Central American Bank for Economic Integration

**Type of Engagement:** Annual Review  
**Date:** July 18, 2022  
**Engagement Team:**  
Hrithik Sharma, hrithik.sharma@sustainalytics.com, (+1) 647 951 3309  
Debjeet Mukherjee, debjeet.mukherjee@morningstar.com

**Introduction**

In 2019, 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 impacts. In July 2022, CABEI engaged Sustainalytics to review the projects funded through the issued green bond and provide an assessment as to whether the projects met the Use of Proceeds criteria, and the Management of Proceeds and Reporting commitments outlined in the Central American Bank for Economic Integration Green Bond Framework (the "Framework").¹ Sustainalytics provided a Second-Party Opinion on the Framework in September 2019.²

**Evaluation Criteria**

Sustainalytics evaluated the projects funded in 2021 based on whether the projects:

1. Met the Use of Proceeds and Eligibility Criteria outlined in the Framework;
2. Complied with the Management of Proceeds commitments outlined in the Framework; and
3. Reported on at least one of the Key Performance Indicators (KPIs) for each Use of Proceeds criteria outlined in the Framework.

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

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

<table>
<thead>
<tr>
<th>Use of Proceeds</th>
<th>Eligibility Criteria³</th>
<th>KPIs</th>
</tr>
</thead>
</table>
| **Sustainable Land Use** | • Forest plantations: Investments to finance acquisition, maintenance and sustainable management of certified forests certified by third-party certifications such as Forest Stewardship Council (FSC), Programme for the Endorsement of Forest Certification systems (PEFC) or equivalent  
• Forest regeneration: Expenditures related to the restoration and conservation of existing native forests, forest plantations, and preservation and extension of indigenous resource rights  
• 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 | • Surface of FSC and/or PEFC certified forests (in ha)  
• Area of native forest restored (in ha)  
• Area covered by sustainable agriculture (km²)  
• Approximate sequestrated and/or avoided GHG emissions (in tCO₂e/year) |

---

³ Refer to the footnotes noted in the Framework for specific criteria.
Eligible projects may include:

- **Sustainable farming**: Technical assistance, incentives, grants and loans provided to sustainable farms certified by third-party such as UTZ, Rainforest Alliance, and GLOBALG.A.P.
- **Protected Agriculture**: Agroforestry & Agroecology: 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 Agriculture Movements (IFOAM).
- **Integrated Production Systems**: Improved moisture retention, biota of soil approach which combines crop-forestry-livestock, excluding beef and palm oil production.
- **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.

### Renewable Energy

Investments in renewable energy production including equipment, development, manufacturing, construction, operation, distribution and maintenance from sources including:

- Onshore and offshore wind energy
- Solar energy
- Geothermal energy producing direct emissions <100g CO₂/kWh
- Bioenergy with 80% GHG emission reduction compared to fossil fuels, and sourced from sustainable feedstock
- Small run-of-river hydro plants (under 25 MW), as well as the maintenance, refurbishment or repowering of existing hydro facilities

- Installed capacity (GW or MW)
- Energy production (MWh)
- Reduced and/or avoided GHG emissions (tonnes CO₂e/year)
Issuing Entity’s Responsibility

CABEI is responsible for providing accurate information and documentation relating to the details of the projects that have been funded, including description of projects, amounts allocated, and project impact.

Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of CABEI’s Green Bond Use of Proceeds. The work undertaken as part of this engagement included collection of documentation from CABEI employees and review of documentation to confirm the conformance with the Framework.

Sustainalytics has relied on the information and the facts presented by CABEI with respect to the funded 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.

<table>
<thead>
<tr>
<th>Sustainable Water and Wastewater Management</th>
<th>Clean Transportation</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Flood defenses systems protecting against inundations and construction of reservoirs for the control of water flows</td>
<td>• Volume of water treated</td>
</tr>
<tr>
<td>• Installation or upgrade of water efficient irrigation systems</td>
<td>• Number of facilities built</td>
</tr>
<tr>
<td>• Construction or upgrade of sustainable infrastructure for drinking water</td>
<td>• Reduction in water usage (%)</td>
</tr>
<tr>
<td>• Construction of desalination plants and other water treatment facilities to provide inhabitants with drinkable water</td>
<td>• Increase in water reuse (in m³/year)</td>
</tr>
<tr>
<td>• Construction and upgrade of sewerage systems to improve wastewater management</td>
<td>• Volume of water produced</td>
</tr>
<tr>
<td></td>
<td>• Area under irrigation (ha)</td>
</tr>
<tr>
<td></td>
<td>• Number of upgraded facilities</td>
</tr>
<tr>
<td></td>
<td>• Number of new connections to drinking water</td>
</tr>
<tr>
<td></td>
<td>• Number of new connections to the sewerage system</td>
</tr>
<tr>
<td></td>
<td>• Number of people with access to drinking water</td>
</tr>
</tbody>
</table>

### Sustainable Water and Wastewater Management
- 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

### Clean Transportation
- Investment in clean vehicles, infrastructure and services, including:
  - Private Transport:
    - Electric vehicles
    - Hybrid and fuel cell vehicles with CO₂ emission threshold of <75gCO₂/p-km
  - Public Transport:
    - Train: rolling stock and vehicles for electrified public transport, such as electrified rail, trams, and trolleybuses
    - Buses with no direct emissions (electric or hydrogen). Hybrid and fuel cell buses with CO₂ emission threshold of <75gCO₂/p-km
    - Transportation infrastructure such as charging station for electric vehicles, expansion of metro/train network, station upgrades
  - Multimodal infrastructure supporting clean public transportation including system monitoring and control, passenger safety and security infrastructure and bicycle paths
- Number of clean transportation systems financed by type
- Number of kilometres of rail constructed or maintained
- Reduced and/or avoided GHG emissions (in tCO₂e/year)
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, 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 2019 Green Bond, are not in conformance with the Use of Proceeds, Management of Proceeds, and Reporting criteria outlined in the Framework. CABEI has disclosed to Sustainalytics that the proceeds of the green bond were fully allocated as of June 29, 2022.

**Detailed Findings**

**Table 2: Detailed Findings**

<table>
<thead>
<tr>
<th>Eligibility Criteria</th>
<th>Procedure Performed</th>
<th>Factual Findings</th>
<th>Error or Exceptions Identified</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use of Proceeds Criteria</td>
<td>Verification of the projects funded by the green bond in 2021 to determine if projects aligned with the Use of Proceeds Criteria outlined in the Framework and above in Table 1.</td>
<td>All projects reviewed complied with the Use of Proceeds criteria.</td>
<td>None</td>
</tr>
<tr>
<td>Management of Proceeds</td>
<td>Verification of net proceeds managed to determine if measures to track the green bond invested amount and loans granted aligned with the Framework criteria.</td>
<td>CABEI’s tracking mechanism reviewed met the Management of Proceeds criteria.</td>
<td>None</td>
</tr>
<tr>
<td>Reporting Criteria</td>
<td>Verification of the projects funded by the green bond in 2021 to determine if impact of projects was reported in line with the KPIs outlined in the Framework and above in Table 1. For a list of KPIs reported, please refer to Appendix 1.</td>
<td>All projects reviewed reported on at least one KPI per Use of Proceeds criteria.</td>
<td>None</td>
</tr>
</tbody>
</table>

---

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.
Appendix

Appendix 1: Allocation and Impact Reporting by Eligibility Criteria\(^5\)

<table>
<thead>
<tr>
<th>Use of Proceeds Category</th>
<th>Project Description</th>
<th>Location</th>
<th>Environmental Impact Reported by Eligibility Criteria</th>
<th>Allocation (USD – Mn)</th>
</tr>
</thead>
</table>
| **Renewable Energy\(^6\)** | Central Hidroeléctrica Larreynaga Project: Design and construction and start-up of a run-off-river Hydroelectric Power Station. | Nicaragua | • Installed capacity (MW): 17.3  
• Power Energy production (MWh): 50,960  
• Avoided GHG emissions (in tCO\(_2\)e/year): 15,600 | 30.16 |
| **Sustainable Water Management** | Integrated Management of Water Resource Project: contribute to sustainable human development through the integrated management of water resources and the availability of water in quality and quantity for agricultural production and the supply of the population as part of PROGIRH. | Costa Rica | 33,857 (ha) under irrigation | 25.24 |
| | 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 | 1,202,213 people with access to drinking water | 64.93 |
| | Supply Program in Metropolitan Area and Sanitary Sewerage in Juanito Mora of Puntarenas: social welfare and quality of life through access to drinking water supply and sanitation services in 14 urban areas in the provinces of San José, Alajuela, Cartago, Puntarenas and Guanacaste. | Costa Rica | • 35,000 new connections to the sewerage system  
• 1 upgraded facility | 71.28 |
| | Rehabilitation Project of Las Pavas Water Treatment Plant: rehabilitation of water treatment plant and its three pumping stations. | El Salvador | 319,997 new connections to the drinking-water supply | 16.98 |
| | Project for the Improvement and Expansion of Drinking Water Supply and Sanitation Systems in 19 Nicaraguan | Nicaragua | • 17,308 new connections to the drinking-water supply | 93.40 |

\(^5\) As of June 29, 2022.
\(^6\) CABEI has confirmed that it has financed small (<25 MW) run-of-river hydropower plants.
<table>
<thead>
<tr>
<th>Cities: supplying access to drinking water and sanitary sewerage.</th>
<th>• 7,900 new connections to the sewerage system</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural Water and Sanitation Sustainability Program: providing reliable access of water supply and sanitation in the poor municipalities.</td>
<td>Nicaragua</td>
</tr>
<tr>
<td>Water and Sanitation Program: expand the coverage of drinking water and sanitation services in various cities.</td>
<td>Honduras</td>
</tr>
<tr>
<td>Project for the Improvement and Expansion of Drinking Water and Sanitation Systems in 7 Cities: improve the standard of living through the construction, improvement and expansion of sanitary sewage and drinking water.</td>
<td>Nicaragua</td>
</tr>
<tr>
<td><strong>Total allocation of bond proceeds (USD – Mn)</strong></td>
<td>375</td>
</tr>
<tr>
<td><strong>Bond proceeds raised (USD – Mn)</strong></td>
<td>375</td>
</tr>
<tr>
<td><strong>Balance of unallocated net proceeds (USD – Mn)</strong></td>
<td>0(^7)</td>
</tr>
</tbody>
</table>
Disclaimer

Copyright ©2022 Sustainalytics. All rights reserved.

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

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

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

In case of discrepancies between the English language and translated versions, the English language version shall prevail.
About Sustainalytics, a Morningstar Company

Sustainalytics, a Morningstar Company, is a leading ESG research, ratings and data firm that supports investors around the world with the development and implementation of responsible investment strategies. For more than 30 years, the firm has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Sustainalytics 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. Sustainalytics also works with hundreds of companies and their financial intermediaries to help them consider sustainability in policies, practices and capital projects. With 17 offices globally, Sustainalytics has more than 1500 staff members, including more than 500 analysts with varied multidisciplinary expertise across more than 40 industry groups.

For more information, visit www.sustainalytics.com
Or contact us contact@sustainalytics.com