

Central American Bank for Economic Integration

Type of Engagement: Annual Review

Date: July 4, 2022

Engagement Team:

John-Paul Iamono, john-paul.iamono@sustainalytics.com, (+1) 416 861 0403

Aakanksha Jain, Aakanksha.jain@sustainalytics.com

Introduction

In June 2021, the Central American Bank for Economic Integration ("CABEI") issued the "Social recovery and reconstruction COVID-19 bond- Mexico 2021" (2021 Social Bond) aimed at financing and refinancing healthcare and employment generation related projects. In June 2022, CABEI engaged Sustainalytics to review the projects funded through the issued 2021 social bonds and provide an assessment as to whether the projects met the Use of Proceeds criteria and the Reporting commitments outlined in the Social Bond Framework.¹ Sustainalytics provided a Second-Party Opinion on the Framework in January 2021.²

Evaluation Criteria

Sustainalytics evaluated the projects and assets funded with proceeds from the 2021 social bond based on whether the projects and programmes:

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

Table 1 lists the Use of Proceeds, Eligibility Criteria, and associated KPIs while Table 2 lists the associated KPIs.

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

Use of Proceeds	Eligibility Criteria	Key performance indicators (KPIs)
Access to Essential Services – health systems development	Investments to finance operation, maintenance, improvement and development of healthcare institutions, including healthcare attention equipment and/or services, healthcare prevention equipment and/or services. Proceeds under this category should be destined to public healthcare institutions and/or private healthcare institutions located in municipalities with Human Development Index (HDI) below the country's average and that offer free or subsidized healthcare services to vulnerable communities. Definitions of eligible projects and activities³ • Financing construction, operation, maintenance, improvement and/or purchase of equipment for public	• Number of hospitals, clinics and other healthcare facilities built/upgraded • Number of hospital beds financed • Annual hospitalization and in patient care capacity • Annual capacity of surgical care • Annual capacity of outpatient care • Annual amount of non-patented medicines and

¹CABEI "Social Bond Framework", (2020), at:

https://www.bcie.org/fileadmin/bcie/espanol/archivos/novedades/publicaciones/institucionales/Final_SBF_CABEI_FINAL.pdf

² CABEI, "Second-Party Opinion CABEI Social Bond Framework", (2021), at:

https://www.bcie.org/fileadmin/bcie/espanol/archivos/novedades/publicaciones/institucionales/Central_American_Bank_for_Economic_Integration_SPO_FINAL-1.pdf

³ Non-exhaustive list of examples of projects and activities

	hospitals and other public healthcare institutions. • Support to modernization and operational efficiency improvements of non-profit Health Philanthropic Institutions. • Financing construction, maintenance, improvement and/or purchase of equipment for private hospitals and other private healthcare institutions which provide free or subsidized access to vulnerable communities (living below poverty line, excluded and/or marginalized populations, people with disabilities, unemployed, underserved). • Financing Public-Private Partnership (PPP) and public concession operations related to public health services. • Production of non-patented medicines and vaccines developed and/or distributed by the country's public healthcare system or relate to new infectious diseases and pandemic outbreaks. • Enhance the capacity of healthcare infrastructure, institutions and health workers, to better face infectious diseases and/or pandemics.	vaccines produced and distributed • Number of patients reached
Employment Generation – Micro, small and medium enterprises	Proceeds under this category will be targeted at micro, small and medium enterprises (MSMEs) in order to generate employment and reduce inequalities. Productive activities should be located in areas with HDI below the country's average and/or impacted by natural disasters and/or pandemics and developed by MSMEs (including agricultural ones), according to CABEL's definition of enterprise size based on the number of employees as shown below: • Micro Enterprise represents ≤ 10 • Small Enterprise represents $> 10; \leq 50$ • Medium Enterprise represents $> 50; \leq 200$ Definitions of eligible projects and activities: • Credit facilities, preferential interest rate loans, grants for planning, expansion through franchises, building new warehouses and/or small manufacturing units, purchase of machinery and equipment to increase productivity for MSMEs, particularly those in the most vulnerable sectors in the Central American region (tourism, manufacturing, agriculture, transportation, etc.), and/or regions	• Number of financed small and micro enterprises • Estimated number of jobs created or maintained

	greatly impacted by natural disasters and/or pandemics. • Long-term working capital and credit to balance cash flow and support unforeseen expenses to micro and small business. • Poverty alleviation, employment programs and other programs that contribute directly to the stimulation of sustainable economic activity. • Financing towards programs, projects or initiatives that support the preservation of employment levels in sectors of MSME's directly or indirectly impacted by natural and human disasters or pandemics.	
--	--	--

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 Social 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 Social Bond Framework.

Sustainalytics has relied on the information and the facts presented by CABEI with respect to the Nominated Projects. Sustainalytics is not responsible nor shall it be held liable if any of the opinions, findings, or conclusions it has set forth herein are not correct due to incorrect or incomplete data provided by CABEI.

Sustainalytics made all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight over the assessment of the review.

Conclusion

Based on the limited assurance procedures conducted,⁴ nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, the reviewed bond projects, funded through proceeds of CABEI's Social Bond, are not in conformance with the Use of Proceeds and Reporting Criteria outlined in the Social Bond Framework. CABEI has disclosed to Sustainalytics that it has allocated 83% (USD 202.81 million) of bond proceeds as of June 13, 2022. CABEI has confirmed that it intends to allocate the remaining 17% (USD 42.5 million) of the bond proceeds by June 21, 2024.

⁴ Sustainalytics limited assurance process includes reviewing the documentation relating to the details of the projects that have been funded, including description of projects, estimated and realized costs of projects, and project impact, which were provided by the Issuer. The Issuer is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

Detailed Findings

Table 2: Detailed Findings

Eligibility Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of the projects funded by the social bond in 2021 to determine if projects aligned with the Use of Proceeds Criteria outlined in the Social Bond Framework and above in Table 1.	All projects reviewed complied with the Use of Proceeds criteria.	None
Management of Proceeds	Verification of net proceeds managed to determine if measures to track the social bond invested amount used and loans granted aligned with the Management of Proceeds outlined in the Framework.	CABEI's tracking mechanism reviewed met the Management of Proceeds criteria.	None
Reporting Criteria	Verification of the projects funded by the social bond in 2021 to determine if impact of projects was reported in line with the KPIs outlined in the Social Bond Framework and above in Table 1. For a list of KPIs reported please refer to Appendix 2.	All projects reviewed reported on at least one KPI per Use of Proceeds criteria.	None

Appendices

Appendix 1: Proceeds Assigned Based on Eligibility Category

In June 2021, CABEL issued 2021 Social bond of USD 245.3 million in the Mexican market.

Use of Proceeds Category	Intended proceeds distribution by category as of July 20, 2021 (in million USD)	Allocation amount as of June 13, 2022 (in million USD)	Remaining amount to be disbursed as of June 21, 2024 (in million USD)
Access to Essential Services- Health systems development	114.02	71.52	42.5
Employment Generation – Micro, small and medium enterprises financing	131.29	131.29	Fully disbursed
Total	245.31	202.81	42.5

Appendix 2: Impact Reporting by Eligibility Criteria

Access to essential services – health systems development

Project Name	Description
Support for the implementation of the COVID-19 vaccination and care deployment plan in Nicaragua	Acquisition of vaccines and supplies for at least 3.2 million people through the application of vaccines against COVID-19 to prevent the spread of the virus and reduce the number of infections and fatalities.
COVID-19 vaccine acquisition and application project	Provide financial resources to Costa Rica for the purchase and application of the vaccines to immunize its population against COVID-19.
Support for the implementation of the national plan for the introduction of the vaccine against COVID-19 in Honduras	Purchase of vaccines against COVID-19 for the Republic of Honduras.

Project	Country	Number of Medical equipment	Number of Vaccination centers enabled	Number of patients attended	Life expectancy
Support for the implementation of the COVID-19 vaccination and care deployment plan in Nicaragua	Nicaragua	10,313	1520	3,268,320	76.8

COVID-19 vaccine acquisition and application project	Costa Rica	NA	105	3,705,638	81
Support for the implementation of the national plan for the introduction of the vaccine against COVID-19 in Honduras	Honduras	NA	1747	1,434,768	73.5

Employment generation – Micro, small and medium enterprises financing

Project Name	Description
Digital voucher – Panama solidario COVID-19	In response to the COVID-19 pandemic as a nationwide approach, this project aims to support and provide care for vulnerable groups, as well as guarantee the purchase of food, hygiene products and medicines with the purpose of mitigating the situation of food insecurity, increasing unemployment and the halting of income generation.
Partial financing for compensatory economic measures implemented for the COVID-19 emergency in El Salvador	Implementation of compensatory economic measures aimed at mitigating the impacts on the economy derived by actions taken for the prevention and containment of the COVID-19 pandemic, granting monetary compensation of USD 300 to people who do not have a job or permanent income and are economically affected due to quarantine, allowing them to buy food and basic necessities.

Project	Country	Number of people covered in emergency care	Number of people covered in risk prevention and mitigation	SMEs benefitted with access to credit	Generated and preserved jobs
Digital voucher – Panama solidario COVID-19	Panama	613, 152	286,848	NA	116
Partial financing for compensatory economic measures implemented for the COVID-19 emergency in El Salvador	El Salvador	589,596	NA	NA	NA

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

