

Second-Party Opinion

FIRA Sustainable Bond Framework



Evaluation Summary

Sustainalytics is of the opinion that the FIRA Sustainable Bond Framework is credible and impactful and aligns with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, and Social Bond Principles 2023. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds¹ are aligned with those recognized by 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 SDGs 1, 2, 5, 6, 7, 8, 9, 10, 11, 13, 14 and 15.



PROJECT EVALUATION AND SELECTION FIRA's Environmental, Fishery and Value Chain Directorate will be responsible for the internal process for evaluating and selecting green projects, and the Products and Services Development and Promotion Directorate will manage the process for social projects. Both departments identify and validate eligible projects based on data extracted from FIRA's internal database. FIRA has an environmental and social risk management system in place to address environmental and social risks associated with the projects being financed. Sustainalytics considers the project selection process in line with market practice.



MANAGEMENT OF PROCEEDS FIRA's Finance Directorate oversees the process for the management of proceeds. Eligible projects will be tracked using a unique identifier for each bond and managed according to an internal tracking system. FIRA intends to allocate the proceeds within 24 months of each bond issuance or as soon as reasonably possible. Pending allocation, unallocated proceeds will be temporarily invested following its internal liquidity management policy, including holding proceeds in liquid assets or bank accounts. This is in line with market practice.



REPORTING FIRA commits to reporting on the allocation and impact of proceeds, via an Allocation and Impact Report, on its website on an annual basis until full allocation. Allocation reporting will include the description of the financing, the amounts disbursed by eligible category, the percentage of resources allocated by eligible category and by financing and refinancing, and the remaining balance of unallocated proceeds. In addition, FIRA commits to reporting on relevant impact metrics. Sustainalytics views FIRA's allocation and impact reporting commitment as aligned with market practice.

Evaluation date	November 26, 2024 ²
Issuer Location	Morelia, Mexico

Report Sections

Introduction.....	2
Sustainalytics' Opinion	3

For inquiries, contact the Sustainable Corporate Solutions project team:

John-Paul Iamonaco (Toronto)
Project Manager
john-paul.iamonaco@sustainalytics.com
(+1) 416 861 0403

Aishwarya Ramchandran (Toronto)
Project Support

Gizem Celik Bayar (Toronto)
Project Support

Camilo Barrientos (Toronto)
Project Support

Daniel Kan (Toronto)
Project Support

Anna Leckman (Toronto)
Client Relations
susfinance.americas@sustainalytics.com
(+1) 646 518 9623

¹ Eligible categories: Sustainable Management of Natural Resources and Land Use; Sustainable Agriculture and Livestock Breeding; Fisheries and Aquaculture; Renewable Energy; Efficient and Resilient Water and Wastewater Management; Energy Efficiency; Absorption Before Extreme Climate Events; Adaptation to Extreme Climate Events; Access to Financial Products and Services for Producers and Companies in the Agricultural, Forestry, Fishing and Rural Sectors; Use of Financial Products and Services for Producers and Companies in the Agricultural, Forestry, Fishing, and Rural Sectors; Financial Intermediaries Increasing the Supply of Products and Services that Help Overcome Barriers to Financial Inclusion; Financial Inclusion (New Credit Beneficiaries); Labour and Productive Initiative; and Entrepreneurship.

² This document is an update to the Second-Party Opinion provided by Sustainalytics on November 6, 2024.

Introduction

Trust Funds for Rural Development (Fideicomisos Instituidos en Relación con la Agricultura; “FIRA” or the “Institution”) is a Mexican second-tier development financial institution that offers credit and support to the agricultural, livestock, forestry and fisheries sectors and promotes rural economic development in Mexico. Founded by the Government of Mexico in 1954, the Institution consists of four trust funds³ dedicated to facilitating access to credit for borrowers in the agriculture, livestock, forestry, and fishing sectors. FIRA has 130 offices throughout Mexico with a focus in small communities.

FIRA has developed the FIRA Sustainable Bond Framework dated July 2024 (the “Framework”) under which FONDO and FEFA (the “Issuers”) intend to issue green, social and sustainability bonds and use the proceeds to finance or refinance, in whole or in part, existing or future projects that are expected to contribute to decarbonization and socio-economic advancement in Mexico. The Framework defines eligibility criteria in 14 areas:

1. Sustainable Management of Natural Resources and Land Use
2. Sustainable Agriculture and Livestock Breeding
3. Fisheries and Aquaculture
4. Renewable Energy
5. Efficient and Resilient Water and Wastewater Management
6. Energy Efficiency
7. Absorption Before Extreme Climate Events
8. Adaptation to Extreme Climate Events
9. Access to Financial Products and Services for Producers and Companies in the Agricultural, Forestry, Fishing and Rural Sectors
10. Use of Financial Products and Services for Producers and Companies in the Agricultural, Forestry, Fishing and Rural Sectors
11. Financial Intermediaries Increasing the Supply of Products and Services that Help Overcome Barriers to Financial Inclusion
12. Financial Inclusion (New Credit Beneficiaries)
13. Labour and Productive Initiative
14. Entrepreneurship

FIRA engaged Sustainalytics to review the 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 2023 (SBP).⁴ The Framework has been published in a separate document.⁵

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

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent⁶ 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 2023, as administered by ICMA;
- The credibility and anticipated positive impacts of the use of proceeds;
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

³ These four trusts are the Fondo de Garantía y Fomento para la Agricultura, Ganadería y Avicultura (FONDO), which provides credit for short-term financing and working capital; the Fondo Especial para Financiamientos Agropecuarios (FEFA), which provides credit for short and long-term financing to the agriculture and agro-industry sectors; the Fondo de Garantía y Fomento para las Actividades Pesqueras (FOPESCA), which provides credit to institutions serving the fishery and aquaculture sectors; and the Fondo Especial de Asistencia Técnica y Garantía para Créditos Agropecuarios (FEGA), which provides technical assistance, guarantees, and other support.

⁴ 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/sustainable-finance/the-principles-guidelines-and-handbooks/>

⁵ The FIRA Sustainable Bond Framework is available on FIRA’s website at: <https://www.fira.gob.mx/Nd/ESG.jsp#taxonomia>

⁶ 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.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.17, which is informed by market practice and Sustainalytics' expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with representatives of FIRA to understand the sustainability impact of its business processes and planned use of proceeds, as well as the management of proceeds and reporting aspects of the Framework. FIRA representatives have confirmed (1) they understand it is the sole responsibility of FIRA to ensure that the information provided is complete, accurate and up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that 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 FIRA.

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 the 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 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 FIRA has made available to Sustainalytics for the purpose of this Second-Party Opinion.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the FIRA Sustainable Bond Framework

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

- Use of Proceeds:
 - The eligible categories, Sustainable Agriculture and Sustainable Management of Living Natural Resources, Sustainable Agriculture, Water Resources Protection, Renewable Energy, Sustainable Water and Wastewater Management, Energy and Resource Efficiency, Climate Change Adaptation, Sustainable Marine Economy, Marine Environmental Protection and Coastal Climate Change Adoption, Support to SMEs and micro-finance, Small, Medium and Micro Enterprises Lending, are aligned with those recognized by the GBP and SBP.
 - FIRA has established a look-back period of two years for its refinancing activities, which Sustainalytics considers to be in line with market practice.
 - Under the Sustainable Management of Natural Resources and Land Use category, FIRA may finance or refinance projects related to: i) sustainable forest use; ii) protection and restoration of terrestrial, freshwater, coastal and marine ecosystems, biodiversity, natural habitats, soils and their appropriate ecosystem services; and iii) ecotourism. Sustainalytics highlights the following aspects of the eligibility criteria for this category:
 - Under sustainable forest use, FIRA intends to finance: i) the commercial management of natural forests in a sustainable manner for wood production; ii) forest management by smallholder farmers; iii) marketing, cultivation and extraction of goods derived from forests that are tangible and physical objects of biological origin other than wood; and iv) afforestation and reforestation projects. Sustainalytics notes the following:

- All sustainable forestry activities under this category will be required to comply with Mexico's General Sustainable Forest Development Law (LGDFS)⁷ and the General Ecological Balance and Environmental Protection Law (LGEEPA),⁸ requiring projects to have a sustainable management plan for land-use activities and to use local or well-adapted tree species for afforestation and reforestation projects.
- The commercial management of forests will be certified by the Forest Stewardship Council (FSC)⁹ or the Program for the Endorsement of Forest Certification (PEFC)¹⁰ and will have a sustainable management plan in place.
- Regarding forest management, projects will comply with the requirements of a sustainable forest management plan for smallholders. FIRA has communicated to Sustainalytics that its definition for smallholders is aligned with the Bank of Mexico's categorization of micro, small and family businesses.¹¹ Sustainalytics views the Bank of Mexico's definition for smallholder farms to be credible in the Mexican context however, notes that the definition does not specify the size of the farms. Sustainalytics views 1 to 10 hectares to be a credible size for smallholder farms.
- For the marketing, cultivation and extraction of goods derived from forests, examples of projects include non-timber forest products such as latex, resin, gum and cinnamon. FIRA has confirmed to Sustainalytics that the LGDFS requires smallholder forest producers to have sustainable forest management plan in order to operate. For large units, a certification, such as FSC, will be required.
- Regarding afforestation and reforestation projects, FIRA has communicated to Sustainalytics that financing will be provided under the Forest Investment Program (PROINFOR) to community forest enterprises that have obtained FSC certification.¹² FIRA has further confirmed to Sustainalytics that for projects not under the programme, forest producers will have a sustainable forest management plan in place, and large units will require certification. In addition, FIRA has confirmed to Sustainalytics that Mexican law and approvals from the Ministry of the Environment require tree species that are well-adapted to site conditions to be used.
- Regarding the protection and restoration of terrestrial, freshwater, coastal and marine ecosystems, biodiversity, natural habitats, soils and their appropriate ecosystem services, FIRA intends to finance projects related to the use, conservation and maintenance of environmental services provided by natural forests, the establishment and maintenance of forest plantations, creation and production of "living fences", silvopastoral systems and forest nurseries. Sustainalytics notes the following:
 - FIRA has communicated to Sustainalytics that expenditures related to environmental services include forest utilization through management programmes authorized by the Ministry of Environment and Natural Resources (SEMARNAT) and the efficient and sustainable use of forest materials (productive chains), with the purpose of promoting conservation and cultivation of forests as well as the maintenance and conservation of environmental services. FIRA has confirmed to Sustainalytics that smallholder forest producers have a sustainable forest management plan in place and large units require additional certifications, such as FSC.

⁷ Justia Mexico, "General Law of Sustainable Forestry Development", at: <https://mexico.justia.com/federales/leyes/ley-general-de-desarrollo-forestal-sustentable/titulo-primero/capitulo-i/>

⁸ Justia Mexico, "General Law of Ecological Balance and Environmental Protection", at: <https://mexico.justia.com/federales/leyes/ley-general-del-equilibrio-ecologico-y-la-proteccion-al-ambiente/>

⁹ FSC: <https://ca.fsc.org/en-ca>

¹⁰ PEFC: <https://www.pefc.org/standards-implementation>

¹¹ FIRA has communicated to Sustainalytics that micro businesses can receive a credit amount of up to MXN 10,000, family businesses can receive credit of up to MXN 33,000 and small businesses can receive a credit of up to MXN 160,000.

¹² PROINFOR is financed by the German Development Bank (KfW)

- For forest plantations that include reforestation and afforestation projects, FIRA has confirmed that tree species well-adapted to site conditions are used and a forest management plan is in place, certified to FSC or PEFC.¹³
- Regarding “living fences”, FIRA has communicated that this entails planting lines of trees and bushes as support for barbed and smooth wire to mark boundaries between plots and different land uses as well as windbreaks.¹⁴
- Regarding forest nurseries, FIRA has communicated that projects include investments necessary for the establishment and maintenance of timber and non-timber, such as fruit trees and cacti. Furthermore, FIRA will prioritize nurseries used for planting endemic species to Mexico and those with some degree of risk of extinction.¹⁵
- FIRA intends to provide financing for ecotourism, including the establishment and operation of ecotourism projects.¹⁶ FIRA has communicated to Sustainalytics that projects include investments in trails, reforestation, wastewater collection and treatment system, and endangered animal sanctuaries. In addition, projects must be supported by environmental management plans demonstrating the positive impact on the conservation of the environment and the surrounding natural area and cultural heritage, if applicable, as well as an analysis of its limitations.¹⁷
- Sustainalytics considers the expenditures under this category to be aligned with market practice.
- Under the Sustainable Agriculture and Livestock Breeding category, FIRA may finance the following agricultural projects:
 - Climate-smart agriculture techniques, that increase agricultural productivity, adaptation and resilience to climate change and reduces or absorbs GHG emissions. FIRA has communicated to Sustainalytics that projects include no-till farming, drip irrigation systems and zero tillage production.
 - The establishment, expansion or continuous operation of whole agricultural production units,¹⁸ including land used for agroforestry and silvopastoral systems with management programmes.
 - Sustainalytics notes that eligible projects will hold a sustainable agriculture certification from the Rainforest Alliance,¹⁹ RTRS,²⁰ EU Organic,²¹ USDA Organic,²² JAS Organic,²³ Organic SAGARPA Mexico,²⁴ Bonsucro,²⁵ or ISEAL

¹³ FIRA has communicated that the criteria is met during the project approval stage by environmental authorities prior to approving projects and the forest management plan.

¹⁴ FIRA has communicated to Sustainalytics that projects aim to improve biodiversity conservation, crop protection, erosion control and soil structure, regulate microclimates, prevent impact of flooding and reduce stress on livestock.

¹⁵ Endemic species and species with some degree of risk of extinction as defined as per NOM-059-SEMARNAT-2010, Environmental Protection - Native Species of Wild Flora and Fauna of Mexico - Risk Categories and Specifications for Inclusion, Exclusion or Change - List of Species at Risk. Ministry of Environment and Natural Resources (SEMARNAT), “NORMA Oficial Mexicana NOM-059-SEMARNAT-2010, Protección ambiental-Especies nativas de México de flora y fauna silvestres-Categorías de riesgo y especificaciones para su inclusión, exclusión o cambio-Lista de especies en riesgo”, (2010, at: https://www.profepa.gob.mx/innovaportal/file/435/1/NOM_059_SEMARNAT_2010.pdf)

¹⁶ The Framework defines ecotourism as “a form of low-impact sustainable tourism that consists of visiting natural areas to enjoy, appreciate, and study natural attractions and cultural manifestations, promoting conservation and the involvement and benefit of local populations.” Sustainalytics further notes that adventure tourism without a comprehensive environmental or sustainable management plan will be excluded from financing under the Framework. FIRA, “FIRA Sustainable Bonds Framework”, (2023), at: <https://www.fira.gob.mx/Nd/ESG.jsp>

¹⁷ FIRA has communicated to Sustainalytics that in Mexico, it is necessary to obtain a permit to carry out recreational tourism activities within protected natural areas. The permit allows for activities such as guided tours and non-extractive use of wildlife and ensures minimal environmental impact. As a second-tier bank, FIRA can request to view these permits.

¹⁸ FIRA defines agricultural productions units as the collection of assets and activities associated with the management of plants and domesticated animals to produce food, feed, fibre, fuel and other products. FIRA’s definition is based on the definition provided by Mexico’s National Statistics Office (INEGI) for agricultural production unit. INEGI, “Glossary”, at: <https://www.inegi.org.mx/app/glosario/default.html?p=ca2022#letraGloU>

¹⁹ Rainforest Alliance: <https://www.rainforest-alliance.org/>

²⁰ Round Table on Responsible Soy, “RTRS”, at: <https://responsiblesoy.org/?lang=en>

²¹ EU, “The Organic Logo”, at: https://agriculture.ec.europa.eu/farming/organic-farming/organic-logo_en

²² USDA, “USDA Organic”, at: <https://www.usda.gov/topics/organic>

²³ Ministry of Agriculture, Forestry and Fisheries, “Organic JAS”, at: https://www.maff.go.jp/e/policies/standard/specific/organic_JAS.html

²⁴ SAGARPA, “Qué es el sello Orgánico Sagarpa México y cómo obtenerlo”, at: <https://www.gob.mx/agricultura/es/articulos/certificacion-de-productos-organicos>

²⁵ Bonsucro, “What is Certification”, at: <https://bonsucro.com/what-is-certification/>

Code Compliant certifications.²⁶ Projects will also comply with the provisions of the LGDFS, the LGEEPA and Mexico's Sustainable Rural Development Law.

- Production with conservation agriculture, zero tillage production and direct sowing. FIRA has communicated to Sustainalytics that expenditures include conservation tillage, precision seeders and terraces.²⁷
 - Establishment, production and maintenance of livestock production under silvopastoral and agroforestry systems. Sustainalytics notes the following:
 - FIRA has confirmed to Sustainalytics that systems will have a sustainable management plan in place for smallholder farmers to follow.
 - Sustainalytics recognizes that silvopastoral and agroforestry projects encompass a diversified production strategy that aims to enhance agricultural productivity and have been demonstrated to reduce farmers' vulnerability to environmental shocks, including climate change. However, such integrated projects could face certain barriers,²⁸ especially related to their effective adoption on a farm level and overall potential for achieving a net reduction in methane emissions resulting from livestock production.²⁹ FIRA has confirmed that all projects that involve livestock will be limited to small-scale producers.
 - Organic integrated soil fertility management, where the purchase and distribution of inorganic and synthetic fertilizers are excluded under the Framework.
 - Sustainalytics notes that no economic support or incentive will be granted to activities on forest land where the land use change has not been authorized by the Ministry of Environment and Natural Resources (SEMARNAT), as established in the LGDFS and LGEEPA. FIRA has confirmed that this includes financing for land-use activities involving converted land with a high carbon stock.
 - FIRA confirmed to Sustainalytics that the purchase and distribution of inorganic and synthetic fertilizers will not be financed under this category. Sustainalytics notes that industrial-scale livestock units are excluded from financing under the Framework.
 - Sustainalytics considers the expenditures under this category to be aligned with market practice.
- Under the Fisheries and Aquaculture category, FIRA may finance projects³⁰ related to: i) responsible aquaculture;³¹ ii) low environmental impact coastal fishing;³² and iii) sustainable offshore fishing.³³ Sustainalytics notes the following:
- Offshore projects will be certified by recognized and credible third-party standards including the Marine Stewardship Council (MSC),³⁴ the Aquaculture Stewardship Council (ASC),³⁵ the Best Aquaculture Practices (BAP),³⁶ at the 2 Star rating or above.

²⁶ ISEAL Code compliant certifications include 20 certifications. ISEAL, "ISEAL Community Members", at: https://www.isealalliance.org/iseal-community-members?field_code_compliant=1

²⁷ FIRA has communicated to Sustainalytics that precision seeders and terraces allow for sowing without excessive earth movement thus, provides protection against water and wind erosion and increases resilience through sowing optimization.

²⁸ The adoption of integrated cropland-livestock-forestry systems is influenced by several factors, including the "costs of adoption versus non-adoption, supply chain infrastructure, biophysical suitability, availability of skilled labour, access to information and know-how, as well as the willingness to diversify production." Land Use Policy, Determinants of Crop-livestock integration in Brazil: Evidence from the household and regional levels: https://www.bu.edu/gdp/files/2018/02/Gil_Garrett_et_al_2016_Determinants-of-ICLS.pdf

²⁹ IPCC, Land-Climate Interactions: https://www.ipcc.ch/site/assets/uploads/2019/08/2c-Chapter-2_FINAL.pdf

³⁰ FIRA has communicated to Sustainalytics that all projects under this category will comply with the provisions of Mexican laws, including LGEEPA and the General Law of Sustainable Fishing and Aquaculture. In addition, in the case of sustainable offshore fishing they must have one of the international certifications listed in this category.

³¹ Projects include those developed in earthen ponds, lined (geomembrane) ponds, or cages within bodies of water; or those that enhance productivity, adaptation, and resilience to climate change, with a neutral impact on biodiversity. Sustainalytics notes that no financial support or incentive will be granted to activities on forest land where the land use change has not been authorized by the Ministry of Environment and Natural Resources (SEMARNAT), as in the established in the LGDFS and LGEEPA.

³² Projects include those that are carried out in inland bodies of water, bays, lagoon or estuarine systems, as well as in the sea up to a limit of three nautical miles (5.6 km) from the coast, in smaller vessels, or those that increase productivity and contribute to a transition towards a more sustainable and resilient economy, demonstrating a responsible management of natural resources.

³³ Projects include those that are carried out with larger vessels, certified by MSC, and that they respect Protected Natural Areas, and use better fishing practices.

³⁴ MSC, "The MSC Fisheries Standard", at: <https://www.msc.org/en-us/standards-and-certification/fisheries-standard>

³⁵ ASC, "Why choose ASC certification?", at: <https://asc-aqua.org/producers/>

³⁶ Best Aquaculture Practices: <https://www.bapcertification.org/Standards>

- For offshore projects, Sustainalytics views the certifications and levels specified to be aligned with market practice.
- Coastal fishing projects will be certified by MSC and limited to inland bodies of water, bays, lagoons and estuaries, as well as up to three nautical miles from the coast, or in areas with sustainable management plans to protect natural resources.³⁷ Sustainalytics views the certification specified to be aligned with market practice.
 - FIRA has confirmed to Sustainalytics that the financing of equipment running on fossil fuels will be excluded from financing under the Framework.
- Under the Renewable Energy category, FIRA may finance the following projects: i) the infrastructure and the development, manufacturing, construction and maintenance for electric power generation or substitution of electrical energy from non-fossil energy sources including photovoltaic solar energy and distributed generation, solar thermal energy and distributed generation, wind power, hydroelectric plants, bioenergy and marine energy; ii) transmission infrastructure and equipment dedicated to supporting, in whole or part, electric power generation systems; and iii) the integration of battery storage into wind and solar energy projects. Sustainalytics notes the following:
- FIRA has communicated to Sustainalytics that it will finance offshore solar and wind projects.
 - For solar thermal energy projects, the Framework specifies that concentrated solar power plants will derive at least 85% of the electricity from solar energy resources.
 - Hydropower facilities that became operational after 2019 will have a life cycle carbon intensity below 50 gCO₂e/kWh or with a power density greater than 10 W/m². Facilities that became operational before the end of 2019 will have life cycle carbon intensity below 100 gCO₂e/kWh or a power density greater than 5 W/m². Additionally, new projects will undergo an environmental and social impact assessment, in accordance with the requirements of the Federal Electric Commission (CFE) CFA SPA002-19, to ensure that no significant environmental and social risks, negative impacts or controversies have been identified.
 - Bioenergy will include biogas plants with an emission threshold of 100 gCO₂e/kWh.³⁸ Furthermore, Sustainalytics notes that feedstock will include the following: i) agricultural by-products, which are crop residues such as corn, wheat, sorghum, barley stubble, agave leaves, coconut husks and fibre; ii) agro-industrial by-products such as coffee husks, maguey bagasse, grape pomace, and corn or wheat husks; iii) forestry by-products including residues of branches, tree tips and logs and residues from the forestry industry such as sawdust, cuttings and waste disposed from sawmills; and iv) crops authorized by the Mexican government such as sweet sorghum, castor oil, sugar cane, beets, corn and soybeans.³⁹ For crops authorized by the Mexican government, FIRA has confirmed to Sustainalytics that the SEMARNAT will ensure that crop production will not take place on land with high biodiversity or on land where a high amount of carbon is converted for the crop production in the absence of certifications.
 - FIRA has communicated to Sustainalytics that its marine energy projects will include tidal power, ocean current and wave energy generation facilities. For marine renewables for heating and cooling, per Mexican environmental law, projects are required to receive permits ensuring that fossil fuel backup is limited to power monitoring, operating and maintenance equipment, and resilience or protection measures and restart capabilities.
 - Transmission systems will support systems connected to renewables eligible under the Framework.
 - Sustainalytics considers the expenditures under this category to be aligned with market practice.

³⁷ FIRA has communicated that in the case of aquacultural projects, the primary benefit is reduced pressure on oceanic resources and therefore improvements in biodiversity conservation. For small producer' projects, environmental impact assessments and management plan will allow for assessment with regard to control of water pollution for example.

³⁸ The Framework excludes financing of biogas plants that will source feedstocks from wood, third generation biofuels, and biodegradable municipal solid waste, including sewage sludge and food waste.

³⁹ FIRA has communicated to Sustainalytics that production of biofuels will be carried out in such a way that it does not use or compete with the resources necessary to produce food or does not put Mexico's food security and sovereignty at risk in accordance with the provisions outlines in Article 178 and 179 of the Sustainable Rural Development Law.

- Under the Efficient and Resilient Water and Wastewater Management category, FIRA may finance or refinance eligible assets to support projects related to studies, design, construction, operation, maintenance, expansion and adaptation for the sustainable use and management of water and wastewater. Eligible projects include:
 - Projects financed to manage water storage, including: i) rainwater harvesting systems; ii) stormwater management systems; iii) water distribution systems; iv) infiltration ponds; v) aquifer storage; vi) groundwater recharge systems; vii) sewage systems; viii) pumps; and ix) sand dams.
 - Projects financed to treat water, including: i) water recycling systems; ii) wastewater treatment facilities; iii) manure and sludge treatment facilities; iv) natural filtration and recycling systems; and v) engineered natural filtration and recycling systems. FIRA confirmed to Sustainalytics that industrial scale livestock operations are excluded from financing under this category.
 - Projects financed for water desalination, which may include constructing or operating sea water desalination plants with brackish water osmosis technology. FIRA has communicated to Sustainalytics that the average carbon intensity of the electricity used for desalination will be at or below 100 gCO₂e/kWh. FIRA has also communicated that desalination plants are accompanied by an Environmental Impact Assessment that will include considerations on the management of brine waste.
 - Projects financed to distribute water, such as installing or improving high-efficiency drip, flood and pivot irrigation systems. These projects may include: i) rainwater harvesting systems; ii) gravity-fed canal systems, pumped water canalization or distribution systems; and iii) terrace systems.
 - Projects financed to conserve water, including the protection of water catchment areas and prevention of water supply pollution.
 - Projects financed to protect against floods, including: i) constructing reservoirs to control water flows; ii) surge barriers; iii) pumping stations, dikes and gates; iv) drought early warning systems; v) flood early warning systems; and vi) water quality control processes. Such projects will be supported by a vulnerability assessment provided by the National Institute of Ecology and Climate Change (INECC)⁴⁰ to identify municipalities vulnerable to climate change.
 - FIRA has confirmed to Sustainalytics that equipment and methods dependent on fossil fuel will be excluded from financing under the Framework.
 - Sustainalytics considers the expenditures under this category to be aligned with market practice.
- Under the Energy Efficiency category, FIRA may finance or refinance investments related to the manufacturing, installing, operating and maintaining of products that reduce the energy use of underlying assets, technology, products or systems, such as: i) LED lighting systems; ii) smart grid meters; and iii) fuel cells.
 - FIRA may also finance or refinance the provision of bulk energy services, including: i) heating and cooling systems;⁴¹ ii) smart grids; iii) energy recovery technology; and iv) energy storage⁴² and v) smart grid components that reduce energy losses in transmission and distribution infrastructure.
 - FIRA confirmed that technologies and assets primarily powered by fossil fuels will be excluded.
 - The Framework allows for allocation to smart grid investments. Despite the variety of definitions and applications of smart grid technology, Sustainalytics views positively investments that are designed to improve grid efficiency and encourages the Institution to select projects that are clearly anticipated to deliver tangible efficiency improvements. Sustainalytics considers expenditures under this category to be aligned with market practice and further encourages FIRA to report on estimated or achieved energy-efficiency gains where feasible.

⁴⁰ The National Institute of Ecology and Climate Change (INECC) is a Mexican research organization that conducts technical and scientific assessments on ecology and climate change to support decision-making. For more information please visit: <https://www.gob.mx/inecc>

⁴¹ FIRA has confirmed to Sustainalytics that heating and cooling systems are electric and are primarily powered by renewables.

⁴² FIRA has confirmed to Sustainalytics that energy storage equipment will be connected to renewables.

- Under the Absorption Before Extreme Climate Events, FIRA may finance projects to reduce the impacts from extreme climate events in the municipalities with the highest vulnerability to climate change, according to the INECC. FIRA has communicated to Sustainalytics that eligible projects include the use of climate resilient crops,⁴³ stormwater storage, soil rehabilitation, conservation agriculture and climate resilient farm infrastructure including, cold chains, grain and water storage, pumping systems, livestock cooling sheds, rural roads where there is a lack of road infrastructure and emergency shelters.
 - Regarding climate resilient crops, FIRA has confirmed to Sustainalytics that the financing of entire farming operations will be excluded under the Framework.
 - FIRA has confirmed to Sustainalytics that cold chains may include cooling equipment for producers who lack these assets. Sustainalytics notes that these projects are anticipated to have a positive impact on small producers and that these projects may advance food security in vulnerable areas to climate change.
 - FIRA has communicated to Sustainalytics that eligible projects under this category will be selected based on the environmental and climate change vulnerability assessments as per the INECC and supported by adaptation plans included in the Mexican government's climate change adaptation strategy
 - Sustainalytics considers the expenditures under this category to be aligned with market practice.
- Under the Adaptation to Extreme Climate Events category, the Institution may finance projects related to enhancing the resiliency of agricultural, forestry, fishing, food and rural sectors against climate change impacts. The projects will be financed in municipalities that are especially vulnerable as per the assessment by INECC. Eligible projects include:
 - Resilient water infrastructure, including flood defense, wetland protection, stormwater management, wastewater treatment relocation and improvements to water distribution systems.
 - Wild bush clearing, the promotion of tree species diversification that are well adapted to local conditions for afforestation and reforestation and mangrove conservation.
 - ICT systems for climate monitoring and weather data collection that will be applied to inform early warning systems.
 - FIRA has communicated to Sustainalytics that eligible projects under this category will be selected based on the environmental and climate change vulnerability assessments as per the INECC and supported by adaptation plans included in the Mexican government's climate change adaptation strategy.
 - Sustainalytics considers the expenditures under this category to be aligned with market practice.
- Under the Access to Financial Products and Services for Producers and Companies in the Agricultural, Forestry, Fishing, and Rural Sectors category, FIRA may provide financing to MSMEs. Sustainalytics notes the following:
 - The Framework defines the target population as micro-, family, small-, and medium-sized enterprises that receive financing with FIRA funding or secured funding for the first time.
 - FIRA has communicated to Sustainalytics that the definition of MSMEs financed under all the categories below is based on the loan size allocated per final borrower. Accordingly, the businesses are classified with respect to their credit amounts as follows: up to UDIS 10,000 (USD 4,131) for microenterprises; up to UDIS 33,000 (USD 13,709) for family businesses; up to UDIS 160,000 (USD 66,530) for small businesses; up to UDIS 4,000,000 (USD 1,663,617) for medium enterprises.⁴⁴
 - Sustainalytics recognizes that loan-size proxy is aligned with the IFC definition of MSMEs. Nevertheless, Sustainalytics notes that this criterion alone is not a direct indicator of business size.⁴⁵ Sustainalytics encourages

⁴³ FIRA has confirmed to Sustainalytics that GMO seeds will be excluded from financing.

⁴⁴ The Institution defines MSMEs based on inflation-hedged investment units (UDIS) determined by the Bank of Mexico. The UDIS to MXN exchange rate is 8.245429 as of 11 September 2024.

<https://www.banxico.org.mx/SieInternet/consultarDirectorioInternetAction.do?sector=8&idCuadro=CP150&accion=consultarCuadro&locale=en>

⁴⁵ Federal Deposit Insurance Corporation, "Report No. 2020-04: Measurement of Small Business Lending Using Call Reports: Further Insights from the Small Business Lending Survey," (2020), at: <https://www.fdic.gov/system/files/2024-06/2020-04.pdf>

- FIRA to prioritize lending to MSMEs, which can be further defined in terms of employee number and/or revenue.
 - FIRA has communicated to Sustainalytics that the loans to individual lenders under the Framework will have financial advantages. Benefits include more flexible guarantee requirements, loan payments set according to the borrower's cash flow, better interest rate and term conditions, and training, advice and specialized consultancies.
 - Sustainalytics considers the financing of MSMEs in a developing economy, such as Mexico,⁴⁶ to be socially impactful.
- Under the Use of Financial Products and Services for Entrepreneurs, Producers and Companies in the Agricultural, Forestry, Fishing, and Rural Sectors category, FIRA may provide financing to MSMEs and microloans to entrepreneurs. Sustainalytics notes the following:
 - The Framework defines the target population as i) micro-, family, small-, and medium-sized enterprises that operate in highly or very highly marginalized municipalities or in areas where formal intermediary branches are unavailable and ii) entrepreneurs in rural communities of up to 50,000 inhabitants.
 - FIRA has communicated to Sustainalytics that microloans provided to entrepreneurs will be limited to microenterprises and family businesses with a loan size of up to UDIS 8,500 (USD 3,500) that are located in rural communities of up to 50,000 inhabitants.
 - FIRA has communicated to Sustainalytics that microloans provided to individuals will have a maximum credit limit of UDIS 33,000 (USD 13,709), with a term of up to three years.
 - FIRA has communicated to Sustainalytics that for group microloans, it will have a maximum credit limit of UDIS 8,500 (USD 3,500), with a term of up to one year, and participants must mutually guarantee each other's debts or act as joint debtors.
 - Sustainalytics considers the financing of MSMEs in a developing economy, such as Mexico, to be socially impactful.
- Under Financial Intermediaries Increasing the Supply of Products and Services that Help Overcome Barriers to Financial Inclusion, the Institution may provide financing to financial intermediaries for on-lending to MSMEs via: i) para-financial companies that provide financing to primary sector producers for integration into value networks and supply chains; or ii) non-banking financial intermediaries without direct operation with FIRA; or iii) financial intermediaries' development programmes targeted for these MSMEs.
 - FIRA has communicated to Sustainalytics that the development programs for financial intermediaries, non-bank financial institutions, and NBFIs without direct operations include programs that support the purchase of inputs, machinery, infrastructure and services for primary production of MSMEs with beneficial financial terms such as lower interest rates and payment terms adjusted according to the production cycle of the MSMEs.^{47,48}
 - Sustainalytics considers the financing of MSMEs in a developing economy, such as Mexico,⁴⁹ to be socially impactful.
- Under the Financial Inclusion category, the Institution may provide financing for production or investment projects for women-owned or led businesses. Sustainalytics notes the following:
 - The Issuer will provide loans to: i) individual women, or ii) MSMEs, family businesses, large companies, associations and organizations of female producers that are exclusively participated or majority-led by women.⁵⁰ These loan recipients will lend to smallholder farms as the target population. FIRA has communicated to Sustainalytics that its definition of smallholder farms is aligned with the Bank of Mexico's categorization of micro, small and family businesses. Businesses are stratified based on financing needs. Sustainalytics views the Bank of Mexico's definition of smallholder farms to be credible within the Mexican context while noting that the definition does

⁴⁶ UN, "UN World Economic and Prospects (WESP) Report", (2023), at: <https://www.un.org/development/desa/dpad/publication/world-economic-situation-and-prospects-2023/>

⁴⁷ Caja Providencia, "Agro-Capital", at: <https://cajaprovidencia.com/agro-capital/>

⁴⁸ Caja Providencia, "Agro- Equípate", at: <https://cajaprovidencia.com/agro-equipate/>

⁴⁹ Ibid.

⁵⁰ The Framework defines major participation as 51% or more of women within the businesses' shareholding or productive structure.

- not speak to the size of the farms. Sustainalytics views 1 to 10 hectares to be a credible size for smallholder farms.
- FIRA has communicated to Sustainalytics that the eligible financed loans to individual women have financial advantages provided by its financial intermediaries. Benefits include more flexible guarantee requirements, loan payments set according to the borrower's cash flow, better interest rate and term conditions, and training, advice and specialized consultancies.
 - FIRA has confirmed that it will not directly finance large-sized farms and will on-lend only to parafinancial companies, agroindustry and tractor companies that, in turn, support small-farms via supply chain finance, tractor leasing and financial advisory.
 - FIRA has confirmed that it has responsible lending practices in place for its activities financed under the Framework including providing applicants the transparency of the conditions of the credit, guidance and advice regarding financial management and planning, and comply with all regulations and standards related to consumer protection.
 - Sustainalytics considers these investments to be socially impactful.
- Under the Labor and Productive Initiative category, FIRA may provide secured working capital loans for smallholder farm production projects by individual women, women-owned and women-led businesses. Sustainalytics notes the following:
- The Issuer will provide loans to: i) individual women, or ii) MSMEs, family businesses, large companies, associations and organizations of female producers that are exclusively participated or majority-led by women.⁵¹ These loan recipients will lend to smallholder farms as the target population. FIRA has communicated to Sustainalytics that its definition of smallholder farms is aligned with the Bank of Mexico's categorization of micro, small and family businesses. Businesses are stratified based on financing needs. Sustainalytics views the Bank of Mexico's definition of smallholder farms to be credible within the Mexican context while noting that the definition does not speak to the size of the farms. Sustainalytics views 1 to 10 hectares to be a credible size for smallholder farms.
 - FIRA has communicated to Sustainalytics that the eligible financed loans to individual women have financial advantages provided by its financial intermediaries. Benefits include more flexible guarantee requirements, loan payments set according to the borrower's cash flow, better interest rate and term conditions, and training, advice and specialized consultancies.
 - FIRA has confirmed that it will not directly finance large-sized farms and will on-lend only to parafinancial companies, agroindustry and tractor companies that, in turn, support small-farms via supply chain finance, tractor leasing and financial advisory.
 - FIRA has confirmed that it has responsible lending practices in place for its activities financed under the Framework including providing applicants the transparency of the conditions of the credit, guidance and advice regarding financial management and planning, and comply with all regulations and standards related to consumer protection.
 - Sustainalytics considers these investments to be socially impactful.
- Under the Entrepreneurship category, the Institution may provide commercial or long-term loans to acquire capital goods and invest in smallholder farm production infrastructure for individual women, women-owned and led businesses. Sustainalytics notes the following:
- The Issuer will provide loans to: i) individual women, or ii) MSMEs, family businesses, large companies, associations and organizations of female producers that are exclusively participated or majority-led by women. These loan recipients will lend to smallholder farms as the target population. FIRA has communicated to Sustainalytics that its definition for smallholders is aligned with the categorization of micro, small and family businesses. Businesses are stratified based on financing needs. Sustainalytics views the Bank of Mexico's definition of smallholder farms to be credible in the Mexican context. However, Sustainalytics notes that the definition does not specify the

⁵¹ The Framework defines major participation as 51% or more of women within the businesses' shareholding or productive structure.

- size of the farms. Sustainalytics views 1 to 10 hectares to be a credible size for smallholder farms.
- FIRA has communicated to Sustainalytics that the eligible financed loans to individual women will offer financial advantages provided by its financial intermediaries. Benefits include more flexible guarantee requirements, loan payments set according to the borrower's cash flow, better interest rate and term conditions, and training, advice and specialized consultancies.
 - FIRA has confirmed that it will not directly finance large-sized farms and will on-lend only to parafinancial companies, agroindustry and tractor companies that, in turn, support small-farms via supply chain finance, tractor leasing and financial advisory.
 - FIRA has confirmed that it has responsible lending practices in place for its activities financed under the Framework including providing applicants the transparency of the conditions of the credit, guidance and advice regarding financial management and planning, and comply with all regulations and standards related to consumer protection.
 - Sustainalytics considers these investments to be socially impactful.
- Project Evaluation and Selection:
 - FIRA's Environmental, Fishery and Value Chain Directorate will be responsible for the evaluation and selection of green projects as per the Framework's eligibility criteria, and the Products and Services Development and Promotion Directorate will be responsible for the selection of social projects. Additionally, the Institution's internal database system, the Comprehensive Computer System of Operations (SIIOF), is used to store financial and non-financial information on the eligibility of proposed investments and is used to identify, classify and select eligible projects. The SIIOF is then used by the Institution's business areas to identify and validate the projects that meet the eligibility criteria as described in the Framework.
 - FIRA has an environmental and social risk management system in place to address the environmental and social risks associated with the projects being financed. FIRA has designed a methodology for identifying, assessing, and managing socio-environmental risks called the Environmental and Social Risk Management System (SARAS). The SARAS methodology is applied to all large-scale projects. Sustainalytics considers these environmental and social risk management systems to be adequate. For additional details see Section 2.
 - Based on the methodology to determine eligible projects by FIRA's internal departments and the use of the SIIOF and SARAS, Sustainalytics considers this process to be in line with market practice.
 - Management of Proceeds:
 - FIRA's Finance Department will be responsible for the allocation and management of proceeds under the Framework. Eligible projects that are financed under the Framework will be tracked using a unique identifier for each bond and managed according to an internal tracking system.
 - FIRA intends to allocate the proceeds within 24 months of each bond issuance or as soon as reasonably possible.
 - The net proceeds derived from a bond issuance will be credited to the accounts of the Issuer, FONDO⁵² and the FEFA, which are the trust funds authorized to issue bonds under the Framework. Pending allocation, unallocated proceeds will be temporarily managed as per the funds' internal liquidity management policy, including holding proceeds in liquid assets or bank accounts.
 - Based on the presence of an internal tracking system and the disclosure of the temporary use of proceeds, Sustainalytics considers this process to be in line with market practice.
 - Reporting:
 - FIRA commits to reporting on the allocation and impact of the use of proceeds, via an Allocation and Impact Report, on its website on an annual basis until full allocation. Sustainalytics notes that FIRA intends to have an external audit for its allocation and impact reporting.
 - Allocation report will include the description of the financing, the amounts disbursed by eligible category, the percentage of resources allocated by eligible category, the percentage of resources allocated by financing and refinancing and the remaining balance of unallocated proceeds.

⁵² FONDO is the Spanish acronym for the Guarantee and Promotion Fund for Agriculture, Livestock, and Poultry Farming.

- Sustainalytics notes that FIRA may align its impact reporting with the ICMA Harmonised Framework for Impact Reporting.⁵³ FIRA is committed to reporting on relevant impact metrics, including the reduced emissions (in tCO₂e/year), the reduced water volume (in m³/year), the number of fisheries that have some sustainability certification, the volume of credit disbursed to increase adaptive capacity to the impact of extreme climate events and the number of women benefitting from a FIRA credit for the first time.
- 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 FIRA Sustainable Bond Framework aligns with the SBG and the four core components of the GBP and SBP.

Section 2: Sustainability Strategy of FIRA

Contribution to FIRA's sustainability strategy

Sustainalytics is of the opinion that FIRA demonstrates a commitment to sustainability through its mission as an institution of the Development Bank of Mexico, to improve the quality of life of rural populations and contribute to sustainable development in Mexico by financing projects with high social returns and measurable positive impact on the environment.⁵⁴ The Institution's efforts to standardize good practices regarding sustainable development have materialized in the following three institutional milestones:⁵⁵

- Adherence to the ABM (Mexican Banks' Association) sustainability protocol since 2019.
- Creation of the Sustainability Working Group, which assists the Institution's technical committees in implementing and monitoring any sustainable actions.
- Approval of the five FIRA sustainability principles, which govern the institutional operations. These principles are summarized as: i) the incorporation of sustainable policies; ii) environmental and social risk management systems in credit processes (ESRMS); iii) financing of sustainable projects; iv) efficient utilization of internal resources; v) and the disclosure of policies and practices pertaining to the sustainability of the financial sector.⁵⁶

The institution's 4 primary sustainability objectives are to: i) promote financial inclusion and reduce barriers to financing; ii) promote increased productivity and efficiency in agricultural value chain; iii) contribute to sustainable agriculture, forestry and fishing sector; and iv) maintain financial sustainability and institutional capacity to provide quality services to the target sector. The Institution has further identified specific strategies to achieve its objectives, such as designing financial products that adapt to the needs of producers to increase financial inclusion, particularly of vulnerable groups and women.⁵⁷ Additionally, FIRA has formed partnerships with international and national organizations, such as Mexico's National Water Commission to invest in sustainable irrigation, the Interamerican Development Bank to increase financing in energy-efficient projects, and the Agence Française de Développement and the Andean Development Corporation to advance climate change adaptation and mitigation projects in agriculture, fishing, forestry and rural areas.

Sustainalytics is of the opinion that the FIRA Sustainable Bond Framework is aligned with the Institution's overall sustainability strategy and initiatives and will further the Institution's action on its key environmental and social priorities.

Approach to managing environmental and social risks associated with the projects

Sustainalytics recognizes that the proceeds from the instruments issued under the Framework will be directed towards eligible projects that are expected to have positive environmental and social impact. However, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Some key environmental and social risks possibly associated with the eligible projects may include land use and biodiversity issues related to large-scale infrastructure developments, emissions, effluents and waste generated in construction, predatory lending or over-indebtedness of financially vulnerable individuals,

⁵³ ICMA, "Handbook – Harmonised Framework for Impact Reporting", (2023), at: <https://www.icmagroup.org/sustainable-finance/impact-reporting/green-projects/>

⁵⁴ Information shared by FIRA to Sustainalytics directly

⁵⁵ FIRA Sustainable Bond Framework 2024

⁵⁶ FIRA Sustainable Bond Framework 2024

⁵⁷ Ibid.

occupational health and safety and exacerbation of inequalities if underserved groups are not appropriately targeted.

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

- To manage risks associated with land use and biodiversity, all borrowers are required to provide FIRA with proof of compliance with environmental regulations stipulated by the Mexican Official Standards and the required environmental permits of the Ministry of Environment and Natural Resources (SEMARNAT) in the respective jurisdiction.⁵⁸
- To address effluents and waste risks, FIRA aligns financial operations with sustainable practices that reflect the environmental activities already implemented in the institution, which include national and international best practices, as stipulated in the Sustainability Principles of the Association of Mexican Banks' Sustainability Protocol.⁵⁹ Furthermore, all large-scale projects undergo a risk evaluation through the SARAS system, through which environmental and social risks are identified and classified, and appropriate mitigation measures are developed.⁶⁰ Projects are also subject to the country's General Law of Ecological Balance and Environmental Protection (LGEEPA), which establishes guidelines to minimize and prevent pollution, and mechanisms to manage waste and effluent generation.⁶¹
- To address risks associated with predatory lending, FIRA is advancing consumer protection by working with intermediary financial institutions and consumers on financial literacy, risk management and customer transparency. The Institution provides free educational material and specifically designs products that cater to the financial needs of vulnerable groups.⁶² Additionally, to ensure ethical business practices, FIRA has implemented its Code of Ethics which provides guidance on issues related to discrimination, inequality and conflicts of interest.⁶³
- To mitigate risks associated with occupational health and safety, FIRA relies on its adherence to Mexico's Federal Regulation of Occupational Health and Safety. Additionally, Mexico's Labour Ministry has developed the Norma Oficial Mexicana, mandatory regulations that establish processes to protect human health and safety.⁶⁴
- Related to risks associated with the exacerbation of inequities if underserved groups are not targeted correctly, FIRA manages 5 separate Technological Development Centres (CDT), which ensure credit is granted on the basis of payment capabilities and does not result in future difficulties for the debtors. Additionally, the CDTs provide consulting services for producers in the agriculture, livestock, forestry and fishing industries.⁶⁵

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

Section 3: Impact of Use of Proceeds

All fourteen 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 the smallholder agricultural sector to GHG emission reductions and food security in Mexico

As the world's 11th-largest GHG emitter,⁶⁶ Mexico has committed to a conditional 35% reduction⁶⁷ in GHG emissions by 2030, and 50% by 2050 against a business-as-usual scenario in its Intended Nationally

⁵⁸ Ibid.

⁵⁹ Information shared by FIRA to Sustainalytics directly

⁶⁰ Ibid.

⁶¹ Government of Mexico, "Ley General del Equilibrio Ecológico y la protección al Ambiente", at: https://www.gob.mx/cms/uploads/attachment/file/40809/2015_lgeepa.pdf

⁶² Information shared by FIRA to Sustainalytics directly

⁶³ Information shared by FIRA to Sustainalytics directly

⁶⁴ Government of Mexico, "Normas Oficiales Mexicanas", at: <https://www.gob.mx/salud/en/documentos/normas-oficiales-mexicanas-9705>

⁶⁵ Information shared by FIRA to Sustainalytics directly

⁶⁶ EU Commission, "GHG Emissions of all world countries", at: https://edgar.jrc.ec.europa.eu/report_2024

⁶⁷ Conditional contributions require the support of financial, technical and technological instruments, as well as capacity-building, which will accelerate the implementation of mitigation actions across the country.

Determined Contribution (INDC).^{68,69} The country's goals were implemented into law via the General Climate Change Law, signed in 2012, which defines several GHG mitigation targets that directly incentivize the development of renewable energies.⁷⁰ Despite these efforts, Mexico is not on track to meet the Paris Climate Agreement's 1.5°C maximum temperature rise target as the country's GHG emissions have increased by 57% between 2000 to 2022, and the INDC is not in line with the 1.5°C pathway.^{71,72}

In Mexico, the agricultural sector is responsible for 16% of the country's total GHG emissions, with manure and synthetic fertilizers making up 25% and 8% of agricultural emissions, respectively.⁷³ Nearly 85% of all farms globally are small (less than two hectares), with family farms, which refer to those held by an individual or group where labour is mostly supplied by members of the family, occupying around 70-80% of farmland and producing approximately 80% of food worldwide.⁷⁴ In Mexico, small family farms account for approximately 40% of agricultural outputs and are essential contributors to the economy.⁷⁵ A myriad of challenges makes small-scale farming in Mexico unsustainable, including limited access to financing for smallholder farms, lower production yields and droughts exacerbated by climate change.^{76,77}

In response to these challenges, Mexico's Secretariat of Agriculture and Rural Development introduced the Production for Wellbeing programme, geared towards enhancing access to services and investments for small and medium sized farms.⁷⁸ According to the Food and Agriculture Organization of the United Nations, a shift to sustainable agriculture will contribute to availability, access, utilization and stability of food security.⁷⁹ Additionally, in an effort to further reduce GHG emissions from agricultural activities, USAID and the Mexican Government will invest USD 29 million into the SURGES project between 2022 and 2027, which connects buyers to small-holder farmers that are committed to sustainable practices.⁸⁰

Given the above context, Sustainalytics is of the opinion that FIRA's financing of sustainable agricultural projects in Mexico has the potential to support small-scale farms and contribute to the country's environmental and economic goals.

Importance of gender equality and women empowerment in Mexico

Mexico faces significant challenges in relation to gender equality and empowerment for women.⁸¹ For example, as of 2023, women's labour force participation rate in Mexico was 46.8% compared to a 77.4% rate of participation among men.⁸² Furthermore, women on average were paid 14% less than men in 2022.⁸³

The Mexican government has committed to support, promote and enable initiatives related to empowerment for women and young girls.⁸⁴ To mitigate the challenges that women face, the Mexican government initiated the SME Women Program, which promotes the development and consolidation of women-led MSMEs. The

⁶⁸ UNFCCC, "Nationally Determined Contributions", (2022), at: https://unfccc.int/sites/default/files/NDC/2022-11/Mexico_NDC_UNFCCC_update2022_FINAL.pdf

⁶⁹ IEA, "General Law of Climate Change (Mexico)", (2021), at: <https://www.iea.org/policies/8683-general-law-of-climate-change-mexico>

⁷⁰ Ibid.

⁷¹ Our World in Data, "Mexico: CO2 Country Profile", at: <https://ourworldindata.org/co2/country/mexico>

⁷² Climate Transparency, "Mexico – Climate Transparency Report: Comparing G20 Climate Action", (2022), at: <https://www.climate-transparency.org/wp-content/uploads/2022/10/CT2022-Mexico-Web.pdf>

⁷³ Ibid.

⁷⁴ Lowder, S.K. et al., (2021), "Which farms feed the world and has farmland become more concentrated?", World Development, at: <https://www.sciencedirect.com/science/article/pii/S0305750X2100067X?via%3Dihub>

⁷⁵ SEED, "Sustainable SME Action Agenda", (2022), at: https://adelphi.de/system/files/mediathek/bilder/Sustainable-SME-Action-Agenda-Scaling-Green-SME-Support-for-2030_0.pdf

⁷⁶ Kanten, B., (2021), "Why we invested: Verqor enables smallholder farmers in Mexico to access financing and connect with buyers", Catalyst Fund, at: <https://bfa.global.com/catalyst-fund/insights/why-we-invested-verqor-enables-smallholder-farmers-in-mexico-to-access-financing-and-connect-with-buyers/>

⁷⁷ United States Department of Agriculture, "Drought Conditions in Mexico and Its Effect on Agriculture", (2021), at: https://apps.fas.usda.gov/newgainapi/api/Report/DownloadReportByFileName?fileName=Drought%20Conditions%20in%20Mexico%20and%20Its%20Effect%20on%20Agriculture_Monterrey%20ATO_Mexico_06-02-2021.pdf

⁷⁸ Lowder, S.K. et al., (2021), "Which farms feed the world and has farmland become more concentrated?", World Development, at: <https://www.sciencedirect.com/science/article/pii/S0305750X2100067X?via%3Dihub>

⁷⁹ Food and Agriculture Organization of the United Nations, (2024), "Sustainable Food and Agriculture", (2024), at: <https://www.fao.org/sustainability/en/>

⁸⁰ LINC, "Southern Mexico – Generating Employment and Sustainability (SURGES)", at: <https://linclocal.org/portfolios/surges/>

⁸¹ OECD, "Building an Inclusive Mexico", at: https://www.oecd.org/en/publications/building-an-inclusive-mexico_9789264265493-en.html

⁸² World Bank Group, "Mexico", (2023), at:

<https://genderdata.worldbank.org/en/economies/mexico#:~:text=In%20Mexico%2C%20the%20labor%20force,males%20is%2075.4%25%20for%202021>

⁸³ Mexico News Daily, "Study on gender wage gap finds most Mexican women earn less than double daily minimum wage", (2022), at:

<https://mexiconewsdaily.com/news/most-mx-women-earn-less-than-18-usd-a-day/>

⁸⁴ United Nations, "Country programme document for Mexico (2021-2025)", at: <https://www.undp.org/sites/g/files/zskgke326/files/2022-08/mex-cpd-2021-2025-eng.pdf>

programme will support female entrepreneurs by reducing barriers to securing financing, providing specialized support for businesses and providing loans up to USD 250,000.⁸⁵ The government is also integrating gender provisions into the design of its policies, such as introducing gender quotas in the legislature, promoting gender parity in political nominations and allocating a budget for training programmes for women.⁸⁶

In this context, Sustainalytics is of the opinion that FIRA's investments in infrastructure and services with a focus on gender have the potential to enhance security for women in Mexico, promote inclusion and economic opportunities and support the Mexican government in its efforts to combat gender inequality in Mexico.

Contribution to SDGs

The Sustainable Development Goals were adopted in September 2015 by the United Nations General Assembly and form part of an agenda for achieving sustainable development by 2030. The instruments issued under the FIRA Sustainable Bond Framework are expected to help advance the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Sustainable management of natural resources and land use	15. Life on Land	15.2 By 2020, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally
Sustainable agriculture and livestock breeding	2. Zero Hunger	By 2030, ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding, and other disasters and that progressively improve land and soil quality.
	12. Responsible Consumption and Production	12.2 By 2030, achieve the sustainable management and efficient use of natural resources
Fisheries and aquaculture	14. Life Below Water	14.2 By 2020, sustainably manage and protect marine and coastal ecosystems to avoid significant adverse impacts, including by strengthening their resilience, and take action for their restoration in order to achieve healthy and productive oceans
Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix.
Efficient and resilient water and wastewater management	6. Clean Water and Sanitation	6.4 By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity.
Energy Efficiency	7. Affordable and Clean Energy	7.3 By 2030, double the global rate of improvement in energy efficiency.
Absorption before extreme climate events	11. Sustainable Cities and Communities	11.5 By 2030, significantly reduce the number of deaths and the number of people affected and substantially decrease the direct economic losses relative to global gross domestic product caused by disasters, including water-

⁸⁵ Government of Mexico, "Conoce el Programa Mujeres PYME", (2016), at: <https://www.gob.mx/se/articulos/conoce-el-programa-mujeres-pyme>

⁸⁶ IMF, "Gender Participation Gaps, Fiscal Policies, and Legal Impediments to Women Empowerment: A Deep Dive on Gender Issues in Mexico", (2023), at: <https://www.elibrary.imf.org/view/journals/002/2023/357/article-A001-en.xml#:~:text=While%20Mexico%20has%20made%20significant,a%20shadow%20over%20its%20progress>

	13. Climate Action	related disasters, with a focus on protecting the poor and people in vulnerable situations. 13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries
Adaptation to extreme climate events	9. Industry, Innovation and Infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities
Access to financial products and services for producers and companies in the agricultural, forestry, fishing, and rural sectors	2. Zero Hunger	2.3 By 2030, double the agricultural productivity and incomes of small-scale food producers, in particular women, indigenous peoples, family farmers, pastoralists, and fishers, including through secure and equal access to land, other productive resources and inputs, knowledge, financial services, markets and opportunities for value addition and non-farm employment.
	8. Decent Work and Economic Growth	8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity, and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services.
Use of financial products and services for entrepreneurs, producers, and companies in the agricultural, forestry, fishing, and rural sectors	1. No Poverty	1.4 By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance.
	2. Zero Hunger	2.3 By 2030, double the agricultural productivity and incomes of small-scale food producers, in particular women, indigenous peoples, family farmers, pastoralists and fishers, including through secure and equal access to land, other productive resources and inputs, knowledge, financial services, markets and opportunities for value addition and non-farm employment.
Financial intermediaries increasing the supply of products and services that help overcome barriers to financial inclusion	8. Decent Work and Economic Growth	8.10 Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance, and financial services for all.
Financial inclusion (New Credit Beneficiaries)	1. No Poverty	1.4 By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance.

	5. Gender Equality	5.a Undertake reforms to give women equal rights to economic resources, as well as access to ownership and control over land and other forms of property, financial services, inheritance, and natural resources, in accordance with national laws.
	8. Decent Work and Economic Growth	8.10 Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance, and financial services for all.
Labour and productive initiative	8. Decent Work and Economic Growth	8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity, and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services.
	10. Reduced Inequalities	10.4 Adopt policies, especially fiscal, wage and social protection policies, and progressively achieve greater equality.
Entrepreneurship	1. No Poverty	1.4 By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance.
	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

FIRA has developed the FIRA Sustainable Bond Framework under which the Issuers intend to issue green, social and sustainability bonds and use the proceeds to finance or refinance projects that are expected to contribute to decarbonization and socio-economic advancement in Mexico.

The FIRA Sustainable Bond Framework outlines a process for tracking, allocation and management of proceeds, and makes commitments for the Institution to report on allocation and impact. Sustainalytics considers the FIRA Sustainable Bond Framework to be aligned with the overall sustainability strategy of the Institution and that the use of proceeds will contribute to the advancement of the UN Sustainable Development Goals 1, 2, 5, 6, 7, 8, 9, 10, 11, 13, 14 and 15. Additionally, Sustainalytics is of the opinion that FIRA has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects.

Based on the above, Sustainalytics is confident that FIRA is well positioned to issue sustainable bonds and that the FIRA Sustainable Bond Framework is robust, transparent and in alignment with the Sustainability Bond Guidelines 2021 (SBG), Green Bond Principles 2021 (GBP) and Social Bond Principles 2023 (SBP).

Disclaimer

Copyright ©2024 Sustainalytics, a Morningstar company. All rights reserved.

The information, methodologies, data and opinions contained or reflected herein are proprietary of Sustainalytics and/or content providers, and may be made available to third parties only in the form and format disclosed by Sustainalytics. They are not directed to, or intended for distribution to or use by India-based clients or users and their distribution to Indian resident individuals or entities is not permitted.

They are provided for informational purposes only and (1) shall not be considered as being a statement, representation, warranty or argument either in favor or against the truthfulness, reliability or completeness of any facts or statements that the issuer has made available to Sustainalytics for the purpose of this deliverable, in light of the circumstances under which such facts or statements have been presented; (2) do not constitute an endorsement of any product, project, investment strategy or consideration of any particular environmental, social or governance related issues as part of any investment strategy; (3) do not constitute investment advice, financial advice, or a prospectus, nor represent an “expert opinion” or “negative assurance letter” as these terms are commonly understood or defined by any applicable legislation; (4) are not part of any offering and do not constitute an offer or indication to buy or sell securities, to select a project or make any kind of business transactions; (5) do not represent an assessment of the issuer’s economic performance, financial obligations nor of its creditworthiness; (6) are not a substitute for professional advice; (7) past performance is no guarantee of future results; (8) have not been submitted to, nor received approval from, any relevant regulatory body; (9) have not and cannot be incorporated into any offering disclosure, unless otherwise agreed in writing.

These are based on information made available by the issuer and therefore are not warranted as to their merchantability, completeness, accuracy, up-to-datedness or fitness for a particular purpose Sustainalytics has not independently verified any such information or data. The deliverables are provided “as is” and reflect Sustainalytics’ opinion at the date of their elaboration and publication. Sustainalytics does not undertake any obligation to update or revise any of the statements in the deliverable to reflect events, circumstances, changes in expectations which may occur after the date of the opinion or any statements included in the opinion. Neither Sustainalytics/Morningstar nor their content providers accept any liability from the use of the information, data or opinions contained herein or for actions of third parties in respect to this information, in any manner whatsoever, except where explicitly required by law. Sustainalytics does not assume any responsibility shall the bond default. Any reference to content providers’ names is for appropriate acknowledgement of their ownership and does not constitute a sponsorship or endorsement by such owner. A list of our content providers and their respective terms of use is available on our website. For more information, visit <http://www.sustainalytics.com/legal-disclaimers>.

Sustainalytics may receive compensation for its ratings, opinions and other deliverables, from, among others, issuers, insurers, guarantors and/or underwriters of debt securities, or investors, via different business units. Sustainalytics believes it has put in place appropriate measures designed to safeguard the objectivity and independence of its opinions. For more information, visit [Governance Documents](#) or contact compliance@sustainalytics.com.

This deliverable, in particular the images, text and graphics contained therein, and the layout and company logo of Sustainalytics are protected under copyright and trademark law. Any use thereof shall require express prior written consent. Use shall be deemed to refer in particular to the copying or duplication of the opinion wholly or in part, the distribution of the opinion, either free of charge or against payment, or the exploitation of this opinion in any other conceivable manner.

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

About Morningstar Sustainalytics

Morningstar Sustainalytics is a leading ESG research, ratings and data firm that supports investors around the world with the development and implementation of responsible investment strategies. For more than 30 years, the firm has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Sustainalytics works with hundreds of the world's leading asset managers and pension funds, which incorporate ESG and corporate governance information and assessments into their investment processes. Sustainalytics also works with hundreds of companies and their financial intermediaries to help them consider sustainability in policies, practices and capital projects. For more information, visit www.sustainalytics.com.

