

Second-Party Opinion

Estado de Mexico Sustainability Bond Framework



Evaluation Summary

Sustainalytics is of the opinion that the Estado de Mexico Sustainability Bond Framework is credible and impactful, and aligns with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021 and Social Bond Principles 2021. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds – Clean Transportation, Support for Vulnerable Groups and People in Vulnerable Situations, and Access to Essential Services – are aligned with those recognized by the Green Bond Principles and Social Bond Principles. Sustainalytics considers that investments in the eligible categories will contribute to positive environmental or social impacts and to advance the UN Sustainable Development Goals, specifically SDGs 3, 5, 10 and 11.



PROJECT EVALUATION / SELECTION Estado de Mexico’s Sustainable Committee will oversee the internal process for evaluating and selecting projects, reassessing their eligibility under the Framework yearly. The Committee will also be responsible for identifying and assessing environmental and social risks possibly associated with the projects. Sustainalytics considers the environmental and social risk management procedure to be adequate and the project selection process to be in line with market practice.



MANAGEMENT OF PROCEEDS Estado de Mexico’s Sustainable Committee will be responsible for tracking net bond proceeds and allocation. Pending allocation, proceeds will be managed as per the treasury guidelines set forth in Mexico’s Federal Act of Financial Discipline of States and Municipalities, and the Financial Code of the State of Mexico and its Municipalities. Estado de Mexico intends to fully allocate proceeds to eligible projects within 36 months from issuance and has established a look-back period for refinancing of 36 months. This is in line with market practice.



REPORTING Estado de Mexico intends to report on the allocation of proceeds on its website on an annual basis until full allocation. The allocation report will include a list of projects financed, the amounts allocated per category, and an estimated share of proceeds used for financing in relation to refinancing. In addition, Estado de Mexico is committed to reporting on relevant impact metrics. Sustainalytics views the allocation and impact reporting as aligned with market practice.

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Issuer Location	Toluca, Mexico

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Introduction

Estado de Mexico (“Edomex” or the “State”) is one of the 32 federal entities of the United Mexican States (“Mexico”). The State is comprised of 125 municipalities and is the largest and most densely populated state in Mexico with a population of approximately 16,992,418.¹

Edomex has developed the Edomex Sustainability Bond Framework, dated May 2022 (the “Framework”), under which it intends to issue green, social and sustainability bonds, and use the proceeds to finance and refinance, in whole or in part, projects that are expected to advance the State’s development plan, which is in alignment with the United Nations Sustainable Development Goals.

The Framework defines one green eligible category in the area of:

1. Clean Transportation

Additionally, the Framework defines social eligibility categories in the following two areas:

1. Support for Vulnerable Groups and People in Vulnerable Situations
2. Access to Essential Services

Edomex engaged Sustainalytics to review the Edomex Sustainability Bond Framework and provide a Second-Party Opinion on the Framework’s environmental and social credentials and its alignment with the Sustainability Bond Guidelines 2021 (SBG), Green Bond Principles 2021 (GBP), and Social Bond Principles 2021 (SBP).² The Framework has been published in a separate document.³

Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent⁴ opinion on the alignment of the reviewed Framework with current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, and Social Bond Principles 2021, as administered by ICMA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.11, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with officials from the Estado de Mexico to understand the sustainability impact of its processes and planned use of proceeds, as well as the management of proceeds and reporting aspects of the Framework. Representatives from the Estado de Mexico have confirmed that: (1) they understand it is the sole responsibility of Estado de Mexico to ensure that the information provided is complete, accurate and up to date; (2) they have provided Sustainalytics with all relevant information; and (3) any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics’ opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and the Estado de Mexico.

¹ INEGI, “Censo de población y Vivienda 2020”, at: [ResultCenso2020_EdMx.pdf \(inegi.org.mx\)](https://inegi.org.mx/ResultCenso2020_EdMx.pdf)

² The Sustainability Bond Guidelines, Green Bond Principles, and Social Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>

³ The Edomex Sustainability Bond Framework is available on The Estado de Mexico ’s website at: <https://finanzas.edomex.gob.mx>

⁴ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond proceeds but does not measure their actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realized allocation of the bond proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that the Estado de Mexico has made available to Sustainalytics for the purpose of this Second-Party Opinion.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Edomex Sustainability Bond Framework

Sustainalytics is of the opinion that the Edomex Sustainability Bond Framework is credible, impactful and aligns with the four core components of the GBP and SBP. Sustainalytics highlights the following elements of the Edomex Sustainability Bond Framework:

- Use of Proceeds:
 - The eligible categories – Clean Transportation, Support for Vulnerable Groups and People in Vulnerable Situations, and Access to Essential Services – are aligned with those recognized by the GBP and SBP.
 - Under the Clean Transportation category, Edomex intends to finance the design, construction, operation and maintenance of the following public transport systems:
 - Public transport generating zero direct GHG emissions, including metro lines, light rail transit, cable car systems, electric buses, trams and trains.
 - Other forms of transport, such as buses and BRT systems, generating direct emissions below 50 gCO₂/pkm.
 - Infrastructure that supports clean transportation, such as charging stations for electric vehicles and bicycle lane infrastructure.

Sustainalytics considers these investments to be aligned with market practice.

- For the social categories, Edomex has defined vulnerable populations as those on low income (below state or nationally defined income levels), people in extreme poverty, children and youth, the unemployed, people with disabilities, veterans, rural population, indigenous populations, women and victims of violence. Sustainalytics believes that the Framework has well-defined target populations and that providing services to these populations will provide social benefits, which is in line with the SBP.
- Under the Support for Vulnerable Groups and People in Vulnerable Situations category, Edomex intends to finance free and publicly available services and infrastructure to support women and vulnerable populations. Eligible projects include clinics, hospitals, mental health services and multidisciplinary counselling services.⁵
 - In addition, financing may be provided to public medical centres for the acquisition of medical equipment, diagnostics services and related supporting infrastructure.
 - Edomex may finance projects such as maternity healthcare units and care centers for women victims of violence.
 - Sustainalytics views the financing of free healthcare services as having positive social impacts, including for the target populations.

⁵ Multidisciplinary services include programmes for the prevention against gender violence and to protect women victims of abuse, prevention and care of teenage pregnancy, comprehensive health care for women, financial literacy and workshops for entering the workforce.

- Under the Access to Essential Services category, Edomex intends to develop and expand parks, sidewalks for increased accessibility, community and recreational infrastructures and facilities. Sustainalytics views these activities as having positive social impacts. In addition, Edomex intends to finance the development of roads and feeder roads in rural areas where there is currently a lack of connectivity or a lack of access to social infrastructure. Sustainalytics views these investments to be aligned with market practice.
- The Framework provides exclusionary criteria prohibiting the use of proceeds to finance projects or expenditures associated with the exploration or production of fossil fuels, generation of nuclear power, alcohol, weapons, tobacco, palm oil, cattle raising and beef production, biodiversity loss, impact to indigenous people's rights, child labour, forced labour, conflict minerals and adult entertainment industries. Sustainalytics views the exclusion of these activities to further strengthen the Framework.
- Project Evaluation and Selection:
 - Edomex will establish a Sustainable Committee (the "Committee"), comprised of members from the State's Directorate General of Treasury and the Secretary of Finance (Under Secretary of Planning and Programming), who will be responsible for the review, selection and authorization of projects to be financed under the Framework (the "Eligible Projects").
 - The Committee will review and ensure the eligible projects remain compliant with the Framework on an annual basis. The Committee will report directly to the Secretary of Finance.
 - Furthermore, the Committee will be in charge of identifying and assessing environmental and social risks possibly associated with Eligible Projects, based on Edomex's risk management policies and sustainability priorities. This process is applicable to all allocation decisions made under the Framework. Sustainalytics considers these environmental and social risk management systems to be adequate and aligned with market expectations. For additional detail, see Section 2.
 - Based on the above defined responsibility for project evaluation and selection, Sustainalytics considers this process to be in line with market practice.
- Management of Proceeds:
 - The Committee will be responsible for tracking net proceeds from any green, social and sustainability bonds. The Committee will keep a register of the Eligible Projects. Net proceeds will be deposited into a separate account.
 - Pending allocation, proceeds will be managed as per the treasury guidelines set forth in Mexico's Federal Act of Financial Discipline of States and Municipalities,⁶ and the Financial Code of the State of Mexico and its Municipalities.⁷
 - Edomex intends to allocate proceeds to Eligible Projects within 36 months after issuance. Projects eligible for refinancing include those financed in the previous 36 months.
 - Based on the defined allocation timeframe and disclosure on the temporary use of proceeds, Sustainalytics considers this process to be in line with market practice.
- Reporting:
 - Edomex commits to publish an allocation report on its website annually⁸ until net proceeds have been fully allocated.
 - The allocation report will include a list of the Eligible Projects financed, the amounts allocated per category, and an estimated share of proceeds used for financing in relation to refinancing.
 - The reporting will include the expected environmental and social impacts. Edomex will include at least one key performance indicator per category, such as annual CO₂ emissions reduction, the number of total beneficiaries divided by age and gender, and the number of service users supported.
 - Based on the commitment to allocation and impact reporting, Sustainalytics considers this process to be in line with market practice.

Alignment with Sustainability Bond Guidelines 2021

Sustainalytics has determined that the Edomex Sustainability Bond Framework aligns with the four core components of the GBP and SBP, which also apply to sustainability bonds under the Sustainability Bond

⁶ Cámara de Diputados, "Ley de disciplina financiera de las entidades federativas y los municipios", (2018), at: http://www.diputados.gob.mx/LeyesBiblio/pdf/LDFEFM_300118.pdf

⁷ Edomex, "Código financiero del Estado de México y municipios", (2021), at: <https://legislacion.edomex.gob.mx/sites/legislacion.edomex.gob.mx/files/files/pdf/cod/vig/codvig007.pdf>

⁸ Please provide the website link where the report will be available.

Guidelines. For detailed information, please refer to Appendix 1: Sustainability Bond/ Sustainability Bond Programme External Review Form.

Section 2: Sustainability Strategy of Edomex

Contribution of Framework to Estado de Mexico's sustainability mandate

Edomex demonstrates a commitment to sustainability through the implementation of its Development Plan 2017-2023 (the "Plan"). The Plan outlines a roadmap for the State's strategies, policies and programmes created to improve the quality of life for citizens and encourage sustainable development. Specifically, the Plan focuses on "gender equality, capable and responsible government and connectivity, and technology for good governance." The Plan is further supported by the following four pillars: (i) social, (ii) economic, (iii) territorial and (iv) public safety, and the Plan is aligned with the Sustainable Development Goals (SDGs) to be met by 2030. Among said strategies, policies and programmes, the following are the most relevant to the eligible project categories:⁹

- Social pillar – Under this pillar, Edomex is focusing on reducing poverty and hunger, and advancing inclusive quality education, health and well-being. The State has established a goal of supporting Mexican families, promoting employment and protecting the income of vulnerable groups, such as women and indigenous people, in order to meet basic needs and improve quality of life. To achieve this goal, the State distributes packages of goods for families in extreme poverty. During the COVID-19 pandemic, the 'Social Families' strategy was implemented consisting of nutrition, income, educational and housing support programmes. Specifically for women, under the Gender Equality and Eradication of Violence division, Edomex sets policies and programmes to provide equal opportunities in the job market.¹⁰
- Economic pillar – Edomex is focusing on strengthening, modernizing and transforming the economic environment with the aim of improving the State's productive capacity and encouraging sustainable development. An economic development plan outlines strategies such as strengthening commerce and local production of goods and services to increase foreign and local investments, support entrepreneurship and MSMEs and provide subsidies to boost various industries to stimulate productivity. Furthermore, Edomex has made investments into maintaining internal roads and improving drinking water, sanitation and drainage facilities to increase the capacity of industrial parks. Aiming to increase connectivity to economic hubs sustainably, Edomex has implemented strategies that strengthen transportation systems, such as the development of a programme with participation of the public and private sectors for the rehabilitation of roads, parks, and industrial zones, prioritizing building resilient infrastructure.¹¹
- Territorial pillar – Under this pillar, Edomex seeks to promote sustainable and resilient cities. The State aims to improve the mobility needs of its population and create inclusiveness while reducing the environmental footprint of the State. In terms of social initiatives, the Sustainable Urban and Metropolitan Development Programme works on designing safe and resilient spaces and applies a gender-specific lens for women. In terms of environmental initiatives, the Air Quality Management Programme was implemented to manage air quality with a focus on criteria pollutants and transparent disclosure on state air quality, emissions inventory and health impacts. The programme runs until 2030.¹² In terms of ecological preservation, Edomex established Probosque, a public organization, under which the Sustainable Forestry Programme was implemented to establish short, mid and long-term ecological goals for the State including forest inspections, afforestation programmes, conservation and restoration to maintain the ecological integrity and improve air quality.¹³ As of 2021, 154 projects have been executed with an additional 170 existing projects under the Plan.¹⁴

⁹ Edomex, "Plan De Desarrollo Del Estado De Mexico 2017-2023", at: <http://edomex.gob.mx/sites/edomex.gob.mx/files/files/PDEM%202017-2023%20PE.pdf>

¹⁰ Gobierno Del Estado de México, "Planes y Programas", at: [Sectoriales | Comité de Planeación para el Desarrollo del Estado de México \(edomex.gob.mx\)](#)

¹¹ Gobierno Del Estado de México, "Planes y Programas", at: [Sectoriales | Comité de Planeación para el Desarrollo del Estado de México \(edomex.gob.mx\)](#)

¹² Gobierno Del Estado de México, "Planes y Programas", at: [Sectoriales | Comité de Planeación para el Desarrollo del Estado de México \(edomex.gob.mx\)](#)

¹³ Gobierno Del Estado de México, "Planes y Programas", at: [Sectoriales | Comité de Planeación para el Desarrollo del Estado de México \(edomex.gob.mx\)](#)

¹⁴ Gobierno Del Estado de México, "Sustainability Bond Framework", (2021), at: <https://finanzas.edomex.gob.mx>

Edomex has developed additional tools, such as the Comprehensive Development Monitoring and Evaluation System (Spanish acronym: SIMED-EDOMEX), to measure the advancement of its sustainable development agenda, as per the alignment with the SDGs. Sustainalytics is of the opinion that the Edomex Sustainability Bond Framework is aligned with the State's overall sustainability strategy and initiatives and will further its actions on its key environmental and social priorities.

Well positioned to address possible environmental and social risks

The net proceeds from the bonds issued under the Framework are recognized to be directed towards eligible projects that are anticipated to have positive environmental impact. However, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Some key environmental and social risks associated with the eligible projects could include land use and biodiversity issues associated with large-scale infrastructure development, lack of stakeholder participation, occupational health and safety issues, waste management issues, and social exclusion and inequality for social programmes that are not well targeted.

Sustainalytics is of the opinion that Edomex is able to manage or mitigate potential risks through the implementation of the following:

- To manage and mitigate land use and biodiversity risks, Edomex is subjected to Mexico's General Law on Ecological Balance and Environmental Protection. This law requires plans and programmes to be in place to ensure protection, adaptation and management of ecosystems and their biodiversity.^{15,16} To this end, Edomex's Secretary of Environment is responsible for upholding this law and coordinating efforts to create programmes and execute projects compliant with the law.¹⁷ For example, the Ecological Conservation Project considers actions of reforestation, vegetation conservation and environmental education to protect ecosystems, particularly in urban areas.¹⁸ Furthermore, Edomex has implemented the Code for Biodiversity for the State of Mexico which regulates ecological balance, environmental protection, natural resource use and forestry development while promoting sustainable development.¹⁹
- Regarding the mitigation and management of risks involving community relations and stakeholder participation, Edomex has in place a process for ensuring transparency and access to information as per the Law of Transparency and Access to Public Information.²⁰ The law promotes the continuous sharing of information with the public and active public participation.²¹
- With regard to occupational health and safety, Edomex's Secretary of Labour is responsible for implementing policies and standards on health and safety in the workplace. Taking on a principle of prevention, the Secretary of Labour focuses specifically on hygiene and safety. Through the Training Institute for Industrial Work (Instituto de Capacitación y Adiestramiento para el Trabajo Industrial) the State offers training programmes and courses on topics such as fire prevention, ethics and values for occupational safety and communication on human relations in safety and hygiene,²² which ensure government, employers and workers comply with their labour obligations,²³ and the laws, regulations and standards that Edomex administers.^{24,25}
- For waste management, Edomex's Secretary of Environment operates under a legal framework which establishes waste management and mitigation policies.²⁶ The State's General Law for the Prevention and Comprehensive Management of Waste requires proper management and handling of hazardous and non-hazardous waste including residues from industrial processes. The law establishes a criterion for defining whether waste poses an environmental risk. The law also

¹⁵ Ministry for the Environment and Natural Resources, "LEY GENERAL DEL EQUILIBRIO ECOLÓGICO Y LA PROTECCIÓN AL AMBIENTE", at: <https://biblioteca.semarnat.gob.mx/janium/Documentos/Ciga/agenda/DOFsr/148.pdf>

¹⁶ Economic Commission for Latin America and the Caribbean, "General Law of Ecological Balance and Environmental Protection", at: <https://observatoriop10.cepal.org/es/instrumentos/ley-general-equilibrio-ecologico-proteccion-al-ambiente>

¹⁷ Secretaría del Medio Ambiente, "Antecedentes", at: <https://sma.edomex.gob.mx/antecedentes>

¹⁸ Secretaría del Medio Ambiente, "Conservación Ecológica de Áreas Naturales Protegidas", at: https://sma.edomex.gob.mx/conservacion_ecologica_areas_naturales_protegidas

¹⁹ Gobierno Del Estado de México, "Códigos Vigentes", at: <http://legislacion.edomex.gob.mx/codigos/vigentes>

²⁰ Gobierno Del Estado de México, "¿Qué es Transparencia?", at: http://edomex.gob.mx/que_es_transparencia

²¹ Gobierno Del Estado de México, "LEY DE TRANSPARENCIA Y ACCESO A LA INFORMACIÓN PÚBLICA DEL ESTADO DE MÉXICO Y MUNICIPIOS", at: <http://legislacion.edomex.gob.mx/sites/legislacion.edomex.gob.mx/files/files/pdf/ley/vig/leyvig094.pdf>

²² Secretaría del Trabajo, "Cursos de Seguridad e Higiene", at: https://strabajo.edomex.gob.mx/concurso_seguridad_higiene

²³ Secretaría del Trabajo, "Seguridad e Higiene", at: https://strabajo.edomex.gob.mx/segunda_higiene

²⁴ Secretaría del Trabajo, "Antecedentes", at: <https://strabajo.edomex.gob.mx/antecedentes>

²⁵ Instituto de Capacitación y Adiestramiento para el Trabajo Industrial, "Marco Jurídico", at: <https://icati.edomex.gob.mx/marco-juridico>

²⁶ Secretaría del Medio Ambiente, "Marco jurídico", at: http://sma.edomex.gob.mx/marco_juridico

mandates management to consider waste volume, encourage waste reduction, recycling and technological developments that are economically, socially and environmentally feasible for comprehensive management.²⁷

- Edomex has laws, processes, and eligibility criteria to manage social exclusion and inequality risks. The State has enacted the Law of Social Development of the State of Mexico which requires that social development programmes are inclusive to all members of society, promote programmes that overcome poverty, marginalization and exclusion. The law also requires that permanent evaluation of public policies are in place to continuously improve inclusion.²⁸ Edomex also has implemented laws catered to specific underserved groups, such as women and indigenous people. The Law of Equal Treatment and Opportunities between Women and Men of the State of Mexico ensures gender equality by promoting women empowerment and eliminating discrimination in public and private spheres.²⁹ Edomex also established the State Council, a public body that enacts policies, programmes, strategies and actions for Indigenous peoples and sets a formal procedure to engage with them.³⁰ Furthermore, in compliance with these laws, Edomex has implemented several support programmes for marginalized groups, including women, older adults, parents, people with disabilities and adolescents. These support programmes allow these groups to improve their well-being and access to essential services.³¹

Based on these policies, standards and assessments, Sustainalytics is of the opinion that Edomex has implemented adequate measures and is well positioned to manage or mitigate environmental and social risks commonly associated with the eligible categories.

Section 3: Impact of Use of Proceeds

All three use of proceeds categories are aligned with those recognized by GBP or SBP. Sustainalytics has focused on two below where the impact is specifically relevant in the local context.

Importance of investing in public transportation to reduce GHG emissions and improve mobility

Between 2019 and 2020, the transportation sector in Mexico accounted for 36% of the nation's total direct GHG emissions.³² A passenger vehicle emits on average 1.62 tCO_{2e} per capita annually.³³ The transportation sector in Mexico currently relies primarily on fossil fuels: 99.7% of its energy mix comes from oil sources, such as gasoline and diesel.³⁴ In order to significantly decrease emissions, the transportation sector needs to move to zero emissions as quickly as possible.³⁵

As a part of its nationally determined contribution under the Paris Agreement, Mexico has committed to reducing GHG emissions by 22% and black carbon by 51% by 2030 compared to a business-as-usual scenario baseline.³⁶ The Mexican government made commitments to reduce emissions from the transport sector by implementing policies and measures targeting combustion motor vehicles, encouraging alternative transportation systems, and promoting clean transportation programmes.^{37, 38} Mexico, especially in Edomex, has seen growth in alternative transportation systems, including cable cars. Edomex has a cable car system, the Mexicable, as part of the public transportation network in Ecatepec. The system's gondolas are able to carry 3,000 passengers per hour, eliminating approximately 800 passenger vehicles from the State's roads.³⁹

²⁷ Orden Jurídico Nacional – Gobierno de México, “REGLAMENTO DE LA LEY GENERAL PARA LA PREVENCIÓN Y GESTIÓN INTEGRAL DE LOS RESIDUOS”, at: <http://www.ordenjuridico.gob.mx/Documentos/Federal/html/wo88549.html>

²⁸ Gobierno Del Estado de México, “Periódico Oficial Gaceta del Gobierno y LEGISTEL”, at: <http://legislacion.edomex.gob.mx/leyes>

²⁹ Gobierno Del Estado de México, “Periódico Oficial Gaceta del Gobierno y LEGISTEL”, at: <http://legislacion.edomex.gob.mx/leyes>

³⁰ Gobierno Del Estado de México, “Periódico Oficial Gaceta del Gobierno y LEGISTEL”, at: <http://legislacion.edomex.gob.mx/leyes>

³¹ Gobierno Del Estado de México, “Atención a Personas”, at: https://difem.edomex.gob.mx/atencion_personas

³² Godinho, G. et al., (2020), “Mexico – Climate Transparency Report”, Climate Transparency, at: <https://www.climate-transparency.org/wp-content/uploads/2020/11/Mexico-CT-2020-WEB2.pdf>

³³ Godinho, G. et al., (2020), “Mexico – Climate Transparency Report”, Climate Transparency, at: <https://www.climate-transparency.org/wp-content/uploads/2020/11/Mexico-CT-2020-WEB2.pdf>

³⁴ Godinho, G. et al., (2020), “Mexico – Climate Transparency Report”, Climate Transparency, at: <https://www.climate-transparency.org/wp-content/uploads/2020/11/Mexico-CT-2020-WEB2.pdf>

³⁵ Godinho, G. et al., (2020), “Mexico – Climate Transparency Report”, Climate Transparency, at: <https://www.climate-transparency.org/wp-content/uploads/2020/11/Mexico-CT-2020-WEB2.pdf>

³⁶ Ministry of Environmental and Natural Resources, (2020), “Nationally Determined Contributions – 2020 Update”, Government of Mexico, at: <https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Mexico%20First/NDC-Eng-Dec30.pdf>

³⁷ Ministry of Environmental and Natural Resources, (2020), “Nationally Determined Contributions – 2020 Update”, Government of Mexico

³⁸ Grados, M.G. et al. (2020), “Making Transport Paris-Compatible”, Climate Transparency, at: <https://www.climate-transparency.org/wp-content/uploads/2020/04/CT-Decarbonization-Transport-Mexico-DIGITAL.pdf>

³⁹ Landsman, P. (2016), “Mexico's Big Urban Gondola to Open in October, WordPress – LiftBlog, at: <https://liftblog.com/2016/09/15/mexicos-big-urban-gondola-to-open-in-october/>

In addition, the Mexicable is powered by solar energy therefore reducing the system's environmental footprint.^{40,41} The Mexicable helps to avoid an estimated 17,000 tonnes of CO₂ emissions annually.^{42,43}

In addition, Edomex has also signed an agreement with Mexico City to establish the new Chalco-Santa Martha Trolleybus project, an electric bus rapid transit (EBRT), to advance clean mobility and regional integration.⁴⁴ Electric buses will eliminate the emissions generated by diesel exhausts from passenger trips between the State and Mexico City and improve air quality.^{45,46}

Under the clean transportation category, Edomex intends to finance and refinance clean transportation projects that are expected to increase alternative transportation modes or those that operate using renewable energy sources, such as the cable car systems and electric bus rapid transit networks. Sustainalytics is of the opinion that projects financed under this category are expected to reduce GHG emissions, therefore contributing towards Mexico's progress on meeting its national commitments.

Importance of supporting women entrepreneurship and women in the workforce in Mexico

Women in Mexico have unequal access to education and experience more barriers to professional development than men, including the gender wage gap.⁴⁷ Edomex's economy makes up a significant portion of Mexico's economy, contributing 8.9% to the national GDP in 2019.⁴⁸ As a result, gender inequality within the State has national implications. In 2020, the overall unemployment rate, including both men and women part of the economically active population, in Edomex was 6.5% versus 39.5% for women alone.⁴⁹ That is slightly higher than the national rate of 37.8%.^{50,51} Additionally, nearly 480,000 women in Edomex left the workforce due to the pandemic, contributing to the 1 million women who left the economically active population versus 166,000 men nationally since March 2020.⁵²

Edomex and the Government of Mexico have implemented policies to ensure equal opportunity for women in the workforce. Edomex, for example, has established the Division of Gender Equality and Eradication of Violence to provide women with equal opportunities in the job market, and ensure pay equality. Additionally, Edomex has implemented the Salario Rosa (Pink Salary) programme to raise the income of 50,000 women between 18 and 59 years of age who are in poverty not yet employed by providing a stipend. Furthermore, multiple branches of this programme support family development, vulnerability from disease and other injustices that women face.⁵³ At the national level, the Government of Mexico has implemented the National Financial Inclusion Strategies in 2016, which includes the "Mujeres PYME" policy aimed at supporting small businesses led by women. This policy is expected to help almost 7 million women to participate in the formal financial system.⁵⁴ In 2020, the OECD launched the "Niña STEM Pueden" programme with the Mexican government to provide equal opportunities for Mexican girls wanting to pursue a career in science, technology, engineering and mathematics fields.^{55,56}

⁴⁰ Atlas Obscura, "Mexicable Cable Car", at: <https://www.atlasobscura.com/places/mexicable-cable-car>

⁴¹ Presidencia de la República EPN, (2016), "The urban infrastructure and mass transport works the government has been promoting make the country more competitive: EPN", Gobierno De México, at: <https://www.gob.mx/epn/prensa/the-urban-infrastructure-and-mass-transport-works-the-government-has-been-promoting-make-the-country-more-competitive-epn>

⁴² Landsman, P. (2016), "Mexico's Big Urban Gondola to Open in October, WordPress – LiftBlog, at: <https://liftblog.com/2016/09/15/mexicos-big-urban-gondola-to-open-in-october/>

⁴³ The Climate Group, "Climate Change Mitigation in the State of Mexico", (2020), at: <https://www.theclimategroup.org/sites/default/files/2020-10/Mexico-State-Appendix.pdf>

⁴⁴ El Economista, "Alistan Corredo Trolebús Chalco-Santa Martha", (2021), at: <https://www.economista.com.mx/estados/Alistan-Corredor-Trolebus-Chalco-Santa-Martha-20211024-0089.html>

⁴⁵ Casale, M. et al. (2019), "Electric Buses in America", Environment America, at: <https://environmentamerica.org/feature/ame/electric-buses-america>

⁴⁶ Internal documents provided to Sustainalytics from Edomex

⁴⁷ Bolio, E. et al. (2019), "One aspiration, two realities: Promoting gender equality in Mexico", McKinsey & Company, at: <https://www.mckinsey.com/featured-insights/americas/one-aspiration-two-realities-promoting-gender-equality-in-mexico>

⁴⁸ State of Mexico Government – Economic Development Secretary, "Invest in the State of Mexico – Why the State of Mexico", (2021), at: https://desarrolloeconomico.edomex.gob.mx/sites/desarrolloeconomico.edomex.gob.mx/files/files/INVERSION/2_%20State%20of%20Mexico%20Brochure%2007092021.pdf

⁴⁹ Gobierno Del Estado de México, "Sustainability Bond Framework", (2021), at: <https://finanzas.edomex.gob.mx>

⁵⁰ Gobierno Del Estado de México, "Sustainability Bond Framework", (2021), at: <https://finanzas.edomex.gob.mx>

⁵¹ UBS (Union Bank of Switzerland, "Mexico: COVID and the Impact of Women in the Labour Force", (2021), at: <https://www.ubs.com/global/en/investment-bank/in-focus/covid-19/2021/women-employment-rates.html>

⁵² UBS (Union Bank of Switzerland, "Mexico: COVID and the Impact of Women in the Labour Force", (2021)

⁵³ Gobierno Del Estado de México, "Sustainability Bond Framework", (2021), at: <https://finanzas.edomex.gob.mx>

⁵⁴ Center for Financial Inclusion, "Mexico Launches Comprehensive Financial Inclusion Strategy", (2016), at: <https://www.centerforfinancialinclusion.org/mexico-launches-comprehensive-financial-inclusion-strategy>

⁵⁵ OECD, "Gender Equality and the Empowerment of Women for Inclusive Growth in Mexico", (2020), at: <https://www.oecd.org/about/secretary-general/gender-equality-and-empowerment-of-women-for-inclusive-growth-mexico-january-2020.htm>

⁵⁶ OECD, "Initiative NiñaSTEM Can", (2020), at: <https://www.oecd.org/centrodemexico/iniciativa-niastem-pueden.htm>

Edomex intends to finance and refinance publicly available, free and accessible projects that are expected to improve vulnerable populations' economic security and autonomy. By doing so, projects will provide better access to entrepreneurship and employment opportunities for women and other underserved groups and, therefore, contribute to closing the gender equality gap at state and national level.

Overall, Sustainalytics is of the opinion that projects financed to provide support to vulnerable populations by Edomex are expected to contribute to addressing equality issues in the State and reflect nationally as well.

Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were adopted in September 2015 by the United Nations General Assembly and form part of an agenda for achieving sustainable development by the year 2030. The bonds eventually issued under the Edomex Sustainability Bond Framework are expected to contribute to the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Clean Transportation	11. Sustainable Cities and Communities	11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons
Support for vulnerable groups and people in vulnerable situations	3. Good Health and Well-being	3.7 By 2030, ensure universal access to sexual and reproductive health-care services, including for family planning, information and education, and the integration of reproductive health into national strategies and programmes
	5. Gender Equality	5.5 Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life
	10. Reduced Inequalities	10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status
Access to Essential Services	10. Reduced Inequalities	10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status

Conclusion

Edomex has developed the Edomex Sustainability Bond Framework, under which it may issue green, social and sustainability bonds, and use the proceeds to finance or refinance projects that are expected to advance the State's development plan, which is in alignment with the United Nations Sustainable Development Goals. Sustainalytics considers that the projects funded by the green, social and sustainability bond proceeds are expected to provide positive environmental and social impact.

The Edomex Sustainability Bond Framework outlines a process for tracking, allocating and managing proceeds, and makes commitments for Edomex to report on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the Edomex Sustainability Bond Framework is aligned with the overall sustainability strategy of the State and that the use of proceeds categories will contribute to advance the UN Sustainable Development Goals, specifically SDGs 3, 5, 10 and 11. Additionally, Sustainalytics is of the opinion that Edomex has adequate measures to identify, manage or mitigate environmental and social risks commonly associated with the eligible projects funded by the proceeds.

Based on the above, Sustainalytics is confident that the Estado de Mexico is well-positioned to issue green, social and sustainability bonds and that the Edomex Sustainability Bond Framework is robust, transparent and in alignment with the four core components of the Green Bond Principles (2021) and Social Bond Principles (2021).

Appendix

Appendix 1: Sustainability Bond / Sustainability Bond Programme - External Review Form

Section 1. Basic Information

Issuer name:	The Estado de Mexico
Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable:	Estado de Mexico Sustainability Bond Framework
Review provider's name:	Sustainalytics
Completion date of this form:	May 2, 2022
Publication date of review publication:	

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBP and SBP:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

ROLE(S) OF REVIEW PROVIDER

- | | |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (*if applicable*)

Please refer to Evaluation Summary above.

Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

1. USE OF PROCEEDS

Overall comment on section *(if applicable)*:

The eligible categories for the use of proceeds – Clean Transportation, Support for Vulnerable Groups and People in Vulnerable Situations and Access to Essential Services – are aligned with those recognized by both the Green Bond Principles and Social Bond Principles. Sustainalytics considers that investments in the eligible categories will lead to positive environmental or social impacts and advance the UN Sustainable Development Goals, specifically SDG 3, 5, 10 and 11.

Use of proceeds categories as per GBP:

- | | |
|--|--|
| <input type="checkbox"/> Renewable energy | <input type="checkbox"/> Energy efficiency |
| <input type="checkbox"/> Pollution prevention and control | <input type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input checked="" type="checkbox"/> Clean transportation |
| <input type="checkbox"/> Sustainable water and wastewater management | <input type="checkbox"/> Climate change adaptation |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes | <input type="checkbox"/> Green buildings |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input type="checkbox"/> Other (please specify): |

If applicable please specify the environmental taxonomy, if other than GBPs:

Use of proceeds categories as per SBP:

- | | |
|---|---|
| <input type="checkbox"/> Affordable basic infrastructure | <input checked="" type="checkbox"/> Access to essential services |
| <input type="checkbox"/> Affordable housing | <input type="checkbox"/> Employment generation (through SME financing and microfinance) |
| <input type="checkbox"/> Food security | <input type="checkbox"/> Socioeconomic advancement and empowerment |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBP | <input checked="" type="checkbox"/> Other (please specify): Support for vulnerable groups and people in vulnerable situations |

If applicable please specify the social taxonomy, if other than SBP:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

Estado de Mexico's internal process in evaluating and selecting projects will be overseen by its Sustainable Committee. The Committee will examine Eligible Projects in accordance with the Framework on an annual

basis to ensure alignment. In addition, the Committee will be responsible for assessing project related environmental and social and this is applicable to all allocation decision made under the Framework. Sustainalytics considers the environmental and social risk management to be adequate and the project selection process in line with market practice.

Evaluation and selection

- | | |
|---|---|
| <input checked="" type="checkbox"/> Credentials on the issuer's social and green objectives | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Sustainability Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input checked="" type="checkbox"/> Summary criteria for project evaluation and selection publicly available | <input type="checkbox"/> Other (please specify): |

Information on Responsibilities and Accountability

- | | |
|--|--|
| <input checked="" type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other (please specify): | |

3. MANAGEMENT OF PROCEEDS

Overall comment on section (*if applicable*):

Estado de Mexico's Sustainable Committee will be responsible for tracking net bond proceeds and allocation. Pending allocation, proceeds may follow the treasury guidelines as set forth in Mexico's Federal Act of Financial Discipline of States and Municipalities, and the Financial Code of the State of Mexico and its Municipalities. Estado de Mexico intends to fully allocate proceeds to eligible projects within 36 months from issuance and has established a look-back period for refinancing of 36 months. This is in line with market practice.

Tracking of proceeds:

- | |
|---|
| <input checked="" type="checkbox"/> Sustainability Bond proceeds segregated or tracked by the issuer in an appropriate manner |
| <input checked="" type="checkbox"/> Disclosure of intended types of temporary investment instruments for unallocated proceeds |
| <input type="checkbox"/> Other (please specify): |

Additional disclosure:

- | | |
|---|---|
| <input type="checkbox"/> Allocations to future investments only | <input checked="" type="checkbox"/> Allocations to both existing and future investments |
| <input type="checkbox"/> Allocation to individual disbursements | <input checked="" type="checkbox"/> Allocation to a portfolio of disbursements |

- Disclosure of portfolio balance of unallocated proceeds
 Other (please specify):

4. REPORTING

Overall comment on section (if applicable):

Estado de Mexico intends to report on the allocation of proceeds through on its website and on an annual basis until full allocation. The allocation report will include a list of the Eligible Projects financed, the amounts allocated per category, and an estimated share of proceeds used for financing vs refinancing. In addition, Estado de Mexico is committed to reporting on relevant impact metrics. Sustainalytics views the allocation and impact reporting as aligned with market practice.

Use of proceeds reporting:

- Project-by-project
 On a project portfolio basis
 Linkage to individual bond(s)
 Other (please specify):

Information reported:

- Allocated amounts
 Sustainability Bond financed share of total investment
 Other (please specify):
 Share of proceeds used for financing vs refinancing

Frequency:

- Annual
 Semi-annual
 Other (please specify):

Impact reporting:

- Project-by-project
 On a project portfolio basis
 Linkage to individual bond(s)
 Other (please specify):

Information reported (expected or ex-post):

- GHG Emissions / Savings
 Energy Savings
 Decrease in water use
 Number of beneficiaries
 Target populations
 Other ESG indicators (please specify): Number of electric vehicles deployed; Updates on community centres/parks completed; Number of service users supported

Frequency:

- Annual Semi-annual
 Other (please specify):

Means of Disclosure

- | | |
|---|---|
| <input type="checkbox"/> Information published in financial report | <input type="checkbox"/> Information published in sustainability report |
| <input type="checkbox"/> Information published in ad hoc documents | <input checked="" type="checkbox"/> Other (please specify): Information published in a separate report on website |
| <input type="checkbox"/> Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review): | |

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer’s documentation, etc.)

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

- | | |
|--|--|
| <input type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification / Audit | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

Review provider(s):

Date of publication:

ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP AND THE SBP

- i. Second-Party Opinion: An institution with sustainability expertise that is independent from the issuer may provide a Second-Party Opinion. The institution should be independent from the issuer’s adviser for its Sustainability Bond framework, or appropriate procedures such as information barriers will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Principles. In particular, it can include an assessment of the issuer’s overarching objectives, strategy, policy, and/or processes relating to sustainability and an evaluation of the environmental and social features of the type of Projects intended for the Use of Proceeds.
- ii. Verification: An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or sustainability criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally or socially sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer’s internal tracking method for use of proceeds, allocation of funds from Sustainability Bond proceeds, statement of environmental or social impact or alignment of reporting with the Principles may also be termed verification.

-
- iii. **Certification:** An issuer can have its Sustainability Bond or associated Sustainability Bond framework or Use of Proceeds certified against a recognised external sustainability standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
 - iv. **Green, Social and Sustainability Bond Scoring/Rating:** An issuer can have its Sustainability Bond, associated Sustainability Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental and/or social performance data, process relative to the Principles, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material sustainability risks.

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