°CICERO Shades of Green

Latin American Agribusiness Development Corporation

Green Finance Second Opinion

May 06, 2021

Latin American Agribusiness Development Corporation (LAAD) is a private investment and development company. Its mission is to finance small and medium-sized agribusiness projects to promote economic, environmental and social development in Latin America. Its owners consist of agribusinesses and IFIs.

Agriculture has important linkages to climate change and is currently a significant emitter of greenhouse gases. Particularly worrying is the sector's contribution to methane emissions, and the role of soy and cattle in contributing to tropical deforestation and biodiversity damage.

The framework intends to raise funds through loans and bonds for six categories, of which the most significant is Agriculture, Forestry and Land Use. In this category, most proceeds are expected to go towards certified projects related to climate-smart agriculture. The certification systems LAAD has included bring in environmental and social considerations to agricultural practices, however their strength in ensuring climate impacts varies.

Both CAPEX and OPEX are eligible (the issuer suggests a 50-50 split is likely), and both new financing and refinancing is permitted. The framework specifically excludes investments in unsustainable practices such as (some types of) drift-net fishing, and others are excluded by virtue of being outside of LAAD's mandate (e.g., industrial meat packing activities, fossil fuel extraction, and mining). However, investors should be aware that fossil fuel is used for machinery and transport and that such expenditures are eligible OPEX.

LAAD's Green Finance Framework is broad and is linked to a sector with complex sustainability challenges, but the selection and screening procedures are reasonably robust and mitigate some of these risks. The framework is comprehensive and a high level of technical expertise will be required to interpret it against the submitted loan portfolio. However, the issuer's reporting plans are relatively robust, and selection relies on a two-step screening procedure.

LAAD show a high level of expertise on environmental issues in the agriculture sector but does not have corporate environmental targets or GHG reporting. We understand that improvements are planned for this year and we encourage the issuer to integrate the recommendations of the TCFD and climate resilience thinking into its strategy.

SHADES OF GREEN

Based on our review, we rate LAAD's Green Finance Framework **CICERO Medium Green.**

Included in the overall shading is an assessment of the governance structure of the green finance framework. CICERO Shades of Green finds the governance procedures in LAAD's framework to be **Good.**

GREEN BOND/LOAN PRINCIPLES

Based on this review, this Framework is found in alignment with the principles.

°CICERO Medium Green

Based on the overall assessment of the projects that will be financed under this framework, and governance and transparency considerations, LAAD's green finance framework receives a **CICERO Medium Green** shading and a governance score of **Good**. To improve the framework further, LAAD could consider more precisely defining some of the project categories and the impact reporting, exclude fossil fuel components entirely from eligibility and scale up its corporate efforts on climate risk and reporting.

°CICERO Shades of Green

Contents

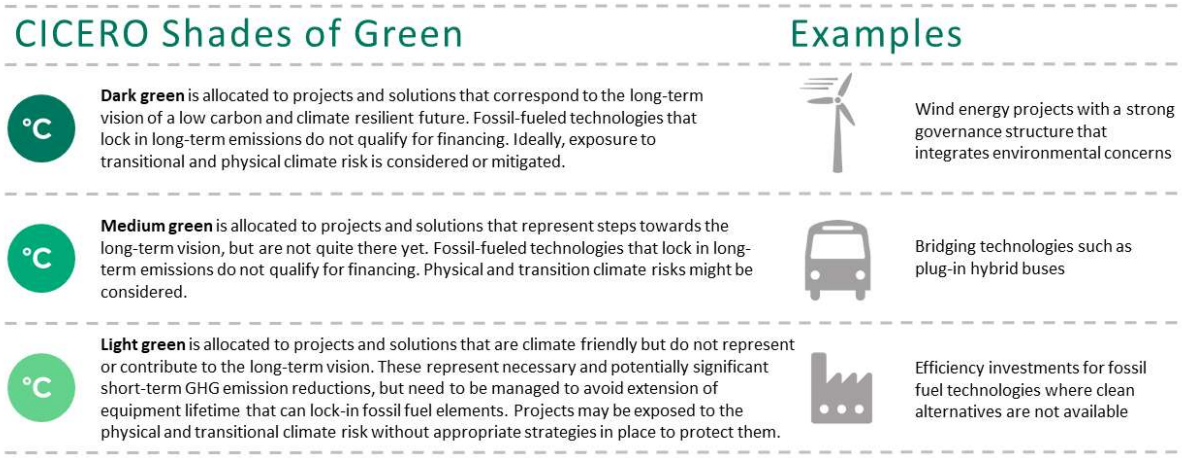
1 Terms and methodology

This note provides CICERO Shades of Green's (CICERO Green) second opinion of the client's framework dated April 23, 2021**.** This second opinion remains relevant to all green bonds and/or loans issued under this framework for the duration of three years from publication of this second opinion, as long as the framework remains unchanged. Any amendments or updates to the framework require a revised second opinion. CICERO Green encourages the client to make this second opinion publicly available. If any part of the second opinion is quoted, the full report must be made available.

The second opinion is based on a review of the framework and documentation of the client's policies and processes, as well as information gathered during meetings, teleconferences and email correspondence.

Expressing concerns with 'Shades of Green'

CICERO Green second opinions are graded dark green, medium green or light green, reflecting a broad, qualitative review of the climate and environmental risks and ambitions. The shading methodology aims to provide transparency to investors that seek to understand and act upon potential exposure to climate risks and impacts. Investments in all shades of green projects are necessary in order to successfully implement the ambition of the Paris agreement. The shades are intended to communicate the following:



Sound governance and transparency processes facilitate delivery of the client's climate and environmental ambitions laid out in the framework. Hence, key governance aspects that can influence the implementation of the green bond are carefully considered and reflected in the overall shading. CICERO Green considers four factors in its review of the client's governance processes: 1) the policies and goals of relevance to the green bond framework; 2) the selection process used to identify and approve eligible projects under the framework, 3) the management of proceeds and 4) the reporting on the projects to investors. Based on these factors, we assign an overall governance grade: Fair, Good or Excellent. Please note this is not a substitute for a full evaluation of the governance of the issuing institution, and does not cover, e.g., corruption.

2 Brief description of LAAD's green finance framework and related policies

Latin American Agribusiness Development Corporation SA and Subsidiaries (LAAD) is a private investment and development company with a mission to finance small and medium-size agribusiness projects to promote economic, environmental and social development in Latin America. LAAD was incorporated in 1970 by a number of multinational companies engaged in the agribusiness supply chain and financial services with the goal to increase prosperity among rural communities in the region. The company's administrative office is located in Coral Gables, Florida, and it has 18 offices operating in 13 countries. It is currently owned by ten international agribusiness and financial corporations (including Cargill, IFC, Rabobank,etc.), as well as one investment company held by LAAD's key officers.

LAAD's borrowers primarily consist of small and medium agribusinesses active in perennial and non-perennial crops, and animal production, as well as a small percentage in other industries such as forestry, fishing and food processing. In 2020, the main categories for loan disbursement were banana, coffee, soybean and cattle (in total 43% of the total portfolio), and its loan portfolio reached just over $1 billion. Central America and the Andean Region each take up about 30% of the portfolio and Brazil hosts the largest individual portfolio with 13% (2020 numbers).

Environmental Strategies and Policies

LAAD recognizes the importance of transforming agriculture into a sustainable and climate resilient sector and has included sustainability as one of its key strategic pillars.

The issuer has a social and environmental system (SEMS) which it states is compliant with the IFC's Performance Standards (2012). As part of the SEMS procedure, the client will undergo an assessment of risk (*Process for the evaluation and monitoring of Orange risk category transactions*). If any of the points on the checklist applies to a transaction, further due diligence will be undertaken and a site visit may be conducted. The issuer is in the process of mapping the degree to which certifications (such as Global GAP, RSPO etc.) provide adequate mitigation for the identified risk(s). As per IFC's Performance Standard, projects are classified as type A, B or C (depending on risk level). The organization has an environmental and social survey which investment managers use to gather information from prospective clients and as a basis for site visits. It covers relevant issues on land-use/conversion, permitting, and social/human rights. Client applications may be rejected on the basis of the environmental and social assesment and/or be subject to conditions if lending proceeds.

LAAD has aligned its business with six of the Sustainable Development Goals (No Poverty; Zero Hunger; Gender Equality; Decent Work and Economic Growth; Responsible Consumption and Production; Climate Action; Life under water and Life on Land), but does not currently have in place any corporate environmental targets or KPIs.

The company does not report on GHG emissions, and climate resilience, scenario analysis and climate risk have so far not been treated systematically at the portfolio level,.

Use of proceeds

LAAD has created a green finance framework to raise funds, through green loans and green bonds, to finance or refinance climate action and environmental protection.

Use of proceeds can be allocated to both CAPEX and OPEX in seven eligible categories – as further detailed in Table 1.

Financing of new initiatives as well as re-financing is permitted under the framework, with a look-back period of two years. The issuer expects the first green loan to go mostly towards refinancing.

LAAD has an exclusion list which prohibits investments in non-sustainable activities such as drift-net fishing (of a certain size), unsustainable forestry, weapons etc. (full list in Annex 1 of LAAD's Framework). Fossil fuel extraction is outside of LAAD's mandate. In addition, the following activities have been excluded from the green finance framework:

- Investments in mining activities.
- Investment in dams
- Investment in reservoirs with water surface >20,000m^2.
- Capital expenditures in fossil fuel powered assets, other than farm tractors and other farm machinery, consuming more than 20 US gallons of diesel per hour or emitting more than 0.22 metric tons of CO2 equivalent per hour..
- Investment in industrial meat processing activities.

Selection

The selection process is a key governance factor to consider in CICERO Green's assessment. CICERO Green typically looks at how climate and environmental considerations are considered when evaluating whether projects can qualify for green finance funding. The broader the project categories, the more importance CICERO Green places on the governance process.

The selection process for green eligible projects is nested within LAAD's Social and Environmental Management System (SEMS). All new clients granted loans by LAAD are assessed by the Environmental and Social department, to appraise and manage E&S risks, and ensure compliance with: i) LAAD's Exclusion list ; ii) National E&S legislation, and; iii) IFC Performance Standards.

The Environmental & Social Due Diligence is performed centrally and by the local offices. All prospective borrowers are required to fill an E&S questionnaire, and higher risk clients – assessed according to LAAD's risk category system - are visited by a member of the E&S team. Once a prospect has been identified and has passed the due diligence stage it is screened against the eligibility criteria of the green finance framework. If eligibility is confirmed, a Green Loan Summary page is prepared and approved by a Green Financing Committee formed by the head of the E&S Department and two Senior Managers. Eligibility approval requires unanimous vote approval by the committee. The E&S Department is responsible for keeping the records of the project eligibility and allocation's approval.

Management of proceeds

Loans will be assigned totally, or partially based on the part of the loan that meets LAAD's eligibility criteria, to a Green Finance Facility. The portion of the loan that is eligible to be a Green Loan, is then recorded in a Green Finance Tracking System. A loan assigned to a green loan facility, cannot be assigned to other facilities of LAAD's portfolio.

Under this Framework, LAAD may refinance existing loans, with an inception date not older than two years. LAAD intends to allocate an amount equal to the net proceeds from a Green Finance facility to the financing or refinancing of existing and future eligible Green sub-loans. Such allocation will be reflected in LAAD's internal records. Any portion of the net proceeds of a Green Loan or Bond that has not been allocated to Eligible Green sub-loans will be managed in accordance with LAAD's normal liquidity management practices in non-interest-bearing accounts. The company intends to allocate the net proceeds of Green Loans or Bonds to finance or refinance eligible Green sub-loans within eighteen months from the date of issuance of the applicable Green financing instrument. Payment of principal of and interest on the debt issued in a Green Financing will be made from LAAD's general funds and will not be linked to the performance of any Eligible Green sub-loans.

In the case of green loans for which the eligibility criteria are based in the use of proceeds, LAAD will monitor the use of the green loan proceeds by the client, based on the implementation timeline, until the implementation is completed. Projects that fail to complete the implementation of a project within 24 months of the disbursement will no longer be eligible and will be taken out of the Green Loan facility.

Reporting

Transparency, reporting, and verification of impacts are key to enable investors to follow the implementation of green finance programs. Procedures for reporting and disclosure of green finance investments are also vital to build confidence that green finance is contributing towards a sustainable and climate-friendly future, both among investors and in society.

LAAD will report to investors the allocation of proceeds, on an annual basis until full allocation. The report will provide a breakdown of the allocation by country, industry and eligible category. Investors and Shareholders can request a full list of loan numbers allocated to the green facility, indicating loan amount, country, industry, tenor, use of funds category, eligible category, and name of certification when applicable. The aggregated report will be made available on LAAD's homepage.

The report will where feasible include aggregated indicators related to the eligible category: e.g., certifications held, resource or water savings, green energy production, greenhouse gas reductions, afforestation, spoilage/losses reductions, etc. The methodologies used for calculating greenhouse gas emissions will be disclosed in the annual report and external verification of the report is currently under consideration.

3 Assessment of LAAD's green finance framework and policies

The framework and procedures for LAAD's green bond investments are assessed and their strengths and weaknesses are discussed in this section. The strengths of an investment framework with respect to environmental impact are areas where it clearly supports low-carbon projects; weaknesses are typically areas that are unclear or too general. Pitfalls are also raised in this section to note areas where LAAD should be aware of potential macro-level impacts of investment projects.

Overall shading

Based on the project category shadings detailed below, and consideration of environmental ambitions and governance structure reflected in LAAD's green finance framework, we rate the framework **CICERO Medium Green.**

Eligible projects under LAAD's green finance framework

At the basic level, the selection of eligible project categories is the primary mechanism to ensure that projects deliver environmental benefits. Through selection of project categories with clear environmental benefits, green bonds and loans aim to provide investors with certainty that their investments deliver environmental returns as well as financial returns. The Green Bonds (and Loans) Principles (GBP/GLP) state that the "overall environmental profile" of a project should be assessed and that the selection process should be "well defined".

The issuer has clarified that initially most projects are likely to fall in the first category and be covered by one of the indicated certification standards.

Category	Eligible project types	Green Shading and some concerns
Agriculture, forestry, land use	**Activities that contribute to Climate Smart Agriculture** (*defined as an integrated approach to managing landscapes—cropland, livestock, forests and fisheries-- that address the interlinked challenges of food security and climate change*): • Agriculture and agro-industrial activities covered by Climate Smart certifications such as Global GAP, Bon Sucro, Better Cotton Initiative, Round Table on Sustainable Biomaterials, Rain Forest Alliance or other certifications validated by IFC from time to time as Climate Smart Certifications. • Agriculture activities covered by or IFOAM certifications	**Medium -Light Green** ✓ Making agriculture 'climate smart' will be crucial for tackling climate mitigation and adaption challenges in global food production systems going forward. ✓ The certification systems LAAD has included bring in environmental and social considerations to agricultural practices. However, their robustness and relevance for climate change varies: Bonsucro is considered

• Reduction of at least 20% in energy use in traction (e.g., efficient or no tillage) and other agricultural processes. • Reduction of at least 20% in water consumption (efficient irrigation), laser soil leveling, switching to less-water-intensive crops, water harvest and efficient storage facilities.		stringent enough for the EU Renewables Directive (EU RED) when importing ethanol fuel, while IFOAM (organic) certification is likely to entail environmental benefits but not necessarily significant climate benefits (some benefits will be achieved through lower emissions from fertilizer use).
• Agricultural projects that improve existing carbon pools (e.g., rangeland management; collection and use of bagasse, rice husks, or other agricultural waste; no tillage; reduced tillage techniques that increase carbon contents of soil; rehabilitation of degraded lands; peatland restoration)	✓	To limit fertilizer and pesticide use, the issuer relies on IFC's performance standard (PS) as well as the certification standards' criteria
• Investments in activities, equipment, facilities and technologies to implement or increase the use Integrated Pest Management Practices (IPM).	✓	It is positive that LAAD has introduced an improvement threshold for many of the categories. However, whether 20% is ambitious will depend on the context. We encourage LAAD to monitor results and consider tightening the criteria whenever feasible.
• Reduction of non-carbon dioxide GHG emissions from agricultural practices by at least 20%. (e.g., paddy rice production, fertilizer use)		
• Biodigesters. For investment in this category, companies are required to implement safety measures in the design and operation of the biodigesters.	✓	Deforestation linked to oil palm, cattle ranching and cultivation of soy is a significant environmental threat in Latin America. LAAD evaluates the deforestation risk of all project applications through the use of geospatial tools and data sets. Its SEMS procedure contains restrictions on the eligibility of oil palm cultivation and cattle and soy projects which pose a threat of deforestation as per LAAD's assessment will not be financed.
• Activities and investments in suppliers or users of technologies and services that contribute to Climate Smart Agriculture by reducing agricultural losses or increasing productivity and thereby directly or indirectly support climate mitigation or adaptation, as below:		
i. Reduction of post-harvest losses in at least 20%		
ii. Improvement in productivity of at least 20% without increasing GHG emissions; feed-to-food conversion efficiency through improved animal health, genetics, feeding practices, and storage facilities (including cold storage), which reduce GHG emissions per unit of animal protein in at least 20%.	✓	We are concerned about cattle ranching and meat production given the significant contribution of this sector to GHG emissions. Cattle activities are only eligible under this framework if they comply with criteria ii) (20%
iii. Promotion or implementation of crop intensification (produce more on land already in production) using higher-yield seeds, efficient irrigation, efficient storage facilities, reduction of N_2O emissions by optimizing		

	fertilizer application, and precision farming to increase production without expansion of agricultural land into forests, which can reduce GHGs per unit of land or food produced in at least 20%.	✓	reduction in GHG/protein intensity) Investment in industrial meat processing activities is excluded
iv.	Capacity building, training centers, training of farmers, building awareness, research and development, and other agricultural extension and research services that serve to increase the adoption of technologies that contribute to Climate Smart Agriculture.	✓	The issuer has also excluded capital expenditures for large scale fossil fuel powered assets (see general exclusion list). Farm machinery is eligible
	Aquaculture and Fisheries		**Medium to Light Green**
	• Projects and companies certified under one of the certifications schemes: Aquaculture Stewardship Council (ASC) or Aquaculture Stewardship Council Tilapia (ASC Tilapia). Loans allocated under these criteria require that that recipient companies commit to only use feed that comes from verified sources not linked to deforestation. Companies shall establish procedures and controls to ensure that feed sources are not linked to deforestation.	✓	Fish can be a low-carbon source of protein (compared to e.g. red meat) but there are environmental challenges related to its supply chain: e.g. demand for soy for fish feed can be a driver of deforestation. Other concerns related to aquaculture include fish escapes (as a threat to wild fish stocks), local water pollution, and chemicals and antibiotics use
	• Projects and Fisheries certified under the certification scheme Marine Stewardship Council (MSC), and excluding the purchase of fossil fuel vessels.	✓	MSC and ASC certification is awarded to fisheries which are well managed and have sustainable practices, and can accommodate some of the concerns around feed provenance, fishing methods and local pollution. However, as with most certification schemes, criticisms can and have been raised against the schemes for not being sufficiently stringent in all areas and

		for being difficult to enforce ✓ It is positive that LAAD has included an extra requirement on the sourcing of soy, but exactly how this requirement will work in practice and the ease with which it can be enforced remains to be seen. E.g. by using ProTerra or equivalent certification one ensures that the soy is not grown on recently deforested areas. However, a problem with all certification schemes is that major soy producers currently only certify a small share of their production, while the rest may contribute to deforestation. ✓ Likewise, a criticism raised against MSC is that fisheries can certify part of their catch while – often using the same vessels and often on the same trips- can continue fishing with unsustainable methods
	**Afforestation, reforestation, biosphere conservation** • Afforestation (plantations) of non-forested land with non-invasive, demonstrated environmentally adequate tree species. • Reforestation on previously forested land with non-invasive, demonstrated environmentally adequate tree species. • Sustainable forest management activities, certified under one of the certification schemes: Forest Stewardship Council (FSC) or Programme for the Endoresement of Forest Certification (PEFC). • Agriculture and agro-industrial activities of companies with Rainforest Alliance certification.	**Dark Green** ✓ Afforestation and reforestation with appropriate species can contribute to the sequestration of greenhouse gases and increased biodiversity ✓ Certification through FSC, PEFC and the Rainforest Alliance ensure activities maintain a certain level of sustainability ✓ A challenge with most plantations is their monoculture feature which can be negative for biodiversity and soil health. Using mixed

		species and agroforestry practices mitigate such concerns.
 	**Biofuels** • Production of biofuels, certified by the Round Table on Sustainable Biofuels. • Production of bioethanol from waste or from crops grown on degraded lands, certified by Bonsucro.	**Medium to Light Green** ✓ The issuer has clarified that it would be financing the production and harvesting of the feedstock for biofuels, not the production facilities ✓ Advanced biofuels can play a role in helping to decarbonize the transport sector, especially long-haul and maritime segments, but the sustainability and scalability of the biofuels vary greatly between feedstocks ✓ Waste-based biofuel is generally seen as sustainable, whereas – for example – the EU Taxonomy is unlikely to include food- and feed crop- based biofuels ✓ The science and politicial consensus on biofuels is constantly evolving and we encourage the issuer to stay abreast of developments to ensure it only finances those deemed sustainable based on the latest science.
Climate Change Adaptation 	Activities or technologies addressing local climate vulnerability by strengthening the resilience of agricultural, agro-industrial or commercial activities.	**Dark Green** ✓ The development of climate resilient crops and farm/crop protection (drainage, barriers, cover crops) are important steps to 'future-proof' agricultural systems

Renewable Energy 	**Renewable energy applications in agribusiness**: • Wind power and wind energy applications (mechanical, milling, etc.) • Solar energy applications (concentrated solar power, photovoltaic power) • Biomass or biogas power, using verifiable feedstock sources that do not cause deforestation or other environmental and social harms. • Micro-hydro power plants • Renewable energy power plant retrofits **Heat production or other renewable energy application:** • Solar water heating and other thermal applications of renewable energy in all sectors, including drying, space heating, heating of greenhouses, heating soils and facilities for agriculture, heating aquaculture ponds • Small-scale energy storage systems (battery, mechanical, thermal storage, pumped storage) • Wind-driven pumping systems or similar • Thermal applications of sustainably produced bioenergy in all sectors, including efficient, improved biomass stoves if no associated deforestation. Wood biomass can only be from the company's owned farms' pruning activities not related to natural forest (for example, pruning of coffee plants).	**Dark Green** ✓ The issuer has clarified that the energy installations are at the farm level and for own consumption. On-site renewable energy production can help farms and farm businesses reduce their climate footprint, especially in regions with grids that are partly fossil-fuel based. ✓ Pumped storage systems in the form of large reservoirs can have significant GHG emissions but the issuer has confirmed that the relevant sites for this framework are small/farm-level scale ✓ The issuer has added several criteria (e.g. on biomass source, size of facilities) which provide added assurance on the sustainability of the installations. However, investors should be aware that bioenergy remains controversial due to the risk of dedicated plantations and land-use change.
Energy and Resource Efficiency 	**Energy efficiency in agro-industry and agro-processing** • Energy efficiency improvements in existing facilities through the installation of more-efficient equipment, changes in processes, reduction of heat losses, and greater waste heat recovery, with	**Medium Green** ✓ It is positive that LAAD is requiring a threshold for the efficiency improvements. The 20% requirements is reasonable in some cases

	efficiency gians of 20% or more. Improvements to fossil fuel powered processes are excluded. • Installation in existing facilities of co- or tri-generation equipment • Implementation of greenfield agro-industrial or agro-processing facilities that exceed global energy use standards by 20%; or 20% lower GHG emissions per unit of production, for the same type of process and activity. • More-efficient facility replacement of older facility (old facility retired) that exceed global energy use standards by 20%; or 20% lower GHG emissions per unit of production, for the same type of process and activity	(e.g for existing facilities) but may fall short of true ambition for new (greenfield) assets. ✓ By excluding upgrades to fossil-fuel processes, the issuer is avoiding the possibility of direct carbon lock-in (extending the life of assets which are incompatible with a climate smart future), although the rest of the value chain may have fossil fuel components
°C	**Low emission vehicles**: • Financing of electric or hydrogen vehicles	**Dark Green** ✓ Hydrogen should ideally be produced using renewable energy ✓ Electric vehicles have low GHG emissions but there are concerns about aspects of the supply chain (sourcing of rare earth metals, and recycling of batteries, etc.)
°C	**Water-saving projects** that save at least 20% water, compared to baseline before the project. Fossil fuel powered elements are excluded.	**Dark Green**
Non-energy GHG reductions °C	Air conditioning and refrigeration: • Replacement of refrigerants with high global warming potential in existing industrial, commercial, or residential infrastructure with solutions with lower global warming potential, excluding substances that are in phase-out under the Montreal Protocol and its Kigali Amendment.	**Medium Green** ✓ Replacements with lower global warming potential products is positive but may still still involve substantial emissions.

Waste and Wastewater 	• Treatment of wastewater as part of a larger project that reduces methane emissions, and excluding fossil fuel powered elements. • Waste management projects that capture or combust methane emissions (anaerobic digestion) • Agricultural waste collection, recycling, and management projects that recover or reuse materials and waste as inputs into new products or as a resource (only if net emission reductions can be demonstrated)	**Dark Green** ✓ Collection and re-use of animal waste may incentivize and prolong activities which may not be optimal from a sustainability perspective (such as cattle farming)

Table 1. Eligible project categories

Background

LAAD operates in a sector with important linkages to climate change – both in terms of mitigation and adaptation. On the one hand, agriculture has the potential to be both a source and a sink for GHG emissions – depending on production methods, crop types, and sector (animal husbandry). On the other hand, agriculture is also a sector which is very vulnerable to climate change (such as changes in temperature and seasonal patterns, drought, flooding, and extreme weather events) and can itself be a potential source for adaptation and resilience through its provision of ecosystem services and regulating services (e.g. reducing soil erosion).

Agriculture, forestry and other land use (AFOLU) accounted for around 23% of total manmade greenhouse gas emissions from 2007 to 2016 and emissions from the global food system, including upstream and downstream activities, account for between 21 to 37% of emissions[1]. Cattle farming (ruminants and manure) is a significant source (some 30%) of man-made methane emissions – a potent greenhouse gas. These emissions can be substantially lowered through dietary changes, reduction in food waste, reducing land degradation and reducing the impact of the agricultural supply chain, conservation farming methods, agroforestry, as well as decarbonising machinery fleet used in agriculture.

Latin America is a low-emitting region compared globally, responsible for less than a tenth of Asia-Pacific's GHG emissions and about a fifth of those of the United States[2]. However, emissions are increasing and the region is host to a number of biodiversity and climate hotspots with global repercussions. Deforestation and forest degradation are particular challenges in Latin America, and the production of agricultural commodities (especially soy and beef) has been the primary driver of deforestation in countries such as Brazil. The region is also significantly impacted by changes in weather patterns (including El Nino/La nina) and climate change. Hydropower is a key electricity source in several countries and is suffering from changed precipitation. One of the greatest potential for reducing carbon emissions in Latin America and the Caribbean lies in how the region manages its land use and forests.

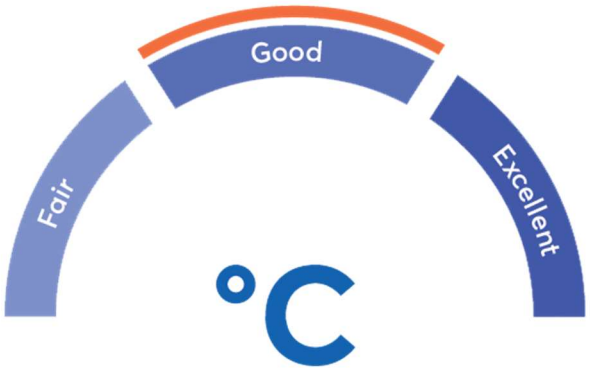
[1] Source: IPCC, https://www.ipcc.ch/site/assets/uploads/sites/4/2020/02/SPM_Updated-Jan20.pdf
[2] See e.g. https://www.statista.com/statistics/205966/world-carbon-dioxide-emissions-by-region/

Governance Assessment

Four aspects are studied when assessing LAAD's governance procedures: 1) the policies and goals of relevance to the green bond framework; 2) the selection process used to identify eligible projects under the framework; 3) the management of proceeds; and 4) the reporting on the projects to investors. Based on these aspects, an overall grading is given on governance strength falling into one of three classes: Fair, Good or Excellent. Please note this is not a substitute for a full evaluation of the governance of the issuing institution, and does not cover, e.g., corruption.

The overall assessment of LAAD's governance structure and processes gives it a rating of **Good**.

LAAD has positive sustainability intentions and show a high level of expertise on environmental issues in the agriculture sector, but does not yet have targets or overall GHG reporting processes. We understand that work in this are is starting this year and that it will receive assistance from its international shareholders to do this. The selection procedure for green loans is robust, but has room for improvement by, e.g., more proactively including resilience considerations. The issuer's intentions on reporting are reasonable (including disclosure of the methodology for reporting GHG savings) but some of the indicators currently lack specificity.



Strengths

The issuer has a well thought-through process for environmental & social due diligence, including requesting improvement /mitigation plans for clients deemed to have 'significant risk'. The environmental and social survey all new clients have to fill out was recently updated – another sign that the issuer is proactive on sustainability issues.

LAAD has infrastructure in place for assessing resilience and environmental risks by collecting coordinates and polygons for its Geographic Information System. This enables LAAD to identify and address risk such as deforestation, habitat destruction, vulnerability risks and impacts on indigenous lands.

It is a strength that the framework specifically excludes investment in unsustainable practices such as drift-net fishing (of a certain size), and others are excluded by virtue of being outside of LAAD's mandate (e.g. commercial meat packing, fossil fuel extraction and mining). We encourage LAAD to continue tightening the criteria over time.

LAAD works closely with the IFC and other international lenders: this is reassuring and a strength in the governance of the framework as these institutions tend to have strong environmental and social safeguards and aim for harmonized and transparent approaches to GHG accounting (e.g. the International Financial Institution Framework for a Harmonised Approach to Greenhouse Gas Accounting).

Weaknesses

We find no material weaknesses in LAAD's green finance framework.

Pitfalls

LAAD's green finance framework is comprehensive and a high level of technical expertise will be required to interpret it against the submitted loan portfolio. We encourage the issuer to carefully manage this vetting process to ensure integrity.

Some of the Framework's eligible categories and their criteria are wide-ranging and lack specificity. This creates a problem when it comes to assessing the climate impacts, although that will be possible once concrete projects have been selected. A good climate impact cannot be guaranteed on the basis of the criteria alone, but will require trust in the competences and governance framework of LAAD, and should be followed up through robust reporting.

Investors should be aware that although LAAD has excluded fossil fuel lending from eligible CAPEX projects, fossil fuel is used for machinery and transport and such expenditures are eligible OPEX categories.

LAAD has significant room for improvement in the area of sustainability targets and reporting. It should urgently upgrade its systems to include the recommendations of the TCFD (Task Force for Climate Related Financial Disclosures) and the use of climate scenarios and resilience analysis.

Appendix 1:
Referenced Documents List

Document Number	Document Name	Description
1	LAAD Green Finance Framework 04232021	
2	LAAD SEMS - A Procedures Manual	LAAD's environmental procedures manual
3	Cuestionario Ambienta y Social_02012021	LAAD's environmental and social survey
4	Cuestionario de Actividades Ganaderas	LAAD's survey of cattle activities
5	Draft_Orange Risk Category_01202021	LAAD's risk identification survey
6	LAAD 2020 Annual Report	

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Green

Appendix 2:
About CICERO Shades of Green

CICERO Green is a subsidiary of the climate research institute CICERO. CICERO is Norway's foremost institute for interdisciplinary climate research. We deliver new insight that helps solve the climate challenge and strengthen international cooperation. CICERO has garnered attention for its work on the effects of manmade emissions on the climate and has played an active role in the UN's IPCC since 1995. CICERO staff provide quality control and methodological development for CICERO Green.

CICERO Green provides second opinions on institutions' frameworks and guidance for assessing and selecting eligible projects for green bond investments. CICERO Green is internationally recognized as a leading provider of independent reviews of green bonds, since the market's inception in 2008. CICERO Green is independent of the entity issuing the bond, its directors, senior management and advisers, and is remunerated in a way that prevents any conflicts of interests arising as a result of the fee structure. CICERO Green operates independently from the financial sector and other stakeholders to preserve the unbiased nature and high quality of second opinions.

We work with both international and domestic issuers, drawing on the global expertise of the Expert Network on Second Opinions (ENSO). Led by CICERO Green, ENSO contributes expertise to the second opinions, and is comprised of a network of trusted, independent research institutions and reputable experts on climate change and other environmental issues, including the Basque Center for Climate Change (BC3), the Stockholm Environment Institute, the Institute of Energy, Environment and Economy at Tsinghua University and the International Institute for Sustainable Development (IISD).