Spain and Cuba as non-regional members.

CABEI has developed the CABEI Green Bond Framework (the “Framework”) under which it intends to issue green bonds and use the proceeds to finance/refinance, in whole or in part, existing and future projects that contribute to the transition to a low-carbon economy and have positive environmental impact. The Framework defines eligibility criteria in four areas:

1. Sustainable Land Use
2. Renewable Energy
3. Sustainable Water Management
4. Clean Transport

CABEI engaged Sustainalytics to review the CABEI Green Bond Framework, dated September 24, 2019, and provide a second-party opinion on the Framework’s environmental credentials and its alignment with the Green Bond Principles 2018 (GBP).¹ This Framework has been published in a separate document.²

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 the management of proceeds and reporting aspects of CABEI’s Green Bond Framework. Sustainalytics also reviewed a subset of CABEI’s sample eligible project list, relevant public documents and non-public information.

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

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

² The Green Bond Framework is available on CABEI’s website at: <https://www.bcie.org/en/investor-relations/green-bank/>.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the CABEI Green Bond Framework

Summary

Sustainalytics is of the opinion that the CABEI Green Bond Framework is credible and impactful and aligns with the four core components of the Green Bond Principles 2018. Sustainalytics highlights the following elements of the Framework:

- Use of Proceeds:
 - The eligible use of proceeds categories - (i) Sustainable Land Use, (ii) Renewable Energy, (iii) Sustainable Water Management and (iv) Clean Transport - are recognized as impactful categories by the GBP 2018.
 - CABEI intends to finance projects under the Sustainable Land Use category that have the potential to deliver significant environmental benefits with the following eligibility criteria:
 - Acquisition, maintenance and sustainable management of forests certified with the Forest Stewardship Council (FSC), Program for the Endorsement of Forest Certification systems (PEFC), or equivalent certification schemes (Appendix 1 provides an overview of such schemes). In addition, expenditures will be related to the restoration and conservation of existing native forests, forest plantations, and preservation and extension of indigenous resource rights.
 - For agriculture, the Bank intends to finance projects that uphold soil health through management practices including sustainable water, nutrient and vegetation application techniques and practices that are compatible with low-carbon agriculture methods (no tillage, use of diverse cover crops, no or minimal application of pesticides or synthetic fertilizers, multiple crop rotation and managed grazing).
 - Eligible sustainable farming projects will be certified against recognized third-party standards and certification schemes, such as UTZ, Rainforest Alliance, and GLOBALG.A.P.
 - Accepted third-party certifications for agroforestry are FSC and Rainforest Alliance, and for agroecology are BSC-OEKO, BIOLATINA, Rainforest Alliance and Intercultural Federation of Organic Agriculture (IFOAM). The eligible certification schemes have been assessed in Appendix 2.
 - For integrated production systems, CABEI will focus on agrosilvoforestry systems, a sustainable land-use approach which combines crop-forestry-livestock, while excluding beef and palm oil production. Sustainalytics also notes that certain limitations^{3,4,5} are to be considered with agrosilvoforestry systems, including its implementation difficulties, potential for counteracting methane emissions from livestock production, and its capacity to act as a net carbon sink if improperly managed.
 - CABEI also intends to support the expansion of Nationally Appropriate Mitigation Action (NAMA) projects that focus on coffee and cocoa farmers

³ Springer, "Silvopasture: a sustainable livestock production system", at: <https://link.springer.com/article/10.1007/s10457-019-00366-8>

⁴ Instituto Nacional de Investigación, "Silvopasture in the Caatinga biome of Brazil - A review of its ecology, management, and development opportunities", at: <http://revistas.inia.es/index.php/fs/article/view/12267/4006>

⁵ IPCC, Land-Climate Interactions, at: https://www.ipcc.ch/site/assets/uploads/2019/08/2c.-Chapter-2_FINAL.pdf

- and mill operators that adopt low-carbon technologies and practices. Refer to Section 3 for further discussion of the impact of NAMA projects.⁶
- Within the area of Renewable Energy, Sustainalytics believes that inclusion of thresholds for the following projects strengthens the Framework:
 - Geothermal energy with direct emissions threshold of <100g CO₂/kWh;
 - Bioenergy with 80% GHG emission reduction compared to fossil fuels and sourced from sustainable feedstock;⁷
 - Small run-of-river hydro plants (<25 MW), as well as for the maintenance, refurbishment or repowering of existing hydro facilities; and
 - Investments in new transmission lines with >85% of energy dedicated in the distribution and transmission of renewable energy.
 - CABEI's Sustainable Water Management category includes funding for the construction of desalination plants, flood defenses, installation or upgrade of water efficient irrigation systems, water reuse plants and other water treatment facilities to provide drinking water. Sustainalytics views positively such investments, especially considering that such projects will be powered by eligible renewable energy projects and will serve water-stressed regions within Central America.
 - Within the Clean Transport category, CABEI intends to support both private and public transport including electric vehicles/buses and hybrid and fuel cell vehicles with an emission threshold of <75 gCO₂/p-km which Sustainalytics views positively.
 - Project Evaluation and Selection:
 - CABEI intends to establish a Multidisciplinary Green Bond Working Group which will be responsible for the evaluation and selection of the Eligible Green Projects. Eligible projects should comply with the criteria stated in the Use of Proceeds section of the Framework, CABEI's Environmental and Social Policy and CABEI's exclusions list⁸. Membership will include the Finance Department, the Environmental and Social Sustainable Office, in addition to public and private sector stakeholders.
 - CABEI has developed detailed internal guidelines for project selection that address environmental and social risk management including the development of CABEI's System for Identification, Evaluation and Mitigation of Environmental and Social Risks, and CABEI's alignment with standards set by the IFC, the Equator Principles, and the World Bank Group Environmental, Health, and Safety Guidelines (EHS Guidelines). Furthermore, CABEI is a member of the International Development Finance Club (IDFC) and as such is committed to tracking and reporting their green finance flows as per IDFC's green finance tracking methodology. CABEI's risk mitigation processes are in line with market best practice. See further information on CABEI's processes address common environmental and social risks associated with the projects in Section 2.
 - Management of Proceeds:
 - Pending allocation, net proceeds for the green bonds will be managed within CABEI's treasury liquidity portfolio, in cash or other liquid instruments. CABEI intends to disburse investments within three years of the issuance of the green bond for new financing. Sustainalytics considers this to be in line with market practice.
 - Reporting:
 - CABEI intends to report on the allocation and impact of the bond's use of proceeds on a yearly basis for the duration of the green bond(s) on CABEI's website.⁹ Allocation reporting will include amount of proceeds allocated per category, percentage of financing or refinancing and the total amount of unallocated proceeds, along with a

⁶ NAMA refer to any action that reduces greenhouse gas emissions in developing countries and prepared under the umbrella of a national governmental initiative.

⁷ Sustainalytics notes that CABEI will ensure that bioenergy comes from sources that do not deplete existing terrestrial carbon pools or have negative impacts on biodiversity, including the exclusion of burning of peat. Feedstock supply will also be limited to agricultural or forestry residues and will not compete with food production.

⁸ Sustainalytics notes that CABEI has strengthened the Framework with an exclusion criteria, that prevent the proceeds from being directed to projects dedicated to the production of fossil fuels and supporting infrastructure, as well as for power generation with more than 15% of fossil fuel backup or hybrid.

⁹ Reports available on CABEI's website at: <https://www.bcie.org/en/investor-relations/green-bank/>.

brief description of select projects. Impact reporting, where feasible, will include relevant quantitative indicators, as already determined by the Development Impact Evaluation System (SEID for its acronym in Spanish), which identifies impacts on the development of the financed operations. Sustainability views CABEI's allocation and impact reporting aligned with market practice.

Alignment with Green Bond Principles 2018

Sustainability has determined that the CABEI Green Bond Framework aligns to the four core components of the Green Bond Principles 2018. For detailed information please refer to Appendix 3: Green Bond/Green Bond Programme External Review Form.

Section 2: Sustainability Strategy of the Issuer

Contribution of framework to issuer's sustainability strategy

The use of proceeds categories described by the Framework aligns with CABEI's overall strategy which integrates Sustainable Development into its mission to promote economic integration and social development of the Central American region. CABEI's 2015-2019 Institutional Strategy incorporates environmental sustainability as a transversal axis, to be used across the Bank's operations, aiming to guarantee that "the Bank's efforts focusing on social development, competitiveness and regional integration are environmentally viable in the medium and long term."¹⁰ Furthermore, CABEI has defined an "Environmental and Social Policy" with three principles: Adoption of Best International Practices, Financing for Sustainable Development and Transparency, and Consultation and Citizen Participation". This policy is executed through:

- CABEI's Environmental and Social Strategy, and
- CABEI'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), further discussed below.

As outlined in CABEI's latest Environmental and Social Strategy report, the Board of Governors issued a declaration to promote and support actions aligned with the Paris Agreement which aims to limit the increase in global average temperature to well below 2°C, and CABEI became an observer as an intergovernmental organization of the UNFCCC.¹¹ In 2018 CABEI also established the Office of Environmental and Social Sustainability (OFAS for its acronym in Spanish) to support compliance with international standards on the Bank's operations in respect to environmental, social and climate issues.¹² Additionally, the Bank obtained ISO 14001:2015 certification on its Environmental Management System (EMS) for the administrative and operational activities of its headquarters in Honduras in July 2019, with the intention of rolling out best practices across its operations in the region. In its role as part of the financial arm of the Central American Integration System (SICA for its acronym in Spanish), the Bank has been involved in 19 regional initiatives which encompass: climate change, economic integration, social integration and democratic security.

Earlier this year, CABEI further demonstrated its commitment to a low-carbon future when the Bank issued its Carbon Zero Statement which further support initiatives that foster climate change mitigation and prevention; strengthen low-carbon economies, climate change resilient societies, sustainable food production; and the adoption of clean energy and energy efficiency.¹³ Based on CABEI's initiatives, Sustainability views the Bank's sustainability strategy positively and is of the opinion that the Bank is well-positioned to issue green bonds.

¹⁰ CABEI, "CABEI 2015-2019 Institutional Strategy", at: https://www.bcie.org/fileadmin/bcie/english/files/publications/strategy/cabei_2015-2019_institutional_strategy_english.pdf.

¹¹ CABEI, "Política Ambiental y Social del Banco Centroamericano de Integración Económica", at: https://www.bcie.org/novedades/publicaciones/?tx_sfilecollectiongallery_pifilecollectiongallery%5BgalleryUID%5D=33&tx_sfilecollectiongallery_pifilecollectiongallery%5Baction%5D=list&tx_sfilecollectiongallery_pifilecollectiongallery%5Bcontroller%5D=Gallery&cHash=6019ce52d4fb3593239233c383dc7830.

¹² CABEI, "Annual Report", at: https://www.bcie.org/fileadmin/bcie/english/files/publications/annual_reports/CABEI-AnnualReport-2018.pdf.

¹³ CABEI, "The LIX CABEI Board of Governors meeting ends with new commitment to zero carbon emissions and access to information", at: <https://www.bcie.org/en/news/latest-news/article/the-lix-cabei-board-of-governors-meeting-ends-with-new-commitments-to-zero-carbon-emissions-and-ac/>.

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

Sustainalytics is of the opinion that although eligible projects to be financed and refinanced by the green bond are anticipated to deliver overall environmental benefits, as with any project there may be associated environmental and social risks. Based on the use of proceed categories, some of the most significant risks include environmental impact from projects such as air, water, or soil pollution and negative impacts on local communities. To mitigate these risks, CABEI is following international best practices and has policies and procedures in place to help assess and address various risks.

CABEI has been implementing the SEID 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 (Spanish: Oficina de Sostenibilidad Ambiental y Social) and the Evaluation Office (ODE for its acronym in Spanish).¹⁴ CABEI measures the impact of its operations on the region's development through the CABEI Development Impact Index (I-BCIE for its acronym in Spanish).¹⁵ While SEID controls for the advancement of the development agenda, SIEMAS addresses risks and negative environmental and social events originating from the Banks projects and activities. The Environmental and Social Sustainability Office is also responsible for overseeing the implementation of SIEMAS, as well as their 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 CABEI.¹⁸

In its current form, SIEMAS 3.0 defines the process of analysing environmental and social risks through CABEI'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 environmental and social impact that are diverse, irreversible or unprecedented.
- ii. Category B: Projects with potential risks or limited adverse environmental and social 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 CABEI's internal processes and mechanisms to mitigate risks associated with its financing activities ensure that the Bank is well-positioned to address common environmental and social risks and are in line with market best practice.

Section 3: Impact of Use of Proceeds

All four use of proceeds categories are recognized as impactful by GBP. Sustainalytics has focused on three below where the impact is specifically relevant in the local context.

The importance of CABEI financing NAMA projects

With many countries in the region being major coffee and cocoa producers, NAMA projects have the potential to provide significant positive environmental impacts. As an example, in Costa Rica (14th largest coffee producer) coffee contributes nearly 10% of the country's total GHG emissions.²⁰ Working to reduce its GHG

¹⁴ CABEI, "Manual del Sistema de Evaluación de Impacto en el Desarrollo (SEID 2.0, Versión 1)."

¹⁵ The CABEI development impact index (I-CABEI) was adapted for Central America and the Bank from the tool known as GPR of Germany's Deutsche Investitions- und Entwicklungsgesellschaft (DEG).

¹⁶ The Equator Principles are an international framework to identify and manage environmental and social risks. <https://equator-principles.com/about/>.

¹⁷ The General EHS Guidelines contain information on cross-cutting environmental, health, and safety issues potentially applicable to all industry sectors. https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/ehs-guidelines.

¹⁸ CABEI, "Manual de Sistemas de Identificación, Evaluación, y Mitigación de los Riesgos Ambientales y Sociales (SIEMAS 3.0), Versión 4".

¹⁹ CABEI, "Environmental Dimension", at: <https://www.bcie.org/en/about-us/social-responsibility/environmental-dimension/>

²⁰ Reuters, "Costa Rica coffee farmers brew up a carbon neutral future", at: <https://www.reuters.com/article/us-costa-rica-coffee-carbonneutral/costa-rica-coffee-farmers-brew-up-a-carbon-neutral-future-idUSKCN11N04G>.

emissions, Costa Rica has adopted a plan to achieve a zero net emissions economy by 2050, in line with the objectives of the Paris Climate Change Agreement.²¹ Costa Rica became the first country to adopt a NAMA plan to help coffee producers cut emissions, and it had the first cooperative to be certified as carbon-neutral coffee. As the programme keeps expanding in the country, it is expected that by the end of 2019 the programme will cover 6,000 coffee producers that will have adopted sustainable farming methods, covering 25,000 hectares of land and cutting emissions by a total of 52,000 tones.²² The programme is carried out by rolling out NAMA management models which are a key element to increasing carbon sinks, reducing emissions of nitrous oxide and methane, and combining climate adaptation practices.

CABEI has presented a Concept Note for a NAMA project for coffee in Honduras to the Green Climate Fund which is currently being reviewed as of writing. In Honduras, coffee related GHG emissions represent 2.4% of national emissions. With this project, they are expected to incorporate 4,000 coffee producers and 80 mills by 2023 and reduce 0.5% of GHG emissions compared to 2015 levels. The Bank expects to replicate this concept in the region. Sustainalytics believes that the CABEI Green Bond Framework will promote the adoption of sustainable agricultural practices and advance national GHG emission reductions targets on.

The importance of sustainable water management in water-stressed areas

The Framework includes financing for sustainable water management which has the potential to have significant positive environmental impacts in water-stressed areas. Central America has been classified as a region that is highly exposed to weather events such as hurricanes, droughts, flooding, and el Niño effect by the World Bank, and CABEI is well positioned to make an impact through its financing operation.²³ In 2016, the Food and Agriculture Organization (FAO), noted that 33% of the population is living in what it has called the Central American Dry Corridor (CADC), which is a tropical dry forest region on the Pacific side of Central America, were in need of humanitarian assistance because of food shortages and loss of production due to lack of water.²⁴ The corridor, which stretches from southern Mexico to Panama, has seen a rise in severe droughts since 2009 due to changes in rainfall patterns. This makes guaranteeing water storage and sustainability one of the most important issues to address as growing urbanization in the region increases demand. A report by the World Bank estimates that in the next generation 70% of the population will live in cities compared to the current figure of 59%.²⁵

Sustainalytics is of the opinion that use of proceeds from the green bond(s) will promote better water management practices and infrastructure, that will help make these communities more resilient to changing weather patterns in the region.

The importance of renewable energy in Central America

The Framework includes financing for several renewable energy projects, primarily hydropower. Deployment of renewable energy technology in Central America has the potential for significant positive environmental impacts. With all founding and non-founding regional countries as signatories to the Paris Agreement, the governments of the region have insisted on the need to achieve a reduction in global GHG emissions.²⁶ Home to over 40 million people, there are still approximately seven million people in Central America with no or limited access to basic electricity.²⁶ As governments keep developing infrastructure to provide electricity to meet growing consumer demand, particularly in cities, continued investment in energy projects will be necessary to provide clean and reliable energy. CABEI has communicated that over 84% of the Bank's approved projects in the energy sector have been for renewable energy projects and electric infrastructure (transmission and distribution projects, including electrification projects), reaching 6,049 MW or almost 30% of installed capacity of the members of the Central American Integration System (SICA for its acronyms in Spanish) and ensuing a GHG emission reduction of 6.7 tons as of 2017.²⁷ Furthermore, in 2015 IRENA created the Clean Energy Corridor of Central America (CECCA) to promote deployment and cross-border trade of

²¹ UNFCCC, "Costa Rica Commits to Fully Decarbonize by 2050", at: <https://unfccc.int/news/costa-rica-commits-to-fully-decarbonize-by-2050>.

²² GIZ, "Climate-friends coffee from Costa Rica", at: <https://www.giz.de/en/workingwithgiz/58288.html>

²³ World Bank, "Estudio de la urbanización en Centroamérica: Oportunidades de una Centroamérica urbana", at: <http://documentos.bancomundial.org/curated/es/811611517808775995/pdf/Central-America-urbanization-review-making-cities-work-for-Central-America.pdf>.

²⁴ FAO, "Chronology of the Dry Corridor: The impetus for resilience in Central America", at: <http://www.fao.org/action/agronoticias/detail/en/c/1024539/>.

²⁵ CEPAL, "Climate Change in Central America", at: https://repositorio.cepal.org/bitstream/handle/11362/39150/7/S1800827_en.pdf.

²⁶ IRENA, "Renewable Energy Efforts Scaled-Up in Central America", at: <https://www.irena.org/newsroom/articles/2017/Jul/Renewable-Energy-Efforts-Scaled-Up-in-Central-America>.

²⁷ GHG emission reduction accounts for projects in operation as of 2017.

renewable power in Central America and it was endorsed by the region's energy ministers.²⁸ Panama, whose National Energy Plan 2015-2050 aims to obtain 70% of the country's energy supply from renewables by 2050²⁹, was chosen as a pilot country to identify capacity building and technical advisory needs to strengthen the initiatives in the region.

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 Green Bond advances the following SDG goals and targets:

Use of Proceeds Category	SDG	SDG Target
Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix.
Sustainable Land Use	15. Life on Land 2. Zero Hunger	15.2 By 2020, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally. 2.3 By 2030, double the agricultural productivity and incomes of small-scale food producers, in particular women, indigenous peoples, family farmers, pastoralists and fishers, including through secure and equal access to land, other productive resources and inputs, knowledge, financial services, markets and opportunities for value addition and non-farm employment
Sustainable Water Management	6. Clean Water and Sanitation	6.1 By 2030, achieve universal and equitable access to safe and affordable drinking water for all. 6.4 By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity.
Clean Transport	11. Sustainable Cities and Communities	11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons.

²⁸ IRENA, "Clean Energy Corridor of Central America (CECCA) Strategy", at : <https://www.irena.org/cleanenergycorridors/Clean-Energy-Corridor-of-Central-America>.

²⁹ IRENA, "Evaluación del Estado de Preparación de las energías Renovables: Panamá", at: <https://www.irena.org/publications/2018/May/Renewables-Readiness-Assessment-Panama-ES>.

Conclusion

The Central American Bank for Economic Integration (CABEI) has developed the CABEI Green Bond Framework to finance and/or refinance Eligible Green Projects related to (i) Sustainable Land Use, (ii) Renewable Energy, (iii) Sustainable Water Management and (iv) Clean Transport. The use of proceeds, which will be selected from CABEI's loan portfolio will contribute to the development of renewable energy, reduction of GHG emissions, conservation of biodiversity, and a shift toward more sustainable practices in agriculture and water management. Sustainalytics believes that CABEI's Framework is aligned with the Bank's Sustainable Development strategy and that the environmental and social use of proceeds categories will advance a number of key SDGs.

By adhering to strong eligibility criteria, demonstrating a structured and transparent project selection process which ensures the mitigation of environmental and social risks, committing to manage proceeds in alignment with market practices and reporting on allocation and relevant quantitative indicators, Sustainalytics considers that the CABEI Green Bond Framework is robust, credible and in alignment with the four core components of the Green Bond Principles 2018.

Appendices




Appendix 1: Overview and Analysis of FSC and PEFC Certifications

FSC and PEFC are both based on rigorous standards and on a multi-stakeholder structure. Both organizations are in line with international norms such as the International Labor Organization (ILO) conventions, the Convention on Biological Diversity (CBD), and the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES). In addition to compliance with laws in the country of certification, both schemes have a set of minimum requirements that companies are required to meet to obtain and maintain certifications. These requirements include compliance with standards around sustainable management of forests, management of environmental impact of operations, preservation of biodiversity, management of socio-economic and community relations, and sourcing of sustainable wood (chain of custody). Furthermore, both FSC and PEFC require external annual audits to ensure compliance and achieve and maintain certification. Despite these similarities, PEFC has faced certain criticisms from civil society actors. These are highlighted below:

- (i) **Type of organization:** Since the FSC is an international labelling and certification system, it sets its own global standards. The PEFC, in contrast, is not a standard setter, but a mutual recognition scheme. The PEFC sets sustainability benchmarks according to international norms and endorses national certification schemes that comply with these benchmarks. A common criticism of this model is that it allows for more flexibility in the interpretation of international PEFC benchmarks as per regional, cultural, and socio-economic context, and results in the endorsement of less rigorous national certification schemes. However, the process for being endorsed by the PEFC is thorough; any national certification system seeking to obtain PEFC endorsement must submit to a comprehensive assessment process, including independent evaluation and public consultation. This evaluation of compliance with international PEFC benchmarks is carried out by independent, accredited certification organizations.
- (ii) **Indigenous People's Rights:** FSC and PEFC both identify indigenous rights as an important standard in forest management. Both certification schemes require that forest management activities consider and do not infringe on indigenous people's rights, and the activities are carried out using frameworks ensuring their free and informed consent. A criticism of PEFC is that it requires only engagement with indigenous people in forest management decisions, while the FSC provides performance-oriented targets, and requires forest managers operating on indigenous lands to obtain indigenous people's consent through binding agreements.
- (iii) **Sourcing wood from non-certified sources:** Both FSC and the PEFC have established standards around sourcing wood from non-certified and controversial sources. FSC's standards direct forest managers to avoid wood harvested in violation of traditional and civil rights. A criticism of the comparable PEFC standard is that it limits identification of controversially sourced wood to situations where the local legislation is violated. However, PEFC standards explicitly reference the violation of local, national, and international legislation with regards to worker's and indigenous people's rights as being a controversial source of wood.




Appendix 2: Certifications for Sustainable Farming, Agroforestry and Agroecology

	BSC OEKO – GARANTIE (BSC OEKO)	BIO LATINA	Rainforest Alliance
Background	BSC OEKO is a German certification, administered and overseen by the European Organic Certifiers Council (EOCC). The BSC OEKO certification serves the organic agriculture industry, including farmers, processors, packers, importers, exporters and warehousing companies.	BIO LATINA is a Latin American certifying body for Agriculture. The BIO LATINA certification is accredited with ISO 65 and incorporates environmental, social, farm management and framing practices considerations. BIO LATINA is a member of IFOAM and CERTIBIONET.	The Rainforest Alliance Seal is a global certification system for Agriculture, Forestry and Tourism. The Rainforest Alliance certification indicates compliance with the organization's standards for environmental, social and economic sustainability. Rainforest Alliance merged with UTZ in January 2018.
Clear positive impact	Promoting sustainable practices in agriculture.	Promoting sustainable practices in agriculture.	Promoting sustainable practices in agriculture, forestry and tourism.
Minimum standards	BCS OEKO GARANTIE is mainly established by Regulation 834/2007 of the European Union. In addition, control bodies and authorities develop their own tools to reach the most performant controls.	BIO LATINA has established minimum stipulations that cover regulatory compliance, rules of organic production or service provisions, and environmental management plans.	Rainforest alliance establishes a minimum threshold for impact through critical criteria and requires farmers to go beyond by demonstrating improved sustainability on 14 continuous improvement criteria.
Scope of certification or programme	Certifications in all areas of organic production, for farmers, processors, packagers, importers, exporters and warehouses.	With a wide scope for certification, this is a sample of some the focus areas: <ul style="list-style-type: none"> • Inspection and certification to organic production, handling operation and marketing • Inspection and certification to organic fiber production, flowers and cosmetic • Inspection of UTZ Certified • Inspection and certification of Good Agriculture Practice regarding to the GLOBALGAP-standard 	Rainforest alliance addresses key risks such as human rights, child labour, pesticide use and biodiversity use through its criteria.
Verification of standards and risk mitigation	Certified entities undergo third party verification to ensure compliance with criteria and continuous improvement.	Certified entities undergo third party verification to ensure compliance with criteria and continuous improvement.	Certified entities undergo third party verification to ensure compliance with criteria and continuous improvement.
Third party expertise and multi-stakeholder process	Standard setting for Agriculture, Feed and Food follows legal requirements of the	Standard setting follows EU Regulation and the Japanese Agricultural Organic Standard (JAS)	Standard setting is aligned with the ISEAL Standard Setting Code.

	aforementioned standards and regulations		
Performance Display			
Qualitative considerations	Global recognition across 70 countries around the world. There are 450,000 BSC OEKO certified operators. Rigorous on the enforcement of minimum standards and strong governance over the implementation of social and environmental mitigation processes.	Widely recognized with a presence in 10 Latin American countries. BIO LATINA certifies over 400 operators and more than 50,000 producers in Latin America. BIOLATINA requires a one year conversion period from the date of the initial inspection until the certification is approved. After a one year period, production, as well as processing facilities, must be re-inspected annually for continued renewal.	Global recognition across 76 countries around the world. There are 763 Rainforest Alliance certified products and more than 1,354,057 people which have conducted training, certification and verification under the Rainforest Alliance standard. Rigorous on the enforcement of minimum standards and strong governance over the implementation of social and environmental mitigation processes.

	Intercultural Federation of Organic Agriculture Movements (IFOAM – Organics International)	UTZ	GLOBAL G.A.P.³⁰
Background	IFOAM – Organics International is a global accreditation system for agriculture. The IFOAM Basic Standards and the IFOAM Accreditation Program are internationally applicable global standards that signal compliances with the organization’s standards of sustainable organic agriculture practices.	The UTZ Label is a global certification system for coffee, cocoa, tea and hazelnuts. The UTZ certification incorporates environmental, social, farm management and farming practices considerations. UTZ merged with Rainforest Alliance in January 2018.	The GLOBALG.A.P. (Global Good Agricultural Practice) is a global organization that promotes safe, sustainable agriculture worldwide.
Clear positive impact	Promoting sustainable practices in agriculture.	Promoting sustainable practices in Coffee, Cocoa Tea and Hazelnut farming and trading.	Promoting sustainable agriculture practices, including for crops, livestock, and aquaculture.

³⁰ https://www.globalgap.org/uk_en/

Minimum standards	Through its evaluation criteria, IFOAM – Organics International ensures fair and orderly trade of organic products, namely the production of agricultural projects without the use of synthetic chemicals or processes.	UTZ establishes a minimum threshold for impact through mandatory points and additional points and requires farmers to go beyond by demonstrating compliance with an increasingly large proportion of both mandatory and additional points.	The GLOBALG.A.P. standard places a high degree of emphasis on the implementation of management plans and procedures, with a correspondingly lower focus on quantitative targets. Assessment criteria are classified as “major must”, “minor must”, or “recommendation”, indicating the priority placed on highly important components of the standard. All major musts need to be met to receive certification.
Scope of certification or programme	IFOAM’s Organic Norms are guided by four high-level principles: (i) Principle of Health, (ii) Principle of Ecology, (iii) Principle of Fairness, and (iv) Principle of Care.	UTZ addresses key risks such as human rights, child labour, pesticide use and biodiversity use through its criteria.	The integrated standard requires assessment of waste & pollution management, environmental impact, water use, site productivity, and energy efficiency. The aquaculture and livestock standards additionally cover four pillars laid out by the FAO (aquaculture: food safety, environment, workers, animal welfare; livestock: resource use efficiency, conservation, rural livelihoods, community and ecosystem resilience, and responsible management).
Verification of standards and risk mitigation	Certified entities undergo third party verification to ensure compliance with criteria and continuous improvement.	Certified entities undergo third party verification to ensure compliance with criteria and continuous improvement.	GlobalGAP approves certification bodies, which can then in turn carry out audits and verification. Certification is valid for one year.
Performance Display			

<p>Qualitative considerations</p>	<p>Global recognition across 127 countries around the world with over 750 members. Through independent processes, national organic standards are developed with varying individual criteria that must meet the baseline requirements of the IFOAM Norms.</p>	<p>Global recognition across 131 countries around the world. There are 987,000 UTZ Certified farmers in the UTZ programme with more than 368,000 workers on the UTZ certified farms in 41 producing countries and more than 3.4 million hectares of UTZ certified crops. The UTZ name or label is present on more than 15,000 products in 131 countries worldwide. Rigorous on the enforcement of minimum standards and strong governance over the implementation of social and environmental mitigation processes.</p>	<p>Widely recognized internationally, and strong assurance of overall quality.</p> <p>However, the core standard does not impose stringent worker welfare standards, with particular concerns noted in the areas of health & safety and fair remuneration & bargaining rights. The optional GRASP assessment covers social impacts in more depth but is not required for certification. Furthermore, on the environmental dimension, G.A.P. does not prohibit the use of pesticides beyond those permitted by national regulations.</p>
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Appendix 3: Green Bond / Green Bond Programme - External Review Form

Section 1. Basic Information

Issuer name:	Central American Bank for Economic Integration (CABEI)
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Green Bond ISIN or Issuer Green Bond Framework Name, if applicable: <i>[specify as appropriate]</i>	Green Bond Framework
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Review provider's name:	Sustainalytics
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Completion date of this form:	September 24, 2019
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Publication date of review publication: *[where appropriate, specify if it is an update and add reference to earlier relevant review]*

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 GBPs:

- | | |
|--|--|
| <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 <i>(please specify)</i> . | |

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 category for the use of proceeds - (i) Sustainable Land Use, (ii) Renewable Energy, (iii) Sustainable Water Management and (iv) Clean Transport - align with those recognized by the Green Bond Principles 2018. Sustainalytics considers the range of eligible projects will lead to positive environmental impacts and to advance a number of key UN Sustainable Development Goals.

Use of proceeds categories as per GBP:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Renewable energy | <input type="checkbox"/> Energy efficiency |
| <input type="checkbox"/> Pollution prevention and control | <input checked="" type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input checked="" type="checkbox"/> Clean transportation |
| <input checked="" type="checkbox"/> Sustainable water and wastewater management | <input type="checkbox"/> Climate change adaptation |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes | <input type="checkbox"/> Green buildings |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input type="checkbox"/> Other (<i>please specify</i>): |

If applicable please specify the environmental taxonomy, if other than GBPs:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

CABEI's will establish a Multidisciplinary Green Bond Working Group responsible for the evaluation and selection of Eligible Green Projects which will include cross departmental representatives. CABEI has developed detailed internal guidelines for project selection that address environmental and social risk management which Sustainalytics considers in line with market best practice.

Evaluation and selection

- | | |
|--|---|
| <input checked="" type="checkbox"/> Credentials on the issuer's environmental sustainability 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 Green Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input type="checkbox"/> Summary criteria for project evaluation and selection publicly available | <input type="checkbox"/> Other (<i>please specify</i>): |

Information on Responsibilities and Accountability

- | | |
|--|--|
| <input checked="" type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

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 proceeds will be managed within the Bank's treasury liquidity portfolio, in cash or other liquid instruments. This is in line with market practice.

Tracking of proceeds:

- | |
|---|
| <input checked="" type="checkbox"/> Green Bond proceeds segregated or tracked by the issuer in an appropriate manner |
| <input checked="" type="checkbox"/> Disclosure of intended types of temporary investment instruments for unallocated proceeds |
| <input type="checkbox"/> Other (<i>please specify</i>): |

Additional disclosure:

- | | |
|--|---|
| <input type="checkbox"/> Allocations to future investments only | <input checked="" type="checkbox"/> Allocations to both existing and future investments |
| <input type="checkbox"/> Allocation to individual disbursements | <input type="checkbox"/> Allocation to a portfolio of disbursements |
| <input type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other (<i>please specify</i>): |

4. REPORTING

Overall comment on section (if applicable):

CABEI intends to report on the allocation of bond proceeds on an annual basis, and for the duration of the green bond(s). The impact reporting will include relevant metrics. 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:

- | | |
|--|--|
| <input type="checkbox"/> Project-by-project | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (<i>please specify</i>): |

Information reported:

- | | |
|---|--|
| <input checked="" type="checkbox"/> Allocated amounts | <input type="checkbox"/> Green Bond financed share of total investment |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

Frequency:

- | | |
|---|--------------------------------------|
| <input checked="" type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

Impact reporting:

- | | |
|--|--|
| <input type="checkbox"/> Project-by-project | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (<i>please specify</i>): |

Frequency:

- | | |
|---|--------------------------------------|
| <input checked="" type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

Information reported (expected or ex-post):

- | | |
|---|--|
| <input checked="" type="checkbox"/> GHG Emissions / Savings | <input type="checkbox"/> Energy Savings |
| <input type="checkbox"/> Decrease in water use | <input checked="" type="checkbox"/> Other ESG indicators (<i>please specify</i>): Impact reporting, where feasible, will include area of forest restored, area protected by sustainable land and water resource management, installed capacity of renewable energy, volume of water treated, and number of clean transportation projects financed. |

Means of Disclosure

- | | |
|---|--|
| <input type="checkbox"/> Information published in financial report | <input type="checkbox"/> Information published in sustainability report |
| <input type="checkbox"/> Information published in ad hoc documents | <input checked="" type="checkbox"/> Other (please specify): a report posted on its website |
| <input type="checkbox"/> 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 (<i>please specify</i>): | |

Review provider(s):**Date of publication:****ABOUT ROLE(S) OF INDEPENDENT REVIEW PROVIDERS AS DEFINED BY THE GBP**

- i. Second Party Opinion: An institution with environmental 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 Green 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 Green Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability, and an evaluation of the environmental 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 environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally 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 Green Bond proceeds, statement of environmental impact or alignment of reporting with the GBP, may also be termed verification.
- iii. Certification: An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against a recognised external green 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. Green Bond Scoring/Rating: An issuer can have its Green Bond, associated Green 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 environmental performance data, the process relative to the GBP, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental risks.

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For more information, visit www.sustainalytics.com

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