

IDB Invest

Type of Engagement: Annual Review

Date: September 21, 2022

Engagement Team:

Nadia Djinnit, Nadia.Djinnit@morningstar.com, (+1) 416 861 0403

Sameen Ahmed, Sameen.Ahmed@morningstar.com

Introduction

In 2020, Interamerican Investment Corporation (“IDB Invest”) developed its Sustainable Debt Framework¹ (the “Framework”) aimed at financing and refinancing social and green projects related to affordable basic infrastructure, access to essential services, employment generation, renewable energy, energy efficiency, clean public transport, water efficiency and management, and climate resilience. In May 2022, IDB Invest engaged Sustainalytics to review the projects funded through sustainability bonds issued under the Framework in 2021 and provide an assessment as to whether the projects met the Use of Proceeds criteria and Reporting commitments outlined in the Framework.

Evaluation Criteria

Sustainalytics evaluated the projects and assets funded with proceeds from the 2021 sustainability bonds issued under the Framework based on whether the projects:

1. Met the Use of Proceeds and Eligibility Criteria outlined in the Framework; and
2. 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 while Table 2 lists the associated KPIs.

Table 1: Use of Proceeds and Eligibility Criteria

Use of Proceeds	Eligibility Criteria
Affordable Basic Infrastructure	Social infrastructure <ul style="list-style-type: none"> • Health and education infrastructure • Deployment of ICTs in hospitals and clinics • Projects that promote access to education programs • Expansion or upgrade of learning spaces (schools, universities, private education services providers to complement public sector offering, etc.) • ICTs to improve teaching and learning processes; promoting initiatives to close the gender and ethnic gaps in the education sector Transport <ul style="list-style-type: none"> • Improvement of regional infrastructure to promote enhanced connectivity
Access to Essential Services	Water and sanitation <ul style="list-style-type: none"> • Water and sanitation services • Wastewater collection and treatment Energy <ul style="list-style-type: none"> • Energy services
Food Security and Sustainable Food Systems	Agribusiness and manufacturing <ul style="list-style-type: none"> • Modernization and productivity increase in agriculture or firms • Investments to boost sector growth and exports

¹ IDB Invest’s Sustainable Debt Framework is available on their website at: <https://www.idbinvest.org/en/investors>

Employment Generation and Programs for the Alleviation of Unemployment Impacts	<ul style="list-style-type: none"> • Projects that benefit a region with a high incidence of poverty/ economic vulnerability, or target beneficiaries from the poor or vulnerable strata
Socio-Economic Advancement	<p>Telecom</p> <ul style="list-style-type: none"> • Technology, media, and telecom (TMT) services, including fixed or mobile broadband, and mobile voice services • Rehabilitation/ reinforcement of long-haul network infrastructure and overloaded urban networks and associated facilities <p>Financial Institutions and Fintech</p> <ul style="list-style-type: none"> • Access to finance • Financial inclusion and microfinance • Digitalization
Renewable Energy	<ul style="list-style-type: none"> • Power generation from renewable sources • Energy efficiency (street lighting, new/renovated buildings, EDGE certification) • Transmission lines and distribution systems to enable the penetration of renewable energy generation
Energy Efficiency	<ul style="list-style-type: none"> • Energy efficiency investments designed to reduce energy consumption from a baseline.
Clean Transportation	<ul style="list-style-type: none"> • Clean public transportation
Sustainable Agriculture and Sustainable Management of Living Natural Resources	<ul style="list-style-type: none"> • Climate smart agriculture, reforestation, biodiversity, and ecosystems conservation • Investments to ensure adequate management of the availability, quality and use of water resources • Projects that promote innovative green infrastructure interventions and measures for the mitigation of GHG emissions and adaptation to disaster risks and climate change, including risk management for droughts, floods, and sea level rise • Conversion of non-certified production to third-party certified production • Waste reduction and recycling
Climate Change Adaptation	<ul style="list-style-type: none"> • Investments that address current and expected effects of climate change, where such effects are material for the context of those activities • Green lines on lending for the adoption of a product, equipment, technology or service that helps to manage physical climate risks and related impacts, and adapt to climate change
Sustainable Water and Wastewater Management	<ul style="list-style-type: none"> • Investments that materially reduces the use of water per unit of production from a baseline.

Table 2: Key Performance Indicators

Use of Proceeds	Key Performance Indicators
Affordable Basic Infrastructure	<p>Social infrastructure</p> <ul style="list-style-type: none"> • Number of students benefited by education projects • Number of students from underserved and/or diverse or excluded population benefited by education projects • Educational facilities built or Upgraded • Number of beneficiaries receiving health services • Number of beneficiaries from underserved and/or diverse or excluded population receiving health services <p>Transport</p> <ul style="list-style-type: none"> • Roads built or upgraded (km) • Urban rail and bus mass transit systems built or upgraded (km)

	<ul style="list-style-type: none"> • Average daily passenger traffic - passengers (#) • Average daily traffic - vehicles (#) • Container cargo handling capacity - TEUs/ year
Access to Essential Services	<p>Water and sanitation</p> <ul style="list-style-type: none"> • Households with improved access to water or sanitation (#) • Households from underserved and/or diverse or excluded populations with improved access to water or sanitation (#) • Average hours of continuous water supply per day <p>Energy</p> <ul style="list-style-type: none"> • Households with improved access to energy services (#)
Food Security and Sustainable Food Systems	<ul style="list-style-type: none"> • Beneficiaries of employment support initiatives (#) • Women beneficiaries of economic empowerment initiatives (#) • Diverse population beneficiaries of economic empowerment initiatives (#) • Jobs supported (#) • Enterprises provided with technical assistance (#) • Farmers and MSME with improved access to agricultural services and investments (#) • Production capacity (TBD based on specific project) • Total value of sales (\$ Million) • Value of exports sales (\$ Million)
Employment Generation and Programs for the Alleviation of Unemployment Impacts	
Socio-Economic Advancement	<ul style="list-style-type: none"> • Beneficiaries with new access to at least a 4G mobile network (%) • Kilometers of new lines or of lines upgraded (long-haul/backhaul/metro, fiber optics or other technologies) • Amount of international trade supported (\$) • MSMEs financed (#) • Value of loans disbursed to MSMEs (\$ Million) • Women beneficiaries of economic empowerment initiatives (#)
Renewable Energy	<ul style="list-style-type: none"> • Installed power generation from renewable energy sources (MW) • New/upgraded power transmission lines (km) • Energy generated from renewable sources (MWh) • Households from underserved and/ or diverse or excluded populations with improved access to energy services (#) • Emissions avoided (annual tons CO₂ equivalent)
Energy Efficiency	<ul style="list-style-type: none"> • Energy savings (MWh) • Fossil fuels saved (gal, l) • Emissions avoided (annual tons CO₂ equivalent)
Clean Transportation	<ul style="list-style-type: none"> • Emissions avoided (annual tons CO₂ equivalent).
Sustainable Agriculture and Sustainable Management of Living Natural Resources	<ul style="list-style-type: none"> • Value of investments in resilient and/or low-carbon infrastructure • Fossil fuels saved (gal, l) • Tons of CO₂ sequestered
Climate Change Adaptation	<ul style="list-style-type: none"> • Increased water availability through water savings or through the provision of additional usable water (Δm^3/year) • Increased energy availability through energy savings or through increased energy generation (ΔMWh/ year) • Increased agricultural potential through improvements in soil quality, for example reduced soil erosion, increased soil carbon content or reduced soil salinity (e.g. Δ tones/ hectare/year (soil erosion) • Reduced weather-related disruption (reduction in the amount of time that a system or elements of a system are rendered inoperable (i.e., lost operational expenditure) due to acute climate risks (e.g. Δ days/year downtime) • Reduced weather-related damage • Meters of coastline protected • Hectares of natural habitat restored/preserved

	<ul style="list-style-type: none"> • Increased income, or avoided decrease in income • Number of people directly supported by the project to adapt to climate change (disaggregated by gender)
Sustainable Water and Wastewater Management	<ul style="list-style-type: none"> • Water savings (m³) • Wastewater treated (m³)

Issuing Entity’s Responsibility

IDB Invest is responsible for providing accurate information and documentation relating to the details of the projects that have been funded, including description of projects and 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 IDB Invest’s Sustainability Bond Use of Proceeds. The work undertaken as part of this engagement included collection of documentation from IDB Invest employees and review of documentation to confirm the conformance with the Framework.

Sustainalytics has relied on the information and the facts presented by IDB Invest with respect to the financed 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 IDB Invest.

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,² nothing has come to Sustainalytics’ attention that causes us to believe that, in all material respects, the reviewed bond projects, funded through proceeds of IDB’s sustainability bonds, are not in conformance with the Use of Proceeds criteria outlined in the Framework. IDB Invest has disclosed to Sustainalytics that the proceeds of the sustainability bonds were fully allocated as of December 2021.

² 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 3: Detailed Findings

Eligibility Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of the projects funded by the sustainability bonds in 2021 to determine if projects aligned with the Use of Proceeds criteria outlined in the Framework and above in Table 1.	All projects reviewed complied with the Use of Proceeds criteria.	None
Reporting Criteria	Verification of the projects funded by the sustainability bonds issued under the Framework in 2021 to determine if impact of projects was reported in line with the KPIs outlined in the Framework and above in Table 2. 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: Allocation Reporting by Eligibility Criteria

In 2021, IDB Invest issued bonds under the Framework with a total value of USD 1.604 billion. The proceeds have been fully allocated. Of the total allocation, around 28% of net proceeds were used in financing new projects while ~72% were used for refinancing.³ The table below provides a category-wise allocation of use of proceeds:

Sustainability Theme	Use of Proceeds Category	Amount Allocated (in million USD)	Allocation of Proceeds in %
Social	Socioeconomic advancement and empowerment	798.9	67.5%
	Employment generation and programs to alleviate unemployment from socio-economic crises	257	21.7%
	Access to essential services	113	9.5%
	Food security and sustainable food systems	8.7	0.7%
	Affordable basic infrastructure	6	0.5%
	Total	1,183.60	100.0%
Green	Renewable Energy	387.4	92.06%
	Energy Efficiency	20.4	4.85%
	Sustainable water and wastewater management	13	3.09%
	Total	420.80	100.0%
Total	Social projects	1183.6	73.8%
	Green projects	420.8	26.2%
	Total	1,604.4	100.0%

Allocation by Country

Country	Amount Allocated (in million USD)	Allocation of Proceeds (in %)
Brazil	293.4	18.3
Mexico	259.8	16.2
Colombia	204.1	12.7
Ecuador	150.0	9.3
Peru	141.9	8.8
Chile	133.0	8.3
Guatemala	100.0	6.2
Panama	89.0	5.5
Honduras	69.0	4.3

³ Refinancing refers to projects for which loans were originally disbursed in 2019-2020, while projects financed in 2021 are considered as newly financed. Of the total allocation, 15% consist of social and green bonds issued by clients and purchased by IDB Invest.

El Salvador	68.0	4.2
Jamaica	35.0	2.2
Costa Rica	20.0	1.2
Nicaragua	17.5	1.1
Paraguay	14.9	0.9
Argentina	6.0	0.4
Uruguay	2.8	0.2
Total	1,604.5	100.0%

Appendix 2: Impact Reporting by Eligibility Criteria

Use of Proceeds Category ⁴	Eligible Projects Financed	Impacts Reported ⁵
Affordable Basic Infrastructure	Funding provided in Argentina to expand and upgrade healthcare infrastructure, promote medical care services, health-related and special emergency transfers, among others	<ul style="list-style-type: none"> • 1,801 jobs supported by firms • 19,424 beneficiaries of employment support initiatives • 719 women beneficiaries of economic empowerment initiatives • 14,219 beneficiaries receiving health services
Access to Essential Services	Funding provided in Brazil and Peru for providing new or improved access to a water source or energy services	<ul style="list-style-type: none"> • 12,454 jobs supported by firms • 28 beneficiaries of employment support initiatives • 3,018 women beneficiaries of economic empowerment initiatives • 312,884 households with improved access to water or sanitation • 250,647 new natural gas connections for residential units
Food Security and Sustainable Food Systems	Funding provided in Mexico to investments in agricultural research and technology transfer, development of new processes and technologies for sustainable pig farms	<ul style="list-style-type: none"> • USD 1.8 million in total sales value • 360 domestic MSME clients
Employment Generation and Programs for the Alleviation of Unemployment Impacts	Funding provided to link farmers and MSMEs to client companies (as suppliers, buyers, contractors, or farming employees) in Panama, Honduras, Ecuador, Nicaragua, and Mexico	<ul style="list-style-type: none"> • 36,580 jobs supported by firms • 362 women beneficiaries of economic empowerment initiatives • USD 692.8 million in international trade promoted • USD 1.93 billion registered in export sales

⁴ Impact metrics for projects under Energy Efficiency are not available as those projects will start reporting in 2022

⁵ Impacts for new projects are calculated for the period ending in 2021, while impacts from refinanced projects are calculated for 2019-2021

		<ul style="list-style-type: none"> • USD 2.13 billion worth of goods purchased from domestic micro, small and medium sized enterprises MSMEs
Socio-Economic Advancement	Funding provided across Latin American countries ⁶ for investments to enable access to credit for MSMEs, women owned- or led-MSMEs and low-income households	<ul style="list-style-type: none"> • 570,959 MSMEs financed • 9,824 women beneficiaries of economic empowerment initiatives • 21.3 MW of installed power generation capacity from renewal sources • 344,384 households with improved access to water or sanitation • 19,388 million tonnes of emissions reduced • 366,363 loans disbursed to MSMEs • 413,551 loans disbursed to women-owned or led MSMEs • USD 43.4 billion in loans disbursed
Renewable Energy	Funding provided across Latin-American countries ⁷ for investment in solar power generation (photovoltaic power and concentrated solar power) transmission lines and distribution systems to enable the penetration of renewable energy generation	<ul style="list-style-type: none"> • 18,537 jobs supported by firms • 41 beneficiaries of employment support initiatives • 2,920 women beneficiaries of economic empowerment initiatives • 1,512 MW installed power generation from renewable sources • 4,980 farmers with improved access to agricultural services and investments • USD 3.09 billion in international trade promoted • 2,485,101 million tons of emissions reduced • 5,318,440 MWh of renewable energy generated • 1,532 MW installed power generation from renewable energy
Sustainable Water and Wastewater Management	Funding provided in Brazil for the expansion of sanitation services and infrastructure for 15 municipalities in the Metropolitan Region of Recife	<ul style="list-style-type: none"> • 161,077,887 cubic meters (m³) of wastewater treated

⁶ Projects under socioeconomic advancement category funded in include Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Jamaica, Mexico, Panama, Paraguay, Peru

⁷ These countries include Brazil, Chile, Colombia, Ecuador, El Salvador, Honduras, Mexico, Uruguay

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

