



Central  
American Bank  
for Economic  
Integration

**CABEI**

## Green Bond Framework



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## Introduction

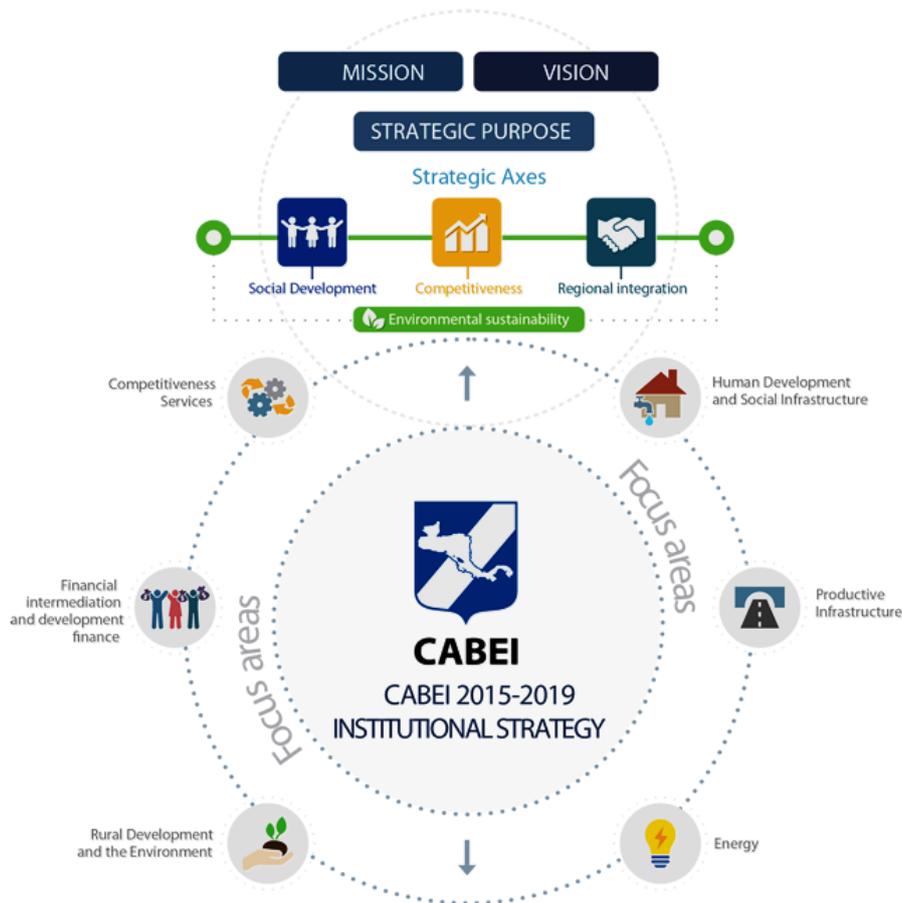
The Central American Bank for Economic Integration (“CABEI”) is the development bank of the countries in the Central American region and the financial arm of its integration and development. The organization is composed of 14 countries. It was established in 1960 by Guatemala, El Salvador, Honduras, 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’s mission is to promote the economic integration and the balance and social development of the Central American region, which includes the founding countries and the non-founding regional countries, attending and aligning itself with the interest of all its member countries. As an international multilateral development bank, CABEI invests all of its resources into projects that stimulate the development of the Central American region, while aiming to reduce poverty and inequality. CABEI also intends to strengthen regional integration for the competitive inclusion of its member countries in the global economy. All activities and initiatives promoted by the Bank incorporate a special emphasis on environmental and sustainable best practices, following CABEI’s institutional strategy through its environmental sustainability transversal axis, which is aligned to the efforts of the United Nations Sustainable Development Goals (“UN SDGs”).

Since its establishment, CABEI has disbursed over USD 29.4bn to projects throughout Central America, that have contributed to the social and economic development of the region while taking into account the unique environmental challenges facing the region.

## CABEI Institutional Strategy

The establishment of CABEI’s 2015-2019 Institutional Strategy, which integrates Sustainable Development, represented a further step in the ongoing process of modernization and strengthening of the Bank’s role. This strategy focuses efforts in the promotion of sustainable development, directing resources towards the strategic axes of social development, competitiveness and integration.



## CABEI Environmental and Social responsibility

CABEI sees sustainability as a cross-cutting axis of its actions and an indispensable tool in order to fulfil its ultimate goal of being a strategic ally in the economic, environmental and social development of the Central American region. It is CABEI’s conviction that sustainability commitments to reduce carbon emissions and to transition to a low-carbon economy are tremendously powerful tools to promote social development and competitiveness.

CABEI is committed to helping the Central American Region and its member countries to fight against the adverse effects of climate change. Through Agreement No. ACDI-29/2015, settled on December 18, 2015, the Board of Directors expressed its satisfaction with the agreements of the XXI Conference of the Parties on Climate Change (COP 21) of the United Nations Framework Convention on Climate Change (UNFCCC). In addition, the Board of Directors reiterated the Bank's commitment to support projects aimed at reducing greenhouse gas emissions, mainly in terms of generation of clean energy, low-carbon transport, urban development and food production.

Additionally, on April 2016, the Board of Governors issued a Declaration of Commitment to Promote and Support Actions to Finance Adaptation and Mitigation to Climate Change. This declaration reiterated CABEI's commitment to support its member countries to achieve the goals established at the XXI Conference of the Parties on Climate Change (COP 21), as a fundamental step to combat climate change and promote measures and investments for a future that is low in carbon emissions, resilient and sustainable. This statement reiterates the commitment of the Institution to promote and

support the financing of activities aimed at the adaptation and mitigation to climate change, with an approach that includes the development of sustainable cities, promotion of resilient infrastructure in vulnerable communities, advancement of food safety and nutrition, and the sustainable management of natural resources from the perspective of the social inclusion and gender equality.

On April 2019, the Board of Governors issued an update to the Declaration of Commitment to Promote and Support Actions to Finance Adaptation and Mitigation to Climate Change, which includes CABEI's commitment to the adoption of specific measures to support the mitigation of and adaptation to climate change, refraining from financing projects related to: the exploration and extraction of coal and generation of energy from coal.

CABEI is aware of the impact of its operation and of the projects it finances and therefore maintains constant communication with its stakeholders to increase operational efficiency and the value creation.

In order to keep these commitments at the center of all its projects, CABEI has defined an “Environmental and Social Policy” with three general principles: Adoption of Best International Practices; Financing for Sustainable Development and Transparency; and Consultation and Citizen Participation. The Policy is executed through:

- **CABEI’s Environmental and Social Strategy:** For its implementation, the Bank classifies its approvals and disbursements according to whether they contribute to the mitigation or adaptation to climate change, according to the CABEI's strategic classification. Additionally, as a member of the International Development Finance Club (IDFC), CABEI’s operations are also classified using the IDFC's green finance tracking methodology.
- **CABEI’s Environmental and Social Risk Management System**, composed of:
  - o **System for Identification, Evaluation and Mitigation of Environmental and Social Risks (SIEMAS for its acronym in Spanish)**, aligned with the Performance Standards of the International Finance Corporation (IFC), the Equator Principles and the Guides of the World Bank Group on Environment, Health and Safety (MASS) to guarantee the application of best international practices. SIEMAS aims to categorize, analyse and mitigate the environmental and social risks associated with operations financed with CABEI resources.

SIEMAS establishes 8 principles, which are:

- Principle 1: Labor rights
- Principle 2: Rational use of resources and pollution prevention
- Principle 3: Impact on surrounding communities
- Principle 4: Relocation and land acquisition
- Principle 5: Resources Conservation
- Principle 6: Indigenous peoples and minorities
- Principle 7: Cultural heritage
- Principle 8: Ability to handle risks by the executing agency / client

Each operation is categorized depending on their environmental and social risks:

- Category A: Projects with potential significant risk and impact
- Category B: Projects with limited risk and impact
- Category C: Projects with minimal risk and impact

- **Environmental and Social Corporate Responsibility System (SASC for its acronym in Spanish):** led by an internal multidisciplinary committee, its main objective is to establish practices that reduce the environmental and social impacts of its own activities. SASC must facilitate the consistent adoption of international standards in its internal operation in order to manage its direct impact. This System has two areas of action, they are:

### **Environmental Responsibility**

CABEI is concerned with mitigating the environmental footprint caused by its operation, and therefore in 2018 began the ISO 14001:2015 certification process on the Environmental Management System (EMS) for its headquarters building in Honduras. The certification was obtained on July 2019. Environmental analyses are carried out every year to assess the current efficiency of CABEI's actions and identify areas to improve and further reduce its environmental footprint.

### **Social Responsibility**

In the social dimension, CABEI's focus is on people. The relationship between the organization and communities is key to the Bank. It has placed participation and empowerment of communities and citizens for the joint development of social investment projects (health, education, community development, etc.) at the center of its strategy. In this matter, CABEI partners with several civil society organizations to reduce poverty, and fully commits to the reduction of gender inequalities.

## **CABEI's Impact Evaluation System**

CABEI has also implemented a Development Impact Evaluation System (SEID for its acronym in Spanish) to measure the impact of its projects on development. This System has been implemented along with the Evaluation Cycle, bringing together the necessary steps to complete the evaluation process from the ex-ante, half term to ex-post evaluations.

The Evaluation process is implemented using the "I-CABEI index" which considers the development results of the operations, and its institutional effectiveness during execution. This Index is divided into two components: The Operational Development Results component composed of the product, effect and impact indicators; and the Institutional Effectiveness on Development component.

All operations financed by CABEI receive an "I-CABEI" evaluation that can be categorized as followed:

- High expected impact (I-CABEI  $\geq$  70%)
- Satisfactory impact ( $41\% \leq$  I-CABEI  $\leq$  69%)
- Low impact (I-CABEI  $\leq$  40%)

## **Strong CSR commitments aligned with the UN SDGs**

As an international multilateral organization for the development and integration of Central America, CABEI placed both environmental and social responsibilities at the very core of its strategy and commitments. CABEI's focus is on people, and therefore seeks to promote strategies and activities that promote the populations wellbeing and reduce and mitigate any negative impact on the population from the financed activities. All funded projects uphold these demanding standards, making CABEI a

strong contributor to the achievement of the UN Sustainable Development Goals (SDG) for 2015-2030, and more specifically nine of the seventeen, as identified below:



## Relevant Initiatives and Accreditations

### United Nations Framework Convention on Climate Change (UNFCCC)

CABEI was accredited as Permanent Observer of the UNFCCC in the framework of the COP22, held in Marrakech, Morocco in November 2016.

### Adaptation Fund (AF)

In 2015, CABEI was accredited as a Regional Implementing Entity by the Climate Change Adaptation Fund. CABEI's accreditation provides access to resources to execute programs and projects that contribute to combat and cope with the effects of climate change in the countries of the region.

### Green Climate Fund (GCF)

In 2016, CABEI became the first Central American entity to be formally accredited with direct access to the Green Climate Fund (GCF). This implies that CABEI has the capacity to carry out large-scale projects as well as to obtain GCF funding for micro, small, medium and large projects. This allows CABEI to strengthen support for its member countries in order to meet the commitments and goals agreed upon in the different climate change conventions and to implement Nationally Determined Contributions (NDC) through the execution of regional and national projects and programs that contribute to increase the resilience of communities to climate change.

### International Development Finance Club (IDFC)

Created in 2011, the International Development Finance Club (IDFC) is a global association of development finance institutions with a focus on the financing of environmentally and socially-impactful infrastructure and initiatives. The IDFC continuously improves its green finance tracking

methodology and works to further develop international best practice standards. IDFC is committed to help enhance its members' capacity to track and report on their green finance flows.

## Rationale for CABEI to issue Green Bonds

CABEI has implemented an increasingly focused strategy of Sustainable Development with Environmental and Social Commitments. By considering Sustainability as a cross-cutting strategic axis, CABEI aims not only to improve the quality of life of Central Americans, but also to ensure the sustainable development of the territory and its resources.

Within its priorities, CABEI has the objective of financing regional environmental projects, as well as strengthening the portfolio of its projects within sustainable development scope. Thus, the issuance of a Green Bond to finance green projects is a mean for CABEI to further commit to the fight against climate change and to contribute to economic and social development.

CABEI's Green Bond issuances intend therefore to redirect financial flows towards strategic sectors with strong contributions to the transition to a low-carbon economy: Sustainable Land Use, Renewable Energy, Sustainable Water Management, and Clean Transport.

## Overview of CABEI Green Bond Framework

CABEI's Green Bond Framework is aligned with the ICMA Green Bond Principles as updated in June 2018 and its four components, as detailed below.

### 1. Use of Proceeds

The net proceeds of any CABEI Green Bond issuance will be used to finance and/or refinance Eligible Green Projects and Assets selected from CABEI's loan portfolio as defined below:

Eligible Green Projects for Green Bond financing:

- Best efforts will be made to disburse investments within three years of the issuance of the Green Bond (new financing)

Exclusions:

Projects under the following categories will be excluded from financing from the Green Bond(s):

- Production of fossil fuels and supporting infrastructure;
- Power generation with more that 15% of fossil fuel backup or hybrid;

Eligible Green Projects Categories	Sub-categories	Definition of Eligibility criteria	Environmental benefits	Alignment with the UN SDGs
Sustainable Land Use	Forestry	<ul style="list-style-type: none"> <li>▪ <b>Forest plantations:</b> Investments to finance acquisition, maintenance and sustainable management of certified forests certified by third-party certifications such as Forest</li> </ul>	<ul style="list-style-type: none"> <li>▪ GHG emission reduction</li> <li>▪ Air pollution reduction</li> <li>▪ Biodiversity protection</li> </ul>	

		<p>Stewardship Council (FSC), Programme for the Endorsement of Forest Certification systems (PEFC) or equivalent</p> <ul style="list-style-type: none"> <li>▪ <b>Forest regeneration:</b> Expenditures related to the restoration and conservation of existing native forests, forest plantations, and preservation and extension of indigenous resource rights</li> </ul>		
	<p><b>Agriculture</b></p>	<ul style="list-style-type: none"> <li>▪ The financing of sustainable agriculture projects that uphold soil health through management practices including sustainable water, nutrient and vegetation application techniques and a compatibility with low-carbon agriculture practices (no tillage, diverse cover crops, no or minimal pesticides or synthetic fertilizers, and multiple crop rotation and managed grazing). Eligible projects may include:             <ul style="list-style-type: none"> <li>▪ <b>Sustainable farming:</b> Technical assistance, incentives, grants and loans provided to sustainable farms certified by third-party such as UTZ, Rainforest Alliance, and GLOBALG.A.P.</li> <li>▪ <b>Protected Agriculture: Agroforestry &amp; Agroecology:</b> Technical assistance, incentives, grants and loans sustainable projects maintaining biodiversity for example, utilizing alley cropping, cover crops. Accepted third-party certifications for Agroforestry are: Forest Stewardship Council (FSC) and Rainforest Alliance; while accepted third-party certifications for Agroecology are: BSC-OEKO, BIOLATINA, Rainforest Alliance and Intercultural Federation of Organic</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ GHG emission reduction</li> <li>▪ Air pollution reduction</li> <li>▪ Biodiversity Protection</li> <li>▪ Soil Health</li> </ul>	

		<p>Agriculture Movements (IFOAM)</p> <ul style="list-style-type: none"> <li>▪ <b>Integrated Production Systems:</b> Improved moisture retention, biota of soil approach which combines crop-forestry-livestock, excluding beef and palm oil production.</li> </ul> <p>NAMA Projects: Grants and loans that support the expansion of Nationally Appropriate Mitigation Action (NAMA) projects aimed at coffee and cocoa farmers and mill operators that adopt low-carbon technologies and practices.</p>		
Renewable Energy	Wind 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"> <li>▪ Onshore and offshore wind energy</li> <li>▪ Solar energy<sup>1</sup></li> <li>▪ Geothermal energy producing direct emissions &lt;100g CO2/kWh</li> <li>▪ Bioenergy with 80% GHG emission reduction compared to fossil fuels, and sourced from sustainable feedstock<sup>2</sup></li> <li>▪ Small run-of-river hydro plants (under 25 MW), as well as the maintenance, refurbishment or repowering of existing hydro facilities Investments into new transmission lines with &gt;85% of energy dedicated in the distribution and transmission of renewable energy</li> </ul>	<ul style="list-style-type: none"> <li>▪ GHG emission reduction</li> <li>▪ Climate Change adaptation</li> <li>▪ Energy security</li> </ul>	 
	Solar energy			
	Geothermal energy			
	Bioenergy			
	Hydropower			
Sustainable Water Management	Flood defences	<ul style="list-style-type: none"> <li>▪ Flood defences systems protecting against inundations and construction of reservoirs for the control of water flows</li> </ul>	<ul style="list-style-type: none"> <li>▪ Climate change adaptation</li> <li>▪ Pollution reduction</li> </ul>	

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

<sup>2</sup> 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.

	<p><b>Water distribution<sup>3</sup></b></p>	<ul style="list-style-type: none"> <li>Installation or upgrade of water efficient irrigation systems</li> <li>Construction or upgrade of sustainable infrastructure for drinking water</li> </ul>		
	<p><b>Water treatment</b></p>	<ul style="list-style-type: none"> <li>Construction of desalination plants and other water treatment facilities to provide inhabitants with drinkable water<sup>4</sup></li> <li>Construction and upgrade of sewerage systems to improve wastewater management</li> </ul>		
<p><b>Clean Transport</b></p>	<p><b>Clean transport</b></p>	<ul style="list-style-type: none"> <li>Investment in clean vehicles, infrastructure and services, including:                             <ul style="list-style-type: none"> <li><b>Private Transport:</b> <ul style="list-style-type: none"> <li>Electric vehicles</li> <li>Hybrid and fuel cell vehicles with CO<sub>2</sub> emission threshold of &lt;75gCO<sub>2</sub>/p-km</li> </ul> </li> <li><b>Public Transport:</b> <ul style="list-style-type: none"> <li>Train: rolling stock and vehicles for electrified public transport, such as electrified rail, trams, and trolleybuses</li> <li>Buses with no direct emissions (electric or hydrogen). Hybrid and fuel cell buses with CO<sub>2</sub> emission threshold of &lt;75gCO<sub>2</sub>/p-km</li> <li>Transportation infrastructure such as charging station for electric vehicles, expansion of metro/train network, station upgrades</li> <li>Multimodal infrastructure supporting clean public transportation including: system monitoring and control, passenger safety and security infrastructure and bicycle paths</li> </ul> </li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>GHG emission reduction</li> <li>Pollution reduction</li> </ul>	  

<sup>3</sup> Investments in water management projects which lead to quantifiable improvements to water quality, water savings or energy saving

<sup>4</sup> Investments in seawater desalination plants will be powered using eligible renewable energy projects

## 2. Process for 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 to be financed through the Green Bond proceeds. CABEI intends to rely on the hard and soft skills of the analysis carried out by Environmental and Social Sustainability Office. The Working Group's responsibilities include the following elements:

- Verification of compliance of the Eligible Green Projects with CABEI Social and Environmental Policy;
- Selection of the Eligible Green Projects in line with the eligibility criteria stated in the Use of Proceeds section of the Framework;
- Monitoring of the pool of Eligible Green Projects and replacing projects that no longer satisfy the eligibility criteria (i.e. divestment, cancellation, ineligibility) with new Eligible Green Projects if needed; and
- Validation of the annual Green Bond report

The Green Bond Working Group will meet at least on an annual basis and is composed of relevant parties including:

- Finance Department
- Environmental and Social Sustainability Office
- Public Sector
- Private Sector

## 3. Management of Proceeds

The net proceeds of the CABEI Green Bond issuances will be managed within CABEI's treasury liquidity portfolio, in cash or other liquidity instruments, until the total amount of the net proceeds equals the total amount of selected Eligible Green Projects.

CABEI will take specific measures to track the invested amounts used and the loans granted in order to finance the selected Eligible Green Projects.

## 4. Reporting

CABEI commits to provide investors with both a reporting on the allocation of proceeds (allocation reporting) and the impact of Eligible Green Projects (impact reporting) on a yearly basis for the duration of the Green Bond(s). The Finance Department will coordinate the collection of data and consolidating of the allocation reports and the impact reports.

These reports shall be made publicly available to all stakeholders on CABEI's website [<https://www.bcie.org/en/investor-relations/green-bank/>]. The reports will focus on the projects carried by the institution in all member countries. The first report will be published within the following year after the issuance.

### Allocation reporting

Annually, until full allocation of proceeds, CABEI will provide information on the allocation of the proceeds that should include:

- Total amount of proceeds allocated to Eligible Green Projects per category;
- The share of financing and refinancing;
- Total amount of unallocated proceeds; and
- A brief description of select projects

### Impact reporting

As long as the Green Bond is outstanding, and where feasible, an annual impact report will be provided. The impact report will rely on both output and impact metrics as illustrated below, subject to data availability. CABEI intends to rely on its already existing Development Impact Evaluation System, which identifies the effects/ impacts on the development of the financed operations.

#### Examples of indicators and metrics:

Eligible Green Projects Categories	Sub-categories	Examples of output indicators	Examples of impact indicators
<b>Sustainable Land Use</b>	<ul style="list-style-type: none"> <li>• Sustainable management of forests</li> </ul>	<ul style="list-style-type: none"> <li>• Surface of FSC and/or PEFC certified forests (in ha)</li> <li>• Area of native forest restored (in ha)</li> </ul>	<ul style="list-style-type: none"> <li>• Approximate sequestered and/or avoided GHG emissions (in t.CO<sub>2e</sub>/year)</li> </ul>
	<ul style="list-style-type: none"> <li>• Agriculture</li> </ul>	<ul style="list-style-type: none"> <li>• Area covered by sustainable agriculture (km<sup>2</sup>)</li> </ul>	<ul style="list-style-type: none"> <li>• Approximate sequestered and/or avoided GHG emissions (in t.CO<sub>2e</sub>/year)</li> </ul>
<b>Renewable Energy</b>	<ul style="list-style-type: none"> <li>• Wind energy</li> <li>• Solar energy</li> <li>• Geothermal</li> <li>• Bioenergy</li> <li>• Hydropower</li> </ul>	<ul style="list-style-type: none"> <li>• Installed capacity (GW or MW)</li> <li>• Power Energy production (MWh)</li> </ul>	<ul style="list-style-type: none"> <li>• Reduced and/or avoided GHG emissions (in t. CO<sub>2e</sub> /year)</li> </ul>
<b>Water management</b>	<ul style="list-style-type: none"> <li>• Supply management</li> <li>• Water treatment</li> </ul>	<ul style="list-style-type: none"> <li>• Volume of water treated</li> <li>• Number of facilities built</li> </ul>	<ul style="list-style-type: none"> <li>• Reduction in water usage (%)</li> <li>• Increase in water reuse (in m<sup>3</sup>/ year)</li> </ul>
<b>Clean Transport</b>	<ul style="list-style-type: none"> <li>• Clean transport</li> </ul>	<ul style="list-style-type: none"> <li>• Number of clean transportation systems financed by type</li> <li>• Number of kilometres of rail constructed or maintained</li> </ul>	<ul style="list-style-type: none"> <li>• Reduced and/or avoided GHG emissions (in t. CO<sub>2e</sub> /year)</li> </ul>

## External review

### 1. Second-Party Opinion

CABEI has mandated Sustainalytics to provide a Second-Party Opinion on its Green Bond Framework. The Second-Party Opinion ensures the Green Bond Framework follows the highest standards as defined by the Green Bond Principles, and the best market practices. Second Party Opinion documents are available on CABEI's website [<https://www.bcie.org/en/investor-relations/green-bank/>].

### 2. Annual Review

In order to provide the best information possible about the reporting of the funds from the Green Bond, CABEI intends to engage a Second Party Opinion Provider to provide annual assessment on the alignment of the allocation of funds with Green Bond Framework's criteria and themes. This review will be conducted on an annual basis until full allocation.