Sustainable Bond Framework

70 ANIVERSARIO FIRA
FIDEICOMISOS INSTITUIDOS EN RELACIÓN CON LA AGRICULTURA

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Global Gateway

GGGI

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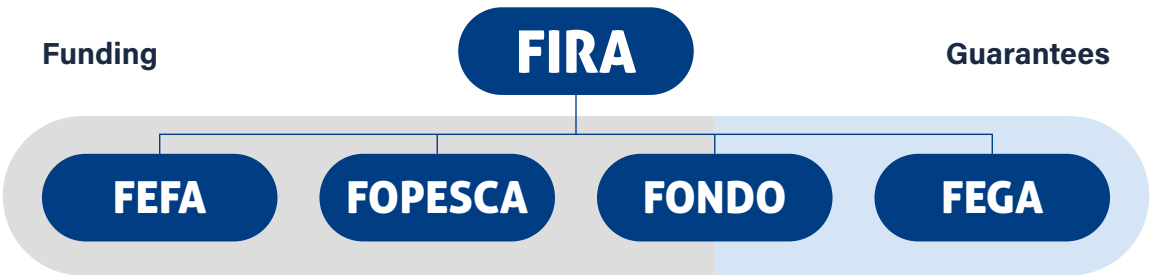
Trust Funds for Rural Development (FIRA, for its acronym in Spanish) was established in 1954 by the Federal Government of Mexico as the trustor and the Bank of Mexico as the trustee. The Guarantee and Promotion Fund for Agriculture, Livestock Breeding, and Poultry Farming (FONDO) was the first fund established as part of a strategy to create trusts to foster the development of priority sectors of the economy and the Mexican financial system. Subsequently, the Special Fund for Agricultural Financing (FEFA), the Special Fund for Technical Assistance and Agricultural Credit Guarantee (FEGA), and the Guarantee and Promotion Fund for Fishing Activities (FOPESCA) were established in 1965, 1972, and 1989, respectively (Figure 1).

Figure 1. FIRA Trusts



Source: FIRA (2023)

The four Trusts are legally and independently created, plus they operate their own assets under a single management, granting second-tier financial products and services such as loans and guarantees. However, their activities complement one another to promote the development of the agriculture, livestock breeding, fishing, forestry, and rural sectors in Mexico:

- **FONDO** provides financing and guarantees to banks and authorized non-banking financial intermediaries so that they finance producers with secured working capital loans for agriculture, livestock, poultry farming, other related activities for the development of rural areas.
- **FEFA** facilitates financing access through credit and discount operations for agriculture, livestock, poultry farming, agroindustries, fishing, and other related projects in the sector.
- **FOPESCA** channels FIRA resources through financial intermediaries to fishing, aquaculture, and related sectors.
- **FEGA** grants loan guarantees, subsidies, and other services directly and/or through financial institutions for the agricultural, forestry, and fishing sectors, agroindustries, and other related activities or those carried out in rural areas. Additionally, FEGA offers support to develop human and technological capabilities.

FIRA's mission is to promote a Mexico where farmers and rural inhabitants actively participate and benefit from the economic development of the agrifood, forestry, and rural sectors (the target sector), they are integrated into value chains and markets, they make rational use of natural resources, and ultimately, they attain decent and favorable working and living conditions. On the other hand, Fira's vision is to achieve a successful and inclusive agri-food system that acknowledges the unequal levels of development among the different producers and companies in the target sector, which is seen as a challenge to guide actions and strategies towards achieving more equitable development.

MISSION

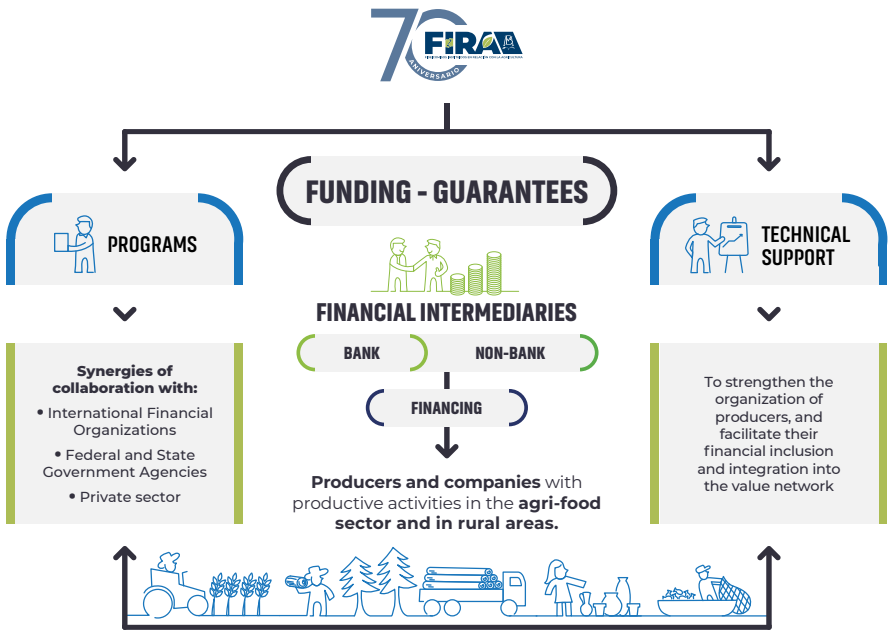
Promote and consolidate an inclusive, sustainable, and productive agri-food and rural sector.

VISION

Achieve a country that shares the benefits of a **successful agri-food sector,** with all its members.

FIRA grants loans through Banking Financial Intermediaries (IFB) and Non-Banking Financial Intermediaries (IFNB), while supporting producers, companies, financial intermediaries, and specialized service providers with training, technical assistance, consultancy, project formulation, management, and monitoring services, amongst others, in order to improve their competitiveness and sustainability. Complementarily, FIRA maintains a close relationship with producers in Mexico via the structuring of projects and the delivery of technical support, which ultimately yields more confidence and better profile to receive financing (Figure 2).

Figure 2. FIRA Business Model

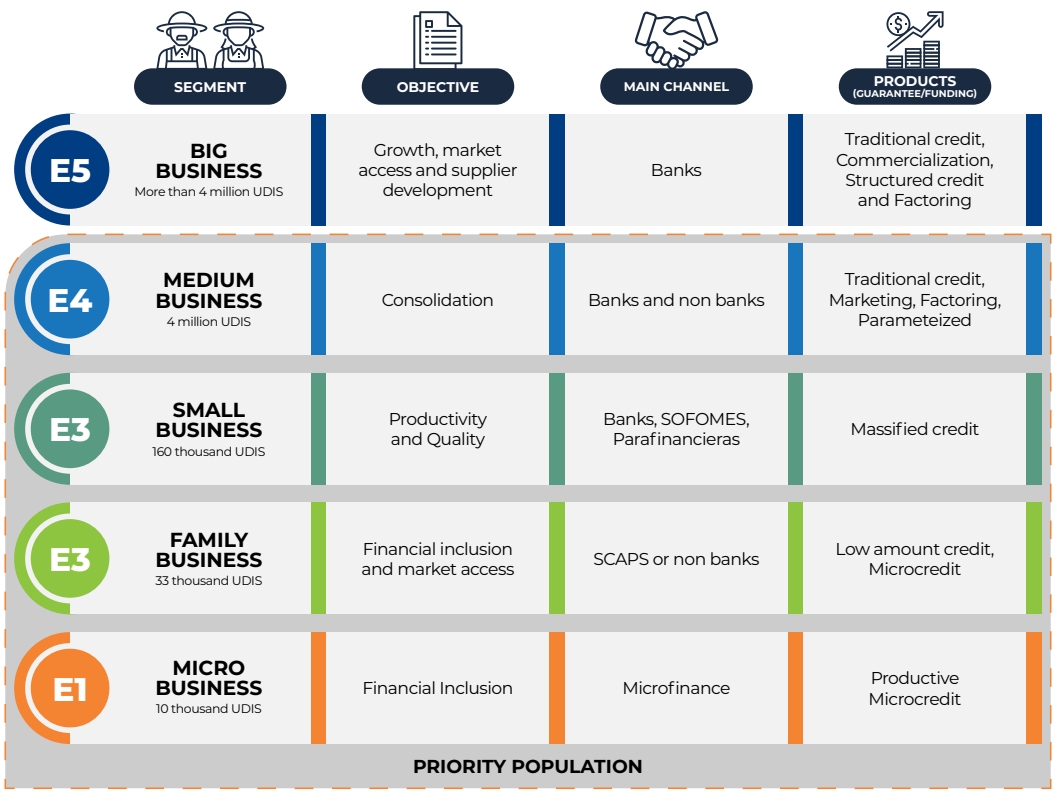


Source: FIRA (2023)

With extensive experience in the sector, FIRA facilitates access to finance through credit and discount operations and grants loan guarantees to projects serving five branches: agriculture, livestock, forestry, fishing, and rural financing. By channeling its economic and technical support resources, FIRA seeks to finance activities and services related to integrated value chains of the sectors it serves.

In addition to facilitating access to products and financial intermediaries' services, which receive and distribute funds to each population segment, FIRA provides technological support conducive to greater financial inclusion, increased access to finance, plus enhanced productivity and efficiency of producers and agri-food companies through responsible and sustainable development. This support is provided to each population segment, be it primary activity, agribusiness, marketing, or services related to the integration of value chains. Its second-tier operation allows FIRA to offer financial services to the target population, taking advantage of the private financial institutions' geographical and operational reach and infrastructure. To this end, FIRA stratifies the target population based on the loan amount requested and the UDIS (investment units) amount of each segment (Figure 3).

Figure 3. Strata of the target population in FIRA



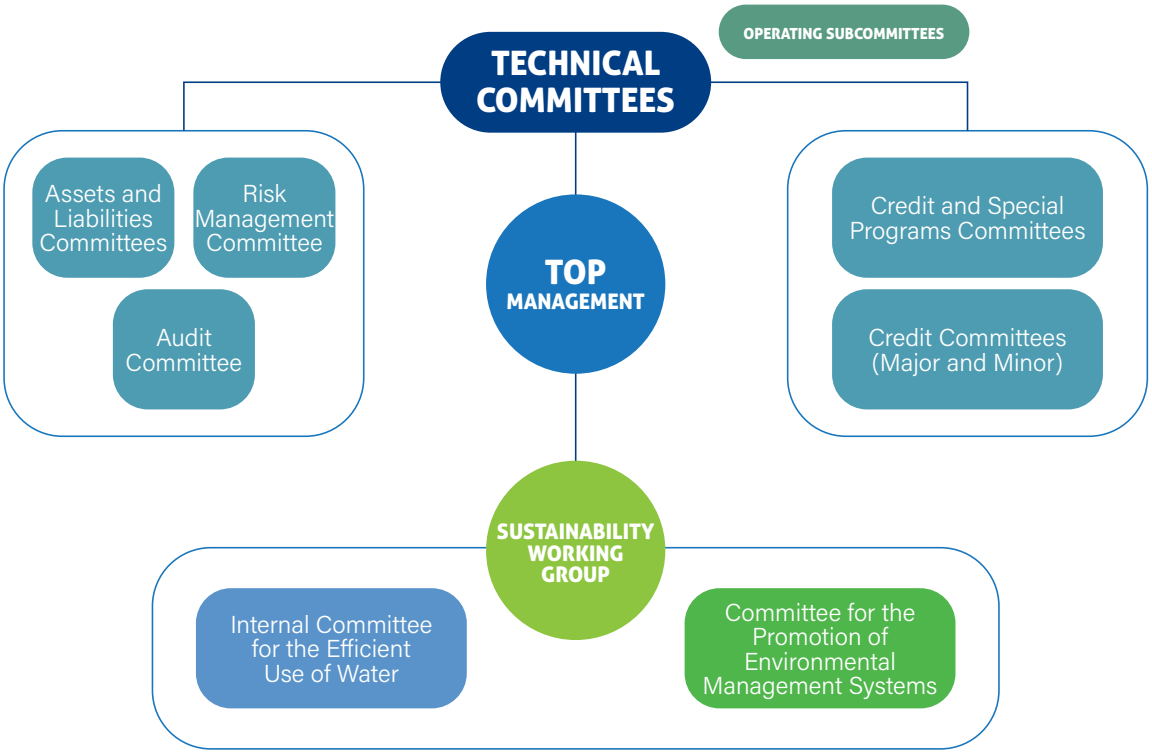
Source: FIRA (2023)

The institution promotes comprehensive financing, especially for Micro, Family, Small and Medium Enterprises segments with no or insufficient credit access. FIRA renders funding, guarantees, and support services so that their productive projects reach the levels of profitability to qualify as credit holders. Financing is also given to Large Companies linked to developing small producers and enterprises with viable projects.

1.1 LEGAL FRAMEWORK, CORPORATE GOVERNANCE, AND STRUCTURE

FIRA's highest governing body is comprised by the Technical Committees, collegiate-type bodies where representatives of the Government of Mexico, Bank of Mexico, and the financial and agricultural sectors participate. The Technical Committees rely on various Committees to perform their functions: i) Credit and Special Programs; ii) Credit (Higher and Lower); iii) Assets and Liabilities; iv) Risk Management; v) Auditing, as well as various Operating Subcommittees and a Sustainability Working Group (see Section 3.2). Independent advisors also participate in some of these committees (Figure 4).

Figure 4. FIRA Governance



Source: FIRA (2023)

Finally, to fulfill its mission, FIRA relies on a structure of 130 offices nationwide (Figure 5).

Figure 5. FIRA Offices nationwide

1	1	5	31	88	5
Headquarters Morelia, Mich.	Main Office in CDMX	Regional Offices	State Offices	Sales Offices	CDT´s

CDT: Stands for Technological Development Center in Spanish - Source: FIRA (2023)

1.2 SUSTAINABILITY STRATEGY AND ALIGNMENT WITH NATIONAL POLICY

FIRA is highly committed to sustainability. As a national financial institution with a focus on development, it forms an integral part of society and the economy, having assumed paramount responsibilities and a key role in accelerating the transition towards a sustainable future. In addition, FIRA has committed to reducing greenhouse gas (GHG) emissions, mitigating climate change, and advising and financing resilient and sustainable business models, mainly through loans and guarantees for Financial Institutions to finance assets and projects with a measurable positive impact on the environment. Given the challenge the agri-food sector faces due to climate change, since 2013 FIRA[1] established a sustainable financing strategy, in force as shown in its current Institutional Program[2]. The Program describes the actions, plans, and goals the entity will contribute with to fulfill the objectives established in the PND (National Development Plan, by its initials in Spanish) and Sectoral Plans, particularly PRONAFIDE (National Development Financing Program, by its initials in Spanish) (for more information on the current Institutional Program, visit the website www.fira.gob.mx and click About Us -> Institutional Program).

These efforts to adopt and institutionalize good practices regarding sustainable development, have materialized in three institutional milestones:

- Adherence to the ABM (Mexican Banks' Association for is acronym in Spanish) sustainability protocol in 2019.
- Creation of the Sustainability Working Group, which assists the Technical Committees in implementing and monitoring any sustainable actions, and
- Approval of the five FIRA sustainability principles, which govern the institutional operation. These principles are aligned with the strategic mainstays of the ABM Sustainability Protocol, as follows:

  1. Institutionalization of sustainability policies;

  2. Environmental and social risk management systems in credit processes (ESRMS);

  3. Financing promotion for sustainable projects;

  4. Efficient use of resources in internal processes, and

  5. Disclosure of policies and practices related to the sustainability of the financial sector.

[1] FIRA established in its Institutional Program 2013 - 2018 a sustainable financing strategy through Objective 3 "Promote financing in areas of interest of public policy", strategy 3.1 "Promote credit with a regional development and sustainable approach"

[2] Prepared under the National Planning Act, Federal Parastatal Entities Act, and Credit Institutions Act

2. SUSTAINABLE DEVELOPMENT IN MEXICO

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2.1 DIAGNOSIS OF ENVIRONMENTAL PROBLEMS IN MEXICO

2.1.1 GHG EMISSIONS

Increasing scientific evidence links the global temperature increase to the frequency and severity of catastrophic climatic events which cause direct and indirect costs to various economic sectors, companies, families, and individuals, who make suboptimal spending and investment decisions due to uncertainty around climate change. Mexico has a General Climate Change Law, enacted in 2012 and amended in 2018 to establish the figure of "Nationally Determined Contribution (NDC)" and its commitment to the targets and goals set within the Paris Agreement regarding climate mitigation and adaptation. The updated NDC estimated that Mexico emitted 804 million tons of carbon dioxide equivalent (MtCO2e) of GHG in 2020, representing about 1.3% of global emissions. Left unattended under a business-as-usual scenario, Mexico's emissions are expected to reach 991 MtCO2e, +23 % by 2030, with respect to 2020. Mexico set two goals in the mitigation component of its updated NDC for 2020:[3]

i. by 2030, reduce national GHG emissions by 35% in the "unconditional" case and by 40% in the "conditional" case, and

ii. by 2030, reduce black carbon emissions by 51% in the "unconditional" case and by 70 % in the "conditional" case.

The NDC that Mexico updated in 2020 expanded from 15 actions related to the adaptation component in 2015 to 27 lines of action linked to five strategic lines, including new measures to reduce health impacts due to climate change-related diseases, approach forced displacement due to climate change, combat desertification, and conserve and restore seas and oceans, among others.[4]

2.1.2 CLIMATE CHANGE ADAPTATION AND RESILIENCE

In its 2020 Special Report on climate change, desertification, land degradation, sustainable land management, food security, and greenhouse gas flows in terrestrial ecosystems, the Intergovernmental Panel on Climate Change (IPCC) stated that changing rainfall patterns and increased frequency of extreme climate events significantly affect crop yields (e.g., corn and wheat), livestock development, and silvopastoral system productivity. It also provided solid evidence that agricultural diseases and pests have already reacted to climate change, increasing their damage[5].

According to the International Food Policy Research Institute (IFPRI), if the current trend remains unchanged, a likely climate risk scenario will involve water stress in 49 % of the world's grain production areas by 2050[6]. These scenarios are of great concern for experts and the global financial sector, according to a study by the Climate Bonds Initiative (CBI) and the World

[3] Mexico: Updated NDC 2022 | UNFCCC

[4] Ibid.

[5] IPCC (2020), Climate Change and Land: An IPCC Special Report on climate change, desertification, land degradation, sustainable land management, food security, and greenhouse gas fluxes in terrestrial ecosystems. Subsection A.2.8

[6] IFPRI, "Water Futures Project," https://www.ifpri.org/project/water-futures

Resources Institute (WRI), finance flows for mitigation and adaptation are far from meeting the estimated needs (between USD 280 and 500 billion per year by 2050, for a 2°C warming scenario[7]). According to CBI and WRI analysis, only between 3% and 5% of green bond proceeds can be attributed to efforts related to climate resilience[8].

The Paris Agreement establishes climate adaptation as a global challenge with local, subnational, national, regional, and international dimensions. Specifically, its Article 2 mentions the need to[9]:

a) Increase the capacity to adapt to adverse impacts of climate change and foster climate resilience and low greenhouse gas emissions without threatening food production; and

b) Make finance flows consistent with a trajectory conducive to low greenhouse gas emissions and climate-resilient development.

Adapting to climate change makes it possible to modify the vulnerability of a system: enhanced adaptation implies less vulnerability or, in other words, greater resilience. The adjustments and changes made in the systems in response or anticipation to climate stimuli (adaptation) modify its vulnerability by adjusting its capacities or abilities to remain unaltered by external disturbances (resilience)[10].

2.1.3 SOIL DEGRADATION AND LAND USE CHANGE

Soil degradation refers to a "change in the soil health status resulting in a diminished capacity of the ecosystem to provide goods and services" such as water harvesting and food production (FAO, 2020)[11]. One cause of this degradation is land use change or landscape modification linked to human economic activities such as agricultural expansion, deforestation, population growth, and urban development (Viglione, 2021)[12]. In six decades (1960–2019), land use change has affected 32% of the soil worldwide (Winkler et al., 2021)[13]. In the case of Mexico, according to the Assessment of Soil Degradation Caused by Man in the Mexican Republic, 1:250,000 Scale (SEMARNAT & CP, 2003), almost 45 % of the soils were degraded. Approximately 77.4 % of the degraded national surface was associated with agricultural and livestock breeding activities and 16.4 % with deforestation (SEMARNAT, 2015)[14].

Moreover, forest degradation is "the loss of the capacity of forest ecosystems to produce the expected ecosystem goods and services", which is associated with biodiversity loss. It is estimated that 141,581 hectares (ha) of forest were degraded between 2007 and 2010 and 60,799 ha between 2011 and 2015 (CONAFOR, 2022)[15]. Nationally, the average annual deforestation was 212,834 ha in 2001–2019. Among the leading causes of deforestation are land use change for agricultural and livestock activities, overgrazing, forest fires, clandestine logging, forest land extraction, open-pit mining, forest pests and diseases, and inadequate management practices (CONAFOR, 2022).[16]

[7] Climate Bonds Initiative & WRI (2019) Principios de resiliencia climática. Marco para evaluar las inversiones en Resiliencia Climática
[8] Approximately USD 12 billion
[9] Paris Agreement; https://unfccc.int/sites/default/files/resource/parisagreement_publication.pdf
[10] Vulnerability and resilience to climate change are concepts with a negative correlation: systems with low vulnerability have high resilience and vice versa. Romero, Ingrid (2019). Resiliencia y adaptación a la variabilidad climática en sistemas silvopastoriles familiares.
[11] https://www.fao.org/soils-portal/soil-degradation-restoration/es/
[12] https://www.carbonbrief.org/land-use-change-has-affected-almost-a-third-of-worlds-terrain-since-1960/
[13] https://www.nature.com/articles/s41467-021-22702-2
[14] https://apps1.semarnat.gob.mx:8443/dgeia/informe15/tema/pdf/Informe15_completo.pdf
[15] https://snif.cnf.gob.mx/
[16] Ídem

2.1.4 BIODIVERSITY LOSS

Mexico is one of the 15 megadiverse countries due to the richness and variety of species, genes, ecosystems, evolutionary processes, and culture (SEMARNAT, 2018)[17]. This biodiversity represents approximately 10% to 12% of the global biodiversity (Sarukhán et al., 2009)[18]. Among the leading causes of biodiversity loss are habitat deterioration and destruction, climate change, overexploitation, pollution, and the introduction of exotic species (Martínez Meyer et al., 2014)[19]. In this regard, Mexico's marine biodiversity is also threatened by various human activities; pressure on Mexican coasts and seas has increased due to rising demand for tourism, food resources, urban growth, among others (CONABIO, 2021)[20].

127 species in the country have been documented as extinct, of which 44 % were endemic (CONABIO, 2019)[21], while the update of Annex III (2019) to the Official Mexican Standard NOM-059-SEMARNAT-2010 lists 2,678 species in some risk category (CONABIO, 2022)[22]. Damage to biodiversity affects not only the environment but also social and economic aspects, since biodiversity reflects an ecosystem's health status and ecological balance, associated with cultural, aesthetic, and spiritual values (CONABIO, 2020)[23].

2.1.5 WATER POLLUTION, OVEREXPLOITATION, AND MARINE RESOURCES

Mexico has hydrological basins organized into 37 regions and 653 aquifers. While the country receives an average of 1,449,471 million m3 of rainfall annually, more than 70% evapotranspires, 21.4 % runs off into rivers, and only 6.4 % infiltrates to recharge aquifers (SEMARNAT, 2015)[24]. While water is an essential resource for health and human activities, in 2018 Mexico ranked fourth globally for highest water extraction and percentage use in agricultural, industrial, and public supply (SEMARNAT, 2015)[25]; moreover, approximately 24 % of the aquifers in the country are overexploited (CONAGUA, 2021), plus of a total 788 sites in the surface water network, 60.4 % did not meet one or more water quality parameters. At the same time, 57.6 % of the sites in the groundwater network did not meet one or several of the 14 parameters (CONAGUA, 2021)[26]. In July 2022, CONAGUA declared a state of emergency due to severe, extreme, or exceptional drought in basins[27]. Thus, the issue of water availability is not only related to overexploitation and pollution, but also to climate change. Water is paramount since it is a matter of human rights and social justice (IMTA, 2021).[28] In terms of Mexico's seas and coasts, 8 out of 10 seafood products consumed are caught in national waters. However, official figures from the National Fisheries Charter indicate that 34% of Mexican fisheries are in decline, although some experts suggest this figure could exceed 40%. The main causes are overexploitation, illegal fishing, ecosystem degradation, and marine pollution (OCEANA, 2024).[29]

[17] https://www.gob.mx/semarnat/articulos/mexico-biodiversidad-que-asombra#:~:text=Expertos%20de%20la%20Comisi%C3%B3n%20Nacional,hongos%2C%20microorganismos%20y%20diversidad%20gen%C3%A9tica.

[18] http://centro.paot.org.mx/documentos/conabio/capital_natural.pdf

[19] https://www.researchgate.net/publication/259852808_El_estudio_de_la_biodiversidad_en_Mexico_una_ruta_con_direccion

[20] https://www.biodiversidad.gob.mx/pais/planeacion-para-la-conservacion/sitiosp-marina

[21] https://www.biodiversidad.gob.mx/media/1/planeta/internacional/files/6IN_WEB_CLOSE.pdf

[22] https://www.biodiversidad.gob.mx/especies/catRiesMexico

[23] https://www.biodiversidad.gob.mx/biodiversidad/porque_conserva

[24] https://apps1.semarnat.gob.mx:8443/dgeia/informe15/tema/pdf/Informe15_completo.pdf

[25] https://apps1.semarnat.gob.mx:8443/dgeia/informe15/tema/pdf/Informe15_completo.pdf

[26] https://www.gob.mx/conagua/articulos/calidad-del-agua#:~:text=Los%20resultados%20para%202021%20mostraron,buena%20calidad%20a%20fuertemente%20contaminada.

[27] https://dof.gob.mx/nota_detalle.php?codigo=5657697&fecha=12/07/2022#gsc.tab=0

[28] https://www.gob.mx/imta/articulos/equidad-y-justicia-hidricas?idiom=es

[29] https://mx.oceana.org/blog/la-pesca-vive-contra-lluvia-viento-y-marea/#:~:text=En%20M%C3%A9xico%2C%208%20de%20cada,cifra%20podr%C3%ADa%20sobrepasar%20el%2040%20%25.

2.2 DIAGNOSIS OF SOCIAL PROBLEMS IN MEXICO

2.2.1 FINANCIAL INCLUSION

According to the FIRA diagnosis, there are four leading causes of financial exclusion in the agricultural and rural sectors in Mexico:

a) Information asymmetry in the credit market: Information asymmetry means that the company typically has more information about its project than the financial intermediary. In the primary sector, this is more frequent since the financial institution is less familiar with the factors affecting information (prices, production, and trends) of primary products. Most rural microenterprises lack a strategic investment plan and a credit history. As a result, there is a difference between credit demand and supply in the agricultural and rural sectors. This difference is known as the "financing gap."

b) Lack of financial infrastructure: In rural areas, there is less financial inclusion due to population dispersion, making it unprofitable for private financial institutions to establish the necessary branches to serve the country's rural areas. According to information from the CNBV in 2020, only 7 % of rural municipalities have bank branches.

c) Lack of financial culture/education: The third cause of financial exclusion is a lack of financial education. According to the Organization for Economic Cooperation and Development (OECD), financial education allows people to make better decisions, resulting in better economic well-being. One of those decisions involves the ability of people to consider financial products in the future. OECD measures this ability as an index replicated with the information from the 2018 Financial Literacy Survey, or ENIF by its initials in Spanish (CNBV, 2019a), known as the financial literacy score. Mexico obtained 58 points on a scale from 0 to 100, two points below the average for G20 countries. The lack of financial education is even more accentuated in rural areas. According to the ENIF published by the CNBV, there is a disparity of 6 points between rural and urban locations regarding literacy and behavior subcategories, and 9 points regarding knowledge. However, concerning financial attitudes, they are very close to each other, which could be due to their awareness of income variability.

d) Characteristics inherent to production units: The fourth factor of financial exclusion is the characteristics of production units, generally families without guarantees. According to SAGARPA- FAO (2012), 73 % of the rural sector production units are families in vulnerable conditions, making credit access difficult since financial intermediaries cannot control their costs. Therefore, financial intermediaries often prefer not to finance projects in the primary sector, even when they have a positive expected return. In a traditionally family-based and labor-intensive sector, investment in machinery and technology is usually low. Another feature is the poor regularization of land ownership, limiting its ability to act as collateral or guarantee for loans. The sector is greatly affected by inclement weather, exacerbated by climate change, increasing its credit risk. Financial institutions must develop products or vehicles which consider barriers these producers face. Additionally, most rural production units lack relationships with markets, preventing them from having a regular income flow to take out and repay a loan. Around 51.5 % of production units produce for self-consumption, and the reasons for not being granted a credit stand out as "not being able to prove income and the lack of documentation."

2.2.2 GENDER EQUALITY

Although substantial progress is registered in Mexico and worldwide in recent years, women and girls are still in a situation of vulnerability or disadvantage in regard to their male counterparts, as reflected in the gender gaps associated with several key indicators.

Indicators showing gender gap or disadvantageous condition of women in Mexico include:

i. In 2020, 44.4 % of women were in poverty, compared to 43.4 % of men. In rural areas (localities with less than 2,500 inhabitants), the incidence of poverty in women reaches up to 57.6 %[30];

ii. In 2017, educational lag was also higher on women (35.4 %) than on men (33.3 %)[31];

iii. Economic participation rate for women older than 15 years was 41.7% in 2021, a percentage significantly lower than the 74.2 % of their male counterparts in the same year[32];

iv. The percentage of the population with part-time jobs is 33.8 % for women and 17.1 % for men[33];

v. The percentage distribution of the employed population with social security access in 2022 was 60.6 % men and 39.4% women[34];

vi. The distribution of average household income in 2022 was highly skewed, with women earning on average 43.1% less than their male counterparts[35];

vii. Women have less access to and control over physical capital and land ownership. The legal (certified) percentage of ownership of agricultural land in the hands of rural women reached 21 %, in contrast to 79 % of their male counterparts, according to a 2015 pilot survey on the Situation of Household Assets.[36]

[30] http://estadistica.inmujeres.gob.mx/formas/tarjetas/Pobreza.pdf
[31] https://unidadgenero.senado.gob.mx/doc/publicaciones/4EDUCACION.pdf
[32] http://estadistica.inmujeres.gob.mx/formas/tarjetas/Participacion_economica_femenina.pdf
[33] https://www.inegi.org.mx/programas/enoe/15ymas/#tabulados
[34] https://www.imss.gob.mx/sites/all/statics/pdf/informes/20222023/05-Cap01.pdf
[35] https://www.inegi.org.mx/contenidos/saladeprensa/boletines/2023/ENIGH-E/ENIGH-E2022.pdf
[36] https://en.www.inegi.org.mx/contenidos/saladeprensa/boletines/2016/especiales/especiales2016_11_03.pdf

2.2.3 MEXICO'S SUSTAINABLE FINANCE MOBILIZATION STRATEGY

The Sustainable Finance Mobilization Strategy (SFMS) was published and opened for consultation by the Ministry of Finance and Public Credit of Mexico in September 2023. This strategy aims to mobilize up to 15 trillion pesos from 2023 to 2030 through three pillars, 19 lines of action, and 97 activities to be implemented by the public, private, and social sectors, as well as international organizations, civil society, and academia. The goal is to close the financing gap to achieve the sustainable development goals in Mexico. Within the SFMS, the Mexico´s Sustainable Taxonomy is framed as part of the Sustainable Financing action line, with the objective of establishing a national reference framework to classify sustainable activities and investments in a clear, reliable, legitimate, and science-based manner. This effort contributes to mobilizing capital towards activities with positive environmental and social impacts. The Sustainable Taxonomy is globally unique and the first of its kind to incorporate social objectives, thus supporting the achievement of the NDCs and the 2030 Agenda.

Both the SFMS and the Sustainable Taxonomy are crucial components of public policy, serving as key instruments for mobilizing financing for the mitigation and adaptation to climate change objectives as well as social objectives, which in turn contribute to the fulfillment of the country's NDC and SDGs for 2030. The SFMS is structured around three key pillars: Sustainable Public Financial Management, Mobilization of Sustainable Financing, and Cross-Cutting Actions. Each pillar encompasses specific lines of work and goals classified under the objectives of financing mobilization, public policy, financial regulation, and financing enabling mechanisms. Under the pillar of mobilizing sustainable financing, there is a focus on consolidating the sustainable debt market, with the goal of mobilizing 1.1 trillion pesos through the issuance of thematic debt instruments. Bonds issued within this framework will contribute to the development of sustainable activities, thus contributing with the achievement of the 1.1 trillion USD mobilization goal.

3. FIRA'S INSTITUTIONAL PROGRESS AND CONTRIBUTION TO MEXICO'S SUSTAINABLE DEVELOPMENT

3. FIRA'S INSTITUTIONAL PROGRESS AND CONTRIBUTION TO MEXICO'S SUSTAINABLE DEVELOPMENT

For FIRA, caring for the environment is a priority. As a development entity, and under its business model, FIRA promotes financing projects that contribute to the sustainability of the agri-food sector and care for the environment and natural resources.

Among FIRA's staff, actions are promoted to reduce water and energy consumption, responsible use of paper, comprehensive waste management, and mitigation of GHG emissions.

Below is a summary of the most representative FIRA initiatives, programs, and products. They support implementing production projects that help mitigate GHG emissions, strengthen adaptation to climate change, reduce vulnerability, increase climate resilience, and curb negative environmental impacts on soil, water, and biodiversity.

- Environmental and Social Risk Management System (ESRMS), which as of 2018, allows the identification and assessment of socio-environmental risks in financing projects greater than USD 10 million and the proposal of mitigating measures for such risks;
- Participation in the Mexican Council for Sustainable Finances (before used to be named CCFV) as a signatory of the Investor Statement and the Request for Disclosure of Environmental, Social, and Corporate Governance Information from Public Issuers;
- Programs aimed at promoting sustainable development with other agencies in the country and IFOs (International Financial Organizations), such as the National Forest Fund with CONAFOR (National Forest Commission, by its initials in Spanish), the Forest Investment Program (PROINFOR) with the German Development Bank "KfW," the Support Program for Sustainable Projects (PROSOSTENIBLE) in collaboration with the Latin American Investment Fund (LAIF) and the French Development Agency (AFD), and Financing for Small- and Medium-sized Enterprises in partnership with CAF, among others;
- Development of a methodology for identifying green projects based on their contribution to AFD's six dimensions of sustainable development;
- Reporting under the Sustainability Accounting Standards Board (SASB) standards;
- Disclosure of Sustainability Reports since 2008;
- Creation of the ESG website in 2020 to disseminate strategies and actions;
- Internal actions for environmental care such as efficient use of energy, responsible consumption and water collection, and comprehensive waste management, among others, as well as participation in the "GHG Emissions Inventory Report";
- Relevant programs that support financial inclusion;
- Design of a parametric system for measuring the environmental impacts of FIRA's credit portfolio in six dimensions.
- Participation in the technical groups for designing the agriculture, forest management and livestock production sections of the Mexico´s Sustainable Taxonomy
- Participation in the process for establishing the financing goals of the Sustainable Finance Mobilization Strategy.

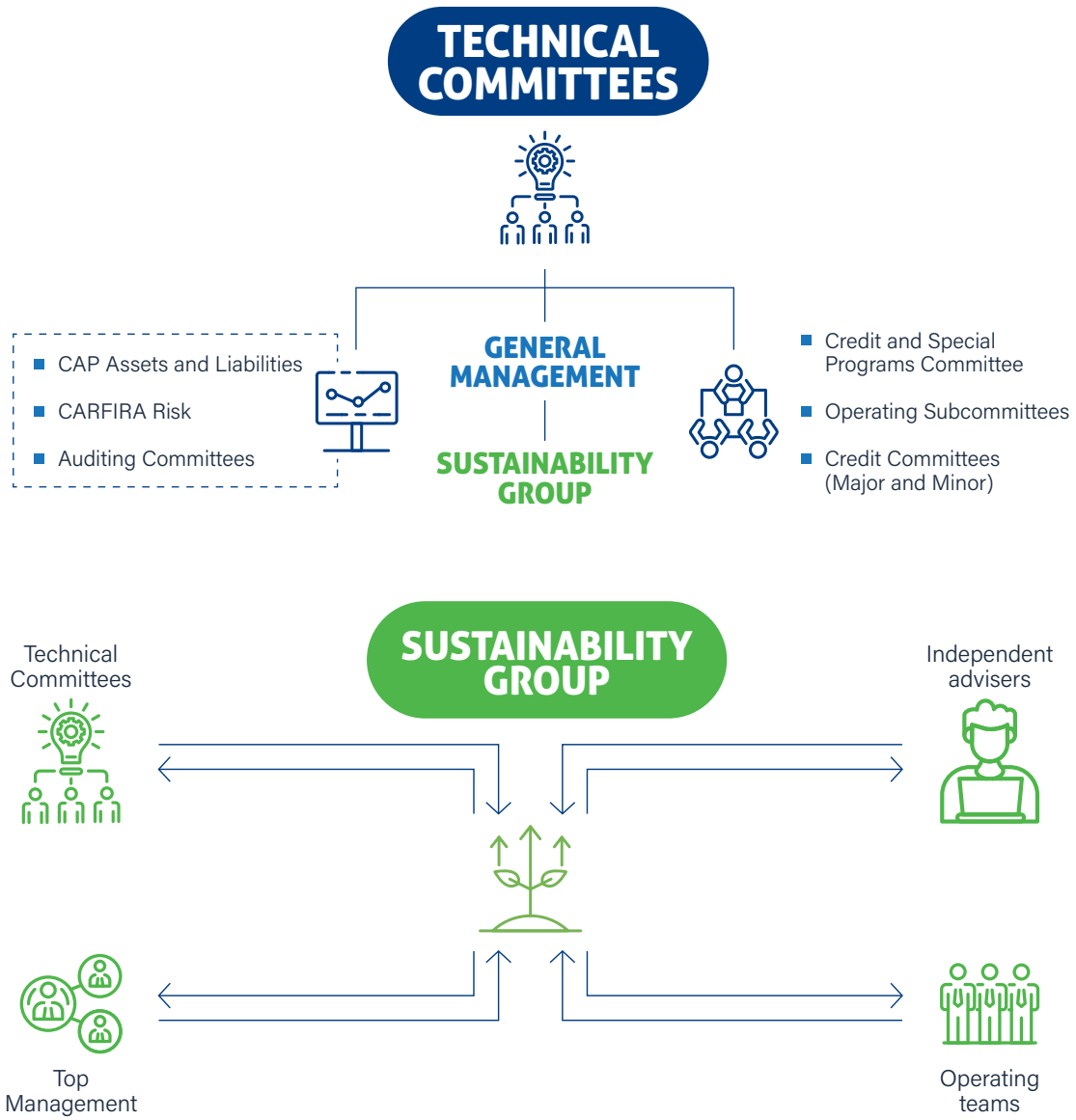
Full details of the institution's programs and initiatives in environmental, social, and governance matters can be found on FIRA's ESG website: https://www.fira.gob.mx/Nd/ESG.jsp

3.1 FIRA SUSTAINABILITY WORKING GROUP

As previously noted, and per FIRA's Sustainability Principles, the institution has a Sustainability Working Group (SWG) that helps the Technical Committees develop, implement, promote, and monitor the policies, strategies, and institutional actions regarding sustainability (Figure 6). This working group resulted from adherence to the ABM sustainability protocol for compliance with the "Establishment of a corporate governance structure concerning sustainability actions."

The Sustainability Working Group (SWG) as well as The Technical Committees receive feedback and guidance from FIRA's senior management.

Figure 6. Sustainability Working Group



Source: FIRA (2023) - https://www.fira.gob.mx/Nd/ESG-gobernanza.jsp

Various FIRA areas related to the financing of sustainable projects participate in this SWG, as well as those related to the design and application of policies. Independent advisors and experts may also take part.

Additionally, the institution has other committees that address specific issues, such as:

- Committee for the Promotion of the Environmental Management System, whose objective is to promote the proper environmental management of resources to build up savings and reduce the negative impacts of the institution's activities;
- Internal Committee for Efficient Energy Use;
- The Ethics and Conflict of Interest Prevention Committee, which promote public servants' integrity and implements permanent actions that favor their ethical behavior.

Furthermore, various policies and guidelines govern the actions of the institution's personnel, such as:

- Corporate Code of Conduct, which responds to and follows the provisions in the laws and regulations on discrimination, violence against women, labor equality, and gender equality and considers the diagnosis to guarantee adequate compliance with the principles of legality, honesty, loyalty, impartiality, and efficiency that govern public service;
- FIRA Gender Policy, which integrates into a single document the Policies "on labor equality and non- discrimination," "FIRA's Prevention of Psychosocial Risks," and "Zero Tolerance for Sexual Abuse and Harassment Statement."

4. SUSTAINABLE BOND FRAMEWORK

4. SUSTAINABLE BOND FRAMEWORK

This document describes FIRA's Framework for the issuance of Green, Social and/or Sustainability Bonds(the Framework) as part of its institutional strategy to consolidate inclusive, sustainable, and productive agri-food and rural sectors in the country. FIRA's Framework is based on its Institutional Program[37], the PND, the PRONAFIDE, and their contributions to advance Mexico's Sustainable Development Goals (SDG) of the United Nations (UN) 2030 Agenda and NDC commitments within the Paris Agreement of the United Nations Framework Conference on Climate Change (UNFCCC)

Similarly, this Framework is aligned with the sustainability objectives outlined by the Federal Government and established in SHCP SDG Sovereign Bond Framework in September 2020, which led to the issuance of the first Sustainable Sovereign Bond linked to the SDGs and that serves as a guide for the various government issuers, including FIRA, by pointing out the priority issues[38] to be addressed.

FIRA's Sustainable Bond Framework contributes to the mitigation and adaptation to climate change, the conservation of ecosystems and biodiversity, gender equality and financial inclusion, in line to the achievement of the mitigation, adaptation and social objectives of the Mexico´s Sustainable Taxonomy.

FONDO and FEFA are the trust funds authorized to issue bonds under this Framework, hereinafter referred to as the Issuer.

The Bond Framework outlines the obligations that FIRA must fulfill as an issuer and may be updated as necessary.

Through this Framework, FIRA can issue the following:

- **Green Bonds:** Where an amount equal to the resources obtained will be allocated exclusively to finance and/or refinance eligible green projects and investments (see 4.1.1 Eligible green categories; 4.1.2 Eligible resilience categories).
- **Social Bonds:** Where an amount equal to the resources obtained will be allocated exclusively to finance and/or refinance eligible social projects and investments (see: 4.1.3 Eligible financial inclusion categories; 4.1.4 Eligible gender equality categories).
- **Sustainability Bonds:** Where an amount equal to the resources obtained will be allocated exclusively to finance and/or refinance eligible projects and investments within the eligible green and social categories.

This Framework has been developed following the highest market standards. The eligible categories included in this Framework are aligned with the Green Bond Principles, the Social Bond Principles 2023, and the Sustainability Bond Guidelines issued in 2021 by the International Capital Market Association (ICMA).

The four core components of these principles are detailed below:

1. Use of proceeds
2. Process for projects evaluation and selection
3. Management of proceeds
4. Monitoring and reporting

[37] Available at: www.fira.gob.mx, About us section.

[38] The priority issues indicated in the SHCP's reference framework are (those in which FIRA can contribute with its thematic broadcasts are indicated in bold): Social and economic inclusion; adoption of a multidimensional approach to poverty; Gender equality and women's empowerment; implementation of the rights of indigenous and Afro-Mexican peoples; recognition of the rights of migrants and their positive contribution to development; conservation of biodiversity, biocultural heritage and traditional knowledge and the adoption of national commitments to face climate change; and, finally, the protection and strengthening of the Rule of Law.

4.1 USE OF PROCEEDS

FIRA will allocate an amount equal to the net proceeds from any issuance under this Framework to finance or refinance eligible projects and investments as defined below.

4.1.1 GREEN ELIGIBLE CATEGORIES

Below are the categories of eligible green projects and investments. The framework will be updated and published in the media determined by the institution.

Table 2. Green Eligible Categories

CATEGORY	ELIGIBLE CRITERIA	BENEFITS	PRIORITY PROBLEMS	ALIGNMENT WITH SDGS[39]	ALIGNMENT WITH NDC
1. Sustainable management of natural resources and land use	Projects related to: 1. Sustainable forest use: a. Commercial management of natural forests in a sustainable manner for wood production[40] b. Forest management by smallholder farmers[41] c. The marketing, cultivation, and/or extraction of goods derived from forests that are tangible and physical objects of biological origin other than wood d. Afforestation and reforestation[42] 2. Protection and restoration of terrestrial, freshwater, coastal, and marine ecosystems, biodiversity, natural habitats, soils, and their appropriate ecosystem services 3. Ecotourism[43] a. Establishment and operation of ecotourism projects	Integrate conservation with the sustainable use of natural resources, and use of protected terrestrial, marine, and coastal areas through ecosystem services	• Degradation and change of land use • Biodiversity loss		**NDC Component:** Land use, land use change, and forestry (USCUSS)
2. Sustainable agriculture and livestock breeding	Agricultural projects[44] related to: 1. Climate-smart agriculture that increases agricultural productivity, adaptation and resilience to climate change and reduces and/or absorbs GHG emissions. 2. Establishment, expansion, or continuous operation of agricultural production units[45] as a whole, that consider land used for agroforestry and silvopastoral[46] systems with Management Programs. 3. Production with conservation agriculture, zero tillage production, direct sowing. 4. Establishment, production and maintenance of livestock production under silvopastoral and agroforestry systems, excluding large scale industrial livestock production units. 5. Integrated soil fertility management (organic). Inorganic and synthetic fertilizers are excluded.	• Reduce the vulnerability of agricultural activity by improving climate change resilience and adaptive capacity • Increase the resilience of natural ecosystems • Improve knowledge and technologies for the sustainable use of biodiversity through sustainable agriculture	• GHG emissions • Soil degradation and land use change • Biodiversity loss		**NDC Component:** Agriculture and livestock breeding

[39] For more details about aligning eligible categories with SDG targets, see Schedule 1. Alignment of Eligible Categories with SDG Targets.

[40] Projects certified by the Forest Stewardship Council (FSC) or the Programme for the Endorsement of Forest Certification (PEFC) and in possession of a Sustainable Management Plan, as required by Article 105 of the LGEEPA and Article 93 of the LGDFS

[41] Projects complying with Mexico's LGDFS and LGEEPA.

[42] In possession of a Sustainable Management Plan, as required by Article 105 of the LGEEPA and Article 93 of the LGDFS.

[43] 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. This category includes ecological and rural or community tourism with good environmental management practices. Adventure tourism without a comprehensive environmental Sustainable Management Plan is excluded.

[44] No economic support or incentives 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. The appropriate authorization must be obtained for agricultural activities promoting land use change in forest lands.

[45] Projects certified by one of the following certifications: Sustainable Agriculture Rainforest Alliance, RTRS, EU Organic, USD Organic, JAS Organic, Mexico Organic or equivalent certifications ISEAL Code Compliant; and that comply with the provisions of the LGDFS, LGEEPA, and Mexico's Sustainable Rural Development Law.

[46] Companies in stratum E5 will be excluded from all matters related to livestock farming.

3. Fisheries and aquaculture	Projects that comply with one of the following sustainable certifications ASC, MSC, BAP, or those referring to: **1. Responsible Aquaculture[47],** 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. **2. Low environmental impact coastal fishing,** those 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, certified by Marine Stewardship Council (MSC); or those that increase productivity and contribute to a transition towards a more sustainable and resilient economy, demonstrating a responsible management of natural resources. **3. Sustainable offshore fishing,** those activities that are carried out with larger vessels, certified by Marine Stewardship Council (MSC), and that they respect Protected Natural Areas, and use best fishing practices.	• Enhance the resilience of fishery and aquaculture food production chains. • Improve knowledge and use of production technologies, environmental care, and resource conservation. • Enhance living conditions by improving productivity and income for producers.	• Biodiversity loss • Pollution and overexploitatio n of the oceans and their resources. • Adaptation and resilience to climate change.		
4. Renewable energy	Projects related to: 1. Infrastructure, development, manufacturing, construction, and maintenance for electric power generation or substitution of electrical energy from non-fossil energy sources, such as: a. Photovoltaic solar energy, including distributed generation b. Solar thermal energy, including distributed generation[48] c. Wind power d. Hydroelectric plants[49] e. Bioenergy[50] f. Marine energy 2. Transmission infrastructure and equipment dedicated to supporting, in whole or in part, electric power generation systems from non-fossil sources eligible under this Framework 3. Investments in solar or wind energy projects (on land) that integrate power generation and storage (batteries).	• Reduce GHG • Mitigate climate change • Provide long- term low-carbon infrastructure • Promote power generation through renewable sources	• GHG emissions • Adaptation and resilience to climate change		**NDC Component:** Electric power generation

[47] Financial support or incentives will not be granted for activities on forest lands whose change of land use has not been authorized by the Ministry of Environment and Natural Resources (SEMARNAT) in accordance with the provisions of the LGDFS and the LGEEPA. In the case of aquaculture activities that promote the change of land use on forest lands, the corresponding authorization must be obtained.

[48] Provided that 85% of electricity generated is derived from solar energy resources

[49] Satisfying the following requirements:

a. with CFA SPA002-19 requirements and processes on environmental and social risk assessment; and

b. below 50gCO2e/kWh OR with a power density greater than 10 W/m2 for facilities that became operational after 2019; and below 100 gCO2e/ kWh OR with a power density greater than 5 W/m2 for those that came operational before the end of 2019

[50] Biogas plants will be considered for bond issuance if they comply with an emissions threshold of 100g of CO2e per kWh of energy generated. 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 Specific exceptions are: Wood (and all woody biomass), third generation biofuels, and biodegradable Municipal Solid Waste, including sewage sludge and food waste.

5. Efficient and resilient water and wastewater management	Projects related to studies, design, construction, operation, maintenance, expansion, and adaptation for the efficient and sustainable use, sanitation, and management of water and wastewater, including: 1. Water storage, including: rainwater harvesting systems, stormwater management systems, water distribution systems, infiltration ponds, aquifer storage, groundwater recharge systems, sewage systems, pumps, sand dams 2. Water treatment, including, water recycling systems, wastewater treatment facilities, manure and sludge treatment facilities, natural filtration/recycling systems (e.g., wetlands, watersheds, forests), engineered natural filtration/ recycling systems 3. Water desalination[51]: constructing or operating seawater desalination plants with brackish water osmosis technology 4. Water distribution, for example, installing or improving high-efficiency drip, flood, and pivot irrigation systems including, rainwater harvesting systems, gravity-fed canal systems, pumped water canalization or distribution systems, terrace systems 5. Water resource conservation: water catchment areas protection and water supply pollution prevention 6. Flood defense systems, including constructing reservoirs to control water flows, surge barriers, pumping stations, dikes, and gates	• Promote the protection of water resources • Reduce GHG emissions • Conserve water resources • Adapt to climate change • Reduce water consumption • Increase resilience in natural ecosystems	• Adaptation and resilience to climate change • Water pollution and overexploitation		**NDC Component:** • Waste • Residential and business • Industry
6. Energy efficiency	Projects related to improving energy efficiency, including:[52] 1. Manufacturing, installing, operating, and maintaining products that reduce the energy use of underlying assets, technology, products, or systems, such as lighting systems with LED technology, smart grid meters, and fuel cells. 2. Providing bulk energy services such as heating/cooling systems, smart grids, and energy recovery technology, and energy storage, transmission and distribution resulting in reduced energy losses.	• Mitigate climate change • Save energy • Reduce GHG	• Adaptation and resilience to climate change		**NDC Component:** • Electric power generation • Industry

[51] The average carbon intensity of the electricity used for desalination be at or below 100g CO2e/kWh
[52] Electric equipment, excluding technologies or assets using fossil fuels as primary fuel.

4.1.2 RESILIENCE ELIGIBLE CATEGORIES

Table 3. Resilience Eligible Categories

CATEGORY	ELIGIBLE CRITERIA	BENEFITS	PRIORITY ISSUES	ALIGNMENT WITH SDGS	ALIGNMENT WITH NDC
Absorption before extreme climate events	Credits for projects that help reduce or prevent the impacts from extreme climate events in the municipalities with highest vulnerability to climate change according to the climate change vulnerability assessment of INECC[53], in order to preserve and restore essential functions and structures in the agricultural, forestry, livestock, fishing, food, and rural sectors.	Increase the absorption capacity[54] of productive systems by reducing risk exposure to possible extreme climate events through the credit recipients' activities. Increase the supply of financing to enable producers and companies to reduce their vulnerability to extreme weather events. Improving climate risk management via community engagement and participation.	• Adaptation and resilience to climate change		**Axis A:** Prevention and Attention of negative impacts on human population and the territory **Axis D:** Integrated water resources management with a climate change approach **Axis E:** Protection of strategic infrastructure and tangible cultural heritage
Adaptation to extreme climate events	Credits for projects that contribute to adjust, modify or change the characteristics of a productive system to better respond to climate change induced shocks and stresses in the agricultural, forestry, fishing, food and rural sectors, in the municipalities with highest vulnerability to climate change according to the climate change vulnerability assessment of INECC.[55]	• Contribute to decrease the vulnerability of production systems, allowing them to respond better to climate stress • Promote comprehensive water management to avoid water stress • Reduces the risk of pests and diseases associated with climate change in the agricultural, forestry, fishing, and food sectors	• Adaptation and resilience to climate change		**Axis B:** Resilient production systems and food security. **Axis C:** Conservation, restoration, and use.

[53] According to the National Atlas on Climate Change Vulnerability in Mexico published by INECC: Atlas Nacional de Vulnerabilidad al Cambio Climático (inecc.gob.mx)

[54] Capacity to prepare and recover from the impacts of adverse events.

[55] According to the National Atlas on Climate Change Vulnerability in Mexico published by INECC: Atlas Nacional de Vulnerabilidad al Cambio Climático (inecc.gob.mx)

4.1.3 FINANCIAL INCLUSION ELIGIBLE CATEGORIES

Table 4. Financial Inclusion Eligible Categories

CATEGORY	ELIGIBLE CRITERIA	BENEFITS	ALIGNMENT WITH SDGS[56]
1. Access to financial products and services for producers and companies in the agricultural, forestry, fishing, and rural sectors *In line with Target 1 of the PNIF*	Credits for productive projects of producers and companies of the micro-, family, small-, and medium-sized enterprise[57] strata that: 1.1 Receive financing with FIRA resources (funding or secured funding) for the first time	• Facilitate access to formal credit for small-scale producers through IFB and IFNB • Achieve financial well-being and greater resilience through increased access and use of formal financial products and services	
2. Use of financial products and services for entrepreneurs, producers and companies in the agricultural, forestry, fishing, and rural sectors *In line with Target 1 of the PNIF*	2.1 Accredited of the micro-, family, small-, and medium-sized enterprise strata for operating in high or very high marginalized municipalities or where financial services infrastructure is scarce (without formal intermediary branches) and receive financing with FIRA resources (funding or secured funding) 2.2 Microloans to entrepreneurs in rural communities of up to 50,000 inhabitants.	• Facilitate the use of formal credit for small-scale producers through IFB and IFNB • Increase the supply of financial services and valuable products for the target population	
3. Financial intermediaries increasing the supply of products and services that help overcome barriers to financial inclusion *In line with Target 3 of the PNIF*	Credits for productive projects of producers and companies of the micro-, family, and small-sized enterprise strata, disbursed via: 3.1 Para-financial companies that finance primary sector producers for their integration into value networks and supply chains 3.2 Non-banking financial intermediaries without direct operation with FIRA 3.3 Financial intermediaries' development program (with simplified operations, without guarantee, and/or via special purpose vehicles).	• Expand the network of intermediaries offering financial products for the different production sectors, allowing a greater capacity to face la cash flow restrictions of production cycles • Improve service channels to expand and strengthen financing in agri-food and rural sectors	

[56] For more details about aligning eligible categories with SDG targets, see Schedule 1. Alignment of eligible categories with SDG targets
[57] According to FIRA's Conditions of Operation.

4.1.4 GENDER EQUALITY ELIGIBLE CATEGORIES

Table 5. Gender Equality Eligible Categories

CATEGORY	ELIGIBLE CRITERIA	BENEFITS	ALIGNMENT WITH SDGS
Financial inclusion (new credit beneficiaries)[58]	Credits for production or investment projects with the participation of accredited women who appear for the first time in FIRA's beneficiary databases: • Individual women (only) • MSMEs, family businesses, large companies, associations, and organizations of female producers with the exclusive participation of or led by women[59]	• Promote the financial inclusion of women and thus contribute to gender equality	
Labor and productive initiative	Secured working capital loans for production projects granted to: • Individual women (only) • MSMEs, family businesses, large companies, associations, and organizations of female producers with the exclusive participation of or led by women	• Promote productive and labor inclusion of women for greater autonomy and thereby contribute to gender equality	
Entrepreneurship	Commercial or long-term loans to acquire capital goods and invest in production infrastructure granted to: • Individual women (only) • MSMEs, family businesses, large companies, associations, and organizations of female producers with the exclusive participation of or led by women	• Promote women's participation and development of entrepreneurial skills in long-term perspective production projects through financing for their company's capitalization	

[58] Accredited women who appear for the first time in FIRA´s beneficiary databases.

[59] A company led by women will be understood as that with major participation (51% or more) of women within their shareholding or productive structure.

4.2 PROCESS FOR PROJECT EVALUATION AND SELECTION

The eligible projects and investments selection and evaluation process to be financed with this bond will guarantee that resources are allocated to projects and investments that meet the criteria in this Framework's Use of Proceeds section. It will also ensure that funds do not finance activities not included under this framework, or those included in the Exclusion List of the Sustainable Bond Framework (Annex 2. FIRA Exclusion List).

As noted, FIRA, as a second-tier financial institution, operates by granting loans to production projects through a network of banking and non-banking financial intermediaries[60], which give loans to borrowers or end beneficiaries. The relationship and flow of information between FIRA and its financial intermediaries are managed through FIRA's Comprehensive Operations Information System (SIIOF, for its acronym in Spanish), which contains financial and non-financial information on the additional credits granted by FIRA through financial intermediaries. The SIIOF plays a significant role in identifying, classifying, selecting, monitoring, and notifying eligible investments.

For this, according to this Framework's Use of Proceeds section, FIRA will parameterize the characteristics and necessary criteria to identify the eligible financing for the bond proceeds in the SIIOF.

The Issuer's business area will extract the information from the SIIOF to identify and validate which operations meet the eligibility criteria defined in the Use of Proceeds section. This will allow the identification in FIRA's computer and statistical systems, generating a database to identify and monitor the categories of the granted loans.

Eligible projects and investments will be marked and identified in the SIIOF to monitor, track, and report resource usage and ensure that resources are regularly allocated. Eligible projects and investments will be differentiated using a unique identifier for each bond issued under this Framework.

4.2.1 ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT SYSTEM

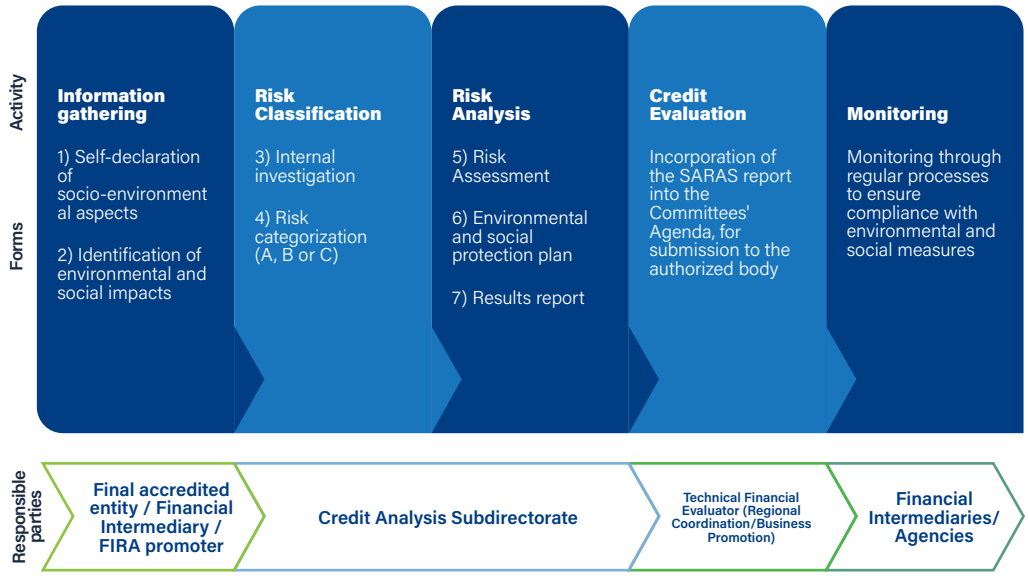
With the support of IFOs and considering the Environmental and Social Sustainability Performance Standards of the World Bank's International Finance Corporation (IFC), FIRA has designed a methodology for identifying, assessing, and managing socio-environmental risks.

Considering the Equator Principles as a reference and the Do-Not-Significant-Harm requirements from the Mexico´s Sustainable Taxonomy, SARAS (for its acronym in Spanish) applies to all projects that require authorization from the FIRA Credit Committees, depending on the credit quality of the financial intermediary and the amount of financing.

[60] Such as Multiple Purpose Financial Companies (SOFOM, for its acronym in Spanish), Credit Unions, Savings and Loan Cooperatives (SCAP, for its acronym in Spanish), and General Deposit Warehouses (AGD, for its acronym in Spanish), among others

SARAS, active since May 1, 2018, allows the institution to identify, assess, categorize, and mitigate the risks of its operations and credits. SARAS process consists of five stages:

Figure 7. Environmental and Social Risk Management System



Source: FIRA (2024)

4.3 MANAGEMENT OF PROCEEDS

This Framework sets out the general approach applicable to the proceeds management. FIRA's Finance Department will ensure that an amount equivalent to the total net issuance proceeds under this Framework is allocated to financing and/or refinancing recent projects and investments (up to two fiscal years before issuance), current-year investments, and future investments (the period that the thematic bond is to be declared to the respective issuance date) belonging to one of the eligible categories described in the Use of Proceeds section of this Framework. FIRA will make its best efforts to allocate the resources within 24 months of each bond issuance or as soon as reasonably possible.

The net resources derived from the bond issuance will be credited to the Issuer's account to ensure transparency and traceability. They will be used to finance, in whole or in part, financial intermediaries that meet the defined eligibility criteria within this Framework, which in turn will channel the resources to end borrowers. The proceeds of the issuances under this Framework will be managed under the procedures established for this purpose, using the institutional computer systems (SIIOF, SAP ERP, among others) and as per the applicable internal control measures, assuring the avoidance of duplicated accounting of a same project. Any portion of proceeds from the issuance that is not immediately allocated to eligible projects and investments will be temporarily invested in alignment with Issuer's internal liquidity management policy: keeping them in liquid assets or bank accounts.

If the project or investment initially included in an issuance ceases to meet such eligibility criteria due to changes in its nature or implementation, it will not be accounted for within the financing or refinancing related to the specific bond. FIRA will make its best efforts to reallocate the resources to other projects or investments that meet the eligibility criteria described in the Use of Proceeds section.

4.4 REPORTING

For all bonds issued under the Framework, FIRA will publish and make available to investors and stakeholders an Allocation and Impact Report, in accordance with the below sections. This information will be published on the FIRA website: https://www.fira.gob.mx. The first report will be posted after a year following the issuance date.

4.4.1 ALLOCATION REPORT

FIRA will make its best effort to provide information to investors and stakeholders on the allocation of proceeds, at least until the total allocation of funds concludes, through an annual Allocation Report, which will include:

- A brief description of eligible projects and investments financed or refinanced;
- Amounts disbursed by eligible category;
- Percentage of resources allocated by eligible category;
- Percentage of resources allocated for financing and refinancing, and
- The remaining balance of unallocated proceeds.

If non-disclosure agreements, competition considerations, or financial intermediaries cannot provide some of these data, FIRA will present the information in generic terms or based on an aggregate portfolio (for example, the percentage allocated to specific categories of projects).

4.4.2 IMPACT REPORT

FIRA on a best-efforts basis, commits to preparing and publishing an annual Impact Report, at least until the complete allocation of proceeds, in alignment with the ICMA Harmonized Framework for Impact Reporting[61].

FIRA will consolidate the projects' information on social and/or environmental indicators reported by FIRA and/or financial intermediaries. As long as there is available information, the Impact Report may include the following:

- The projects' expected environmental or social impact and
- The methodology and underlying assumptions used to prepare the impact indicators to be disclosed.

For the impact indicators, Tables 7, 8, and 9 will be taken as a reference.

[61] ICMA (2021) "Harmonised Framework for Impact Reporting". https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Handbook-Harmonised-Framework-for-Impact-Reporting-June-2021-100621.pdf

Table 7. Environmental Impact Indicators

GREEN ELIGIBLE CATEGORIES	IMPACT INDICATORS
1. Sustainable management of natural resources and land use	▪ Reduced emissions (tonCO2e/year) ▪ Area of agricultural, pastoral, or forest ecosystems where sustainable management practices have been introduced (ha)
2. Sustainable agriculture	▪ Reduced emissions (tonCO2e/year) ▪ Reduced water volume (mill. m3/year)
3. Fisheries and aquaculture	▪ Number of beneficiaries (in total, men and women) ▪ Fishing companies that have a sustainability certification as percentage of the total companies in the fishing and aquaculture portfolio and as the percentage share in total financing of the fishing and aquaculture sector. ▪ Tons of responsible, low-impact and sustainable fishing and aquaculture production. ▪ Financing in responsible aquaculture, low-impact coastal fishing and sustainable deep-sea fishing as the percentage share of total fishing and aquaculture portfolio. ▪ Micro, family, small, and medium-sized companies in responsible aquaculture, low-impact coastal fishing and sustainable deep-sea fishing as the percentage share of total companies in the fishing and aquaculture portfolio and as percentage share of total financing of the fishing and aquaculture sector.
4. Renewable energy	▪ Additional installed renewable generation capacity (MWh/ year) ▪ Energy savings as a result of energy efficiency measures (MWh/year)
5. Efficient and resilient water and wastewater management	▪ Purified water volume (mill. m3/year) ▪ Reduced water volume (mill. m3/year) ▪ Treated water volume (mill. m3/year)
6. Energy efficiency	▪ Reduced emissions (tonCO2e/year) ▪ Installed capacity (MWh/year) ▪ Energy saved per year (MWh/year) ▪ Energy saved per year (MJ/year)

Note: The vulnerability index of municipalities is measured by the number of vulnerabilities presented according to INECC's Vulnerability Atlas. Second level (three vulnerabilities in the high and very high category) 273 municipalities; Third level (4 vulnerabilities in the high or very high category) 83 municipalities

Table 8. Resilience Indicators

RESILIENCE ELIGIBLE CATEGORIES	IMPACT INDICATORS
Absorption before extreme climate events	▪ Volume of credit granted to increase the absorption capacity to face the impact of extreme climate events. ▪ Volume of credit disbursed to increase the absorption capacity in municipalities with a vulnerability index of 2 and 3, according to the classification of the National Atlas of Vulnerability to Climate Change of the INECC. ▪ Number of beneficiary borrowers with increased absorption capacity in the face of extreme weather events.
Adaptation to extreme climate events	▪ Volume of credit disbursed to increase adaptive capacity to the impact of extreme climate events. ▪ Volume of credit disbursed to increase adaptive capacity in municipalities with vulnerability index of 2 and 3, according to the classification of the National Atlas of Vulnerability to Climate Change of the INECC. ▪ Number of beneficiary borrowers with productive systems with increased adaptive capacity to withstand extreme climate events.

Table 9. Social Impact Indicators

SOCIAL ELIGIBLE CATEGORIES	IMPACT INDICATORS
GENDER EQUALITY	
Financial inclusion	▪ Number of women benefiting from a FIRA credit for the first time ▪ Amount of loans granted for the first time to women final borrowers (as individuals or members or partners of a company, association, or organization of producers with exclusive participation of women or led by women)
Labor and productive initiative	▪ Number of women (end borrowers) receiving secured working capital loans to run their production project ▪ Number of secured working capital loans for production projects of individuals, companies, organizations, or associations of female producers or led by women ▪ Amount of secured working capital loans granted to female final borrowers (as individuals or members or partners of a company, association, or organization of producers with the exclusive participation of women or led by women)
Entrepreneurship	▪ Number of women (end borrowers) receiving long-term credit to acquire capital goods and invest in production infrastructure ▪ Number of long-term commercial loans to acquire capital goods and invest in production infrastructure to support production projects of individuals, companies, organizations, or associations of female producers or led by women ▪ Amount of long-term loans to acquire capital goods and invest in production infrastructure to end female borrowers (as individuals or members or partners of a company, association, or organization of producers with the exclusive participation of women or led by women)
FINANCIAL INCLUSION	
Access to financial products and services for producers and companies in the agricultural, forestry, fishing, and rural sectors	▪ Loan amounts granted to new beneficiaries, meaning the end borrowers who receive a loan with FIRA resources for the first time ▪ Number of end borrowers who receive a loan with FIRA resources for the first time
Use of financial products and services for producers and companies in the agricultural, forestry, fishing, and rural sectors	▪ Loan amounts granted to operating end borrowers located in high or very high degree of marginalized municipalities or where financial services infrastructure is scarce ▪ Number of operating end borrowers located in municipalities with a high or very high degree of marginalization or where financial services infrastructure is scarce ▪ Number of end beneficiaries located in municipalities with a high or very high degree of marginalization or where financial services infrastructure is scarce and required hiring an additional financial service (insurance and/or price coverage)
Financial intermediaries increasing the supply of products and services that help overcome barriers to financial inclusion	▪ Loan amounts granted to operating primary producers of the micro-, family, and small-sized enterprise strata through para-financial companies ▪ Number of operating end borrowers of the micro-, family, and small-sized enterprise strata that received credit from para-financial companies ▪ Loan amount granted in financing schedules with the IFNB that serve the micro-, family, and small-sized enterprise strata without direct operation with FIRA ▪ Loan amount granted through IF in Development ▪ Number of NBFIs (Nonbank Financial Institution) included in the eligibility criteria

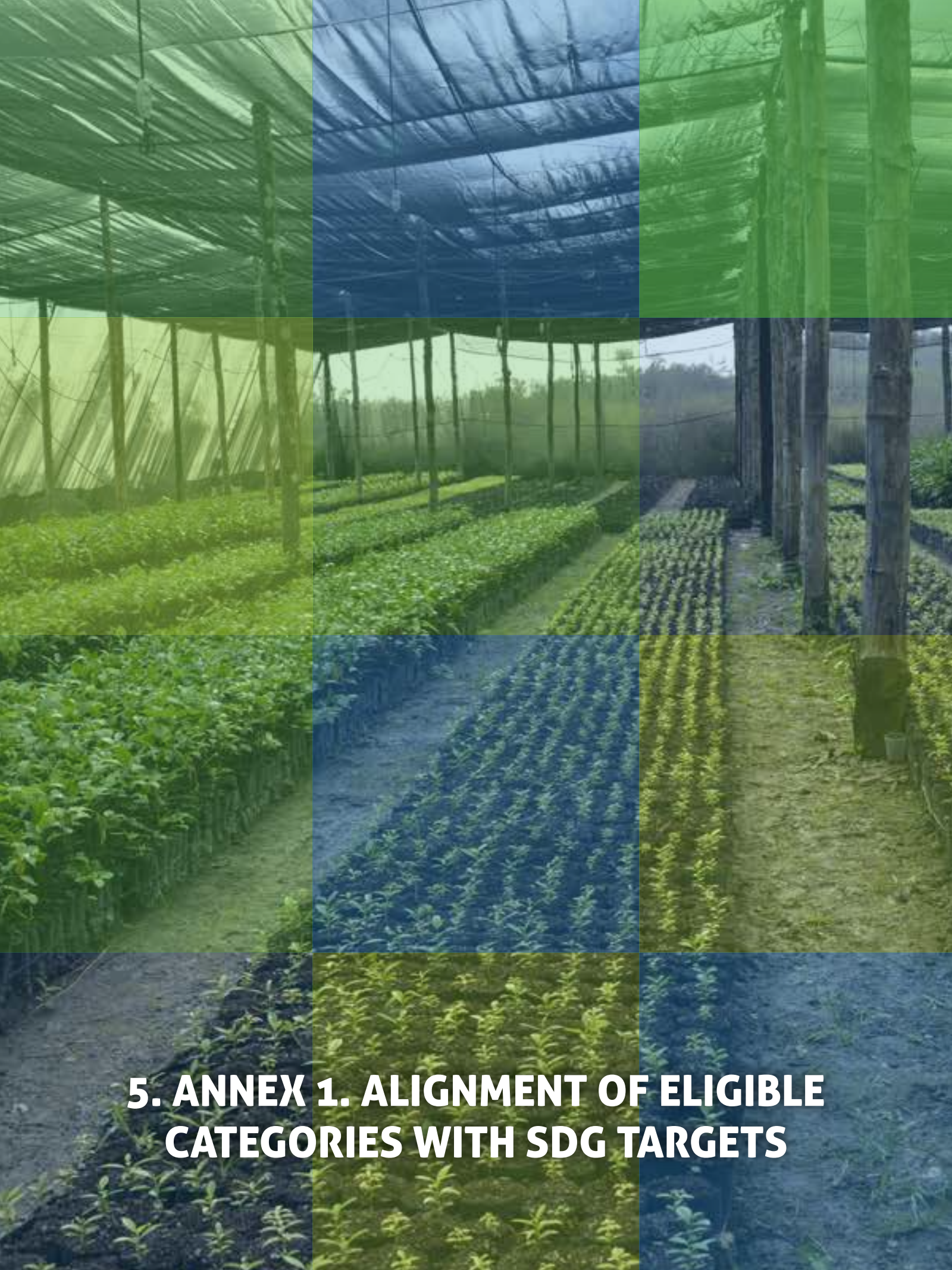
If non-disclosure agreements, competition considerations, or financial intermediaries cannot provide some of these data, FIRA will present the information in generic terms or based on an aggregate portfolio (for example, the percentage allocated to specific categories of projects).

4.4.3 EXTERNAL AUDIT

FIRA commits to make its best efforts to engage an independent external auditor to ensure that Allocation and Impact Reports are aligned with the Framework. This process will be carried out at least in the first annual report after each bond issuance.

4.5 SECOND-PARTY OPINION

In accordance to international best practices for issuing Sustainable Bonds, FIRA will seek an external provider's second-party opinion for this Framework. If any sections of the Sustainable Bond Framework are modified in the future, FIRA commits to obtaining a new second-party opinion to ensure the transparency of its issuances and that the Framework continues to follow ICMA standards.



5. ANNEX 1. ALIGNMENT OF ELIGIBLE CATEGORIES WITH SDG TARGETS

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5.1 GREEN CATEGORIES IN ALIGNMENT WITH THE SDG

ELIGIBLE CATEGORIES	SDG TARGETS
Sustainable management of natural resources and land use	▪ 12.2 By 2030, achieve the sustainable management and efficient use of natural resources ▪ 12.b Develop and implement tools to monitor sustainable development impacts for sustainable ▪ tourism, that creates jobs and promotes local culture and products ▪ 14.2 By 2020, sustainably manage and protect marine and coastal ecosystems to avoid significant adverse impacts, including by strengthening their resilience and taking action for their restoration in order to achieve healthy and productive oceans ▪ 15.1 By 2020, ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and drylands, in line with obligations under international agreements ▪ 15.2 By 2020, promote the implementation of sustainable management for all forest types, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally ▪ 15.3 By 2030, combat desertification, restore degraded land and soil, including land affected by desertification, drought and floods, and strive to achieve a land degradation-neutral world ▪ 15.a Mobilize and significantly increase financial resources from all sources to conserve biodiversity and sustainably use ecosystems ▪ 15.b Mobilize significant resources from all sources and at all levels to finance sustainable forest management and provide adequate incentives to developing countries to advance such management, including for conservation and reforestation
Sustainable agriculture	▪ 2.4 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 ▪ 12.2 By 2030, achieve the sustainable management and efficient use of natural resources
Fisheries and aquaculture	▪ 2.3 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. ▪ 12.2 By 2030, achieve the sustainable management and efficient use of natural resources ▪ 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	▪ 7.2 By 2030, increase substantially the share of renewable energy in the global energy mix ▪ 7.3 By 2030, doubling the rate of improvement in energy efficiency globally ▪ 9.3 Increase the access of small-scale industrial and other enterprises to financial services, including affordable credit, and their integration into value chains and markets, particularly in developing countries
Efficient and resilient water and wastewater management	▪ 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 ▪ 6.5 By 2030, implement integrated water resources management at all levels, including through transboundary cooperation as appropriate ▪ 6.6 By 2030, protect and restore water-related ecosystems, including mountains, forests, wetlands, rivers, aquifers, and lakes
Energy efficiency	▪ 7.3 By 2030, doubling the rate of improvement in energy efficiency globally ▪ 13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries ▪ 15.3 By 2030, combat desertification, restore degraded land and soil, including land affected by desertification, drought and floods, and strive to achieve a land degradation-neutral world

5.2 FINANCIAL INCLUSION CATEGORIES

ELIGIBLE CATEGORIES	SDG TARGETS
1. Access to financial products and services for producers and companies in the agricultural, forestry, fishing, and rural sectors 2. Use of financial products and services for producers and companies in the agricultural, forestry, fishing, and rural sectors 3. Financial intermediaries increasing the supply of products and services that help overcome barriers to financial inclusion	▪ 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 ▪ 2.3 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 ▪ 8.3 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 ▪ 8.10 Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all ▪ 9.3 Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets ▪ 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

5.3 GENDER QUALITY CATEGORIES

ELIGIBLE CATEGORIES	TARGETS
1. Financial Inclusion 2. Labor and productive initiative 3. Entrepreneurship	▪ 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 ▪ 1.b Create sound policy frameworks at the national, regional and international levels, based on pro-poor and gender-sensitive development strategies, to support accelerated investment in poverty eradication actions ▪ 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 ▪ 5.1 End all forms of discrimination against all women and girls everywhere ▪ 5.2 Eliminate all forms of violence against all women and girls in the public and private spheres, including trafficking and sexual and other types of exploitation ▪ 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 ▪ 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 ▪ 5.c Adopt and strengthen sound policies and enforceable legislation for the promotion of gender equality and the empowerment of all women and girls at all levels ▪ 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 ▪ 8.5 By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value ▪ 8.10 Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all ▪ 10.1 By 2030, progressively achieve and sustain income growth of the bottom 40 per cent of the population at a rate higher than the national average ▪ 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 ▪ 10.3 Ensure equal opportunity and reduce inequalities of outcome, including by eliminating discriminatory laws, policies and practices and promoting appropriate legislation, policies and action in this regard ▪ 10.5 Improve the regulation and monitoring of global financial markets and institutions and strengthen the implementation of such regulations

6. ANNEX 2. EXCLUSION LIST

6. ANNEX 2. EXCLUSION LIST

In line with best market practices and the International Finance Corporation (IFC)[62] Performance Standards, any projects, assets, or expenses related to the following activities will be excluded from eligible projects:

a. Trade of wild flora and fauna species threatened or regulated by the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) or products derived therefrom

b. Production or trade of wood and other forest products from forests without the relevant sustainable management plan and/or permission from the environmental authority of the area of operation

c. Implementation of projects in protection and conservation areas without the relevant permission of the environmental authority of the area of operation

d. Fishing activities in the marine environment with nets of more than 2.5 km in length

e. Manufacture or sale of radioactive materials (includes radioactive waste) (radioactive materials for medical uses are excepted)

f. Production, trade, or use of non-agglomerated asbestos fibers

g. Manufacture or sale of products with PCBs (polychlorinated biphenyls)

h. Production or marketing of pharmaceutical specialties subject to phase out or prohibition internationally unless licensed by the competent body

i. Transboundary movements of waste and waste products (except non-hazardous waste)

j. Non-compliance with Mexican anti-corruption laws and any environmental, social, and governance laws, policies, and procedures

k. Child labor or forced labor

l. Activities not considered within the protected area or actions that violate indigenous right

[62] IFC (2022) "Performance Standards". https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/ sustainability-at-ifc/policies-standards/performance-standards

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