

Third Annual Green Bond Report

FEFA19V



November **2022**

1. GENERAL OVERVIEW

Trust Funds for Rural Development (Spanish: Fideicomisos Instituidos en Relación con la Agricultura or FIRA) was established in 1954 by Mexico's Federal Government as a second-tier development financial institution that offers credit and guarantees, training, technical assistance and technology-transfer support to the agriculture, livestock, fisheries, forestry and agribusiness sectors in Mexico. FIRA is part of the Mexican financial system and consists of four trust funds (FONDO, **FEFA**, FEGA, and FOPESCA). FEFA is the Green Bond issuer.

The mission of the institution is to foster the consolidation of an inclusive, sustainable and productive agricultural and rural sector.

FIRA's sustainability strategy encompasses national and international strategic partnerships aiming to provide better financial services in more attractive conditions and to provide technical assistance to Mexican producers.

As part of the aforementioned sustainability strategy, in November 2019, FEFA issued its second Green bond (the "Green Bond") with a portfolio composed of hundreds of small, medium, and big projects distributed throughout Mexico. The Green Bond framework (the "framework") received a positive second opinion by Sustainalytics for meeting ICMA's Green Bond Principles and it concluded: "... **FEFA Green Bond Framework is credible and impactful...**"





This Green Bond includes projects from three out of the four categories¹ declared in the framework and incorporates two additional types of projects in comparison to the first green bond issued in 2018 (Solar photovoltaic and Forestry).

Eligible Green Project	Projects
Environmentally Sustainable agriculture	Protected Agriculture and Forestry (new)
Water Efficiency	Dripping, sprinkling and micro-sprinkling irrigation systems
Renewable energy	Solar photovoltaic systems (new)

The Green Bond obtained the Climate Bonds Initiative (CBI) certification in February 2020² and was innovative by **being the first certified Green bond in the world to use the forestry specific criteria**. Additionally, this bond also complied with three other CBI criteria which are Protected Agriculture: Mexico, water infrastructure, and solar energy (onshore solar electricity generation facilities). On January 2021, the CBI approved the post-issuance certification of the Green Bond, as per the application documents and verification report³ provided by FEFA.

¹ FEFA's Green Bond Framework directs the use of proceeds towards four project categories: environmentally sustainable agriculture, water efficiency, energy efficiency, and renewable energy (www.fira.gob.mx => Relación con Inversionistas => Bonos verdes, sociales y/o sostenibles=> Fefa Green Bond Framework).

² https://www.climatebonds.net/certification/fira_fefa

³ Post-issuance verification letter elaborated by Sustainalytics, Inc.



FIRA's Green bond strategy has been widely recognized as innovative and impactful. In April 2019, FIRA received a "Green, Social and Sustainable MX Bond Award" from the Green Finance Council (Spanish: Consejo Consultivo de Finanzas Verdes) and the Mexican Stock Exchange for its first green bond emission and, in July 2020, FIRA received the Green ALIDE (Asociación Latinoamericana de Entidades Financieras para el Desarrollo) award for its green bond issuance strategy. The strategy is considered one of the best practices among financial institutions in Latin America and the Caribbean that promotes environmental sustainability.

One of the principal objectives of the green bond strategy is to achieve involvement amongst our stakeholders in implementing green solutions. It is of paramount importance to create awareness of the environmental problems the world faces as well as to create active participation of the whole society in its solution. Green bonds are great instruments to inform and channel resources toward green projects.

Finally, in 2020 FIRA published its Institutional Programme for 2020-2024 which considers, among other aspects, the Sustainable Development Goals (SDGs) and the Agenda 2030 by incorporating its principles and goals into a sustainability strategy. One of the three institutional priority goals is to contribute towards the responsible and sustainable development of agriculture, forestry, and fisheries.



2. OVERVIEW OF GREEN BOND ISSUE

FEFA issued the Green Bond in 2019 according to the following:

Table 1. FEFA's inaugural Green Bond details.

Issuer:	Fondo Especial para Financiamientos Agropecuarios (FEFA)
Issuer Rating:	mxAAA by S&P and AAA by HR
Issued amount (MXN):	2,500 million
Date of Issuance:	November 22 nd , 2019
Maturity Date:	February 10 th , 2023
Tenor:	3 years
Bond details:	Floating rate bond, coupon of TIE ⁴ + 14 bp
Bond symbol:	FEFA 19V

In the framework, the institution committed to publishing an annual use of proceeds report. This report presents the allocation of the debt proceeds by category per the eligibility criteria defined in the framework and environmental performance indicators.

⁴ In its Spanish acronym, Tasa de Interés Interbancaria de Equilibrio.

3. USE OF PROCEEDS AND ENVIRONMENTAL PERFORMANCE

As informed in the second annual report of this bond published in 2021, the proceeds were fully allocated to financing new projects (39%) or refinancing (61%) granted loans and investments of eligible green projects, which provide clear environmental benefits and promote the transition to low-carbon and climate resilience. There is therefore a zero balance of unallocated proceeds.

All eligible projects were marked using a unique identifier (FEFA19V) in the credit management system of FIRA denominated SIOF⁵. This registry was used for continuous monitoring, matching, and reporting of the use of proceeds.

The table below summarizes the green projects which account for the bond issuance on an aggregate portfolio basis. Figure 1 shows the geographical distribution of such projects.

Table 2. Green Portfolio. FEFA's funded eligible projects.

Elegible Green Project	Projects	CBI Criteria	Value (MXN - Millions)	Number of projects
Environmentally Sustainable	Protected Agriculture	Protected Agriculture: Mexico	529.7	12
Agriculture	Forestry	Forestry	242.5	1
Water Efficiency	Localized irrigation ⁶	Water Infrastructure	415.0	132
	Sprinkler irrigation		236.8	85
Renewable energy	Solar photovoltaic systems	Solar energy	1,079.0	101
Total			2,503.0	331

⁵ In its Spanish acronym, Sistema Informático Integral de las Operaciones de FIRA.

⁶ Includes dripping and micro sprinkling irrigation systems.



Distribution of the use of proceeds per project type

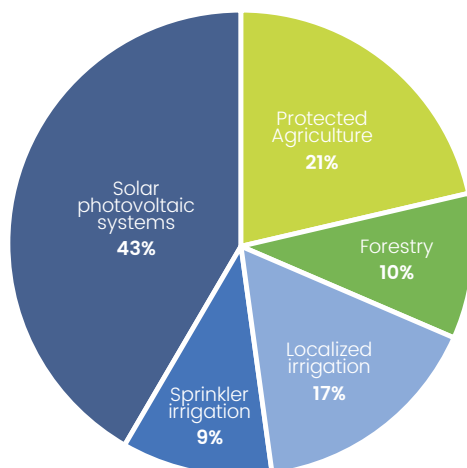


Figure 1. Geographical distribution of the funded projects (Number of projects; Mexico)



4. IMPACT REPORTING

In accordance with the framework, this report includes parametric indicators on the environmental impact of the eligible green projects that are considered on a portfolio level. For protected agriculture, the quantitative parametric indicators are estimated annual reduction in water consumption (m^3) and estimated annual GHG emissions reduced, avoided or captured. For water efficiency projects, the quantitative parametric indicator is the estimated annual reduction in water consumption (m^3). For Solar Photovoltaic Systems and Forestry, the quantitative parametric indicator is estimated annual GHG emissions reduced, avoided or captured.

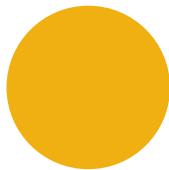


Table 3 shows the cumulative estimated values for each project category up to the second-year.

Table 3. Aggregated quantitative parametric indicators per project category (year 1 and 2)

Elegible Green Project	Projects	Annual reduction in water consumption (m ³)	Annual GHG emissions reduced, avoided or captured (ton CO ₂ e).
Environmentally Sustainable Agriculture	Protected Agriculture	11,388,600.0	47
	Forestry	not applicable	400,000.0
Water Efficiency	Localized irrigation	46,183,059.8	not applicable
	Sprinkler irrigation	23,824,443.8	not applicable
Renewable energy	Solar photovoltaic systems	not applicable	23,496.8
Total		81,396,103.6	423,543.8

The ongoing operation of the individual projects financed with the green bond proceeds continue to generate environmental benefits. Therefore, the aggregated amounts for the three years of the above-mentioned parametric indicators are shown in table 4.

Table 4. Aggregated quantitative parametric indicators per project category (year 1, 2 and 3)

Elegible Green Project	Projects	Annual reduction in water consumption (m ³)	Annual GHG emissions reduced, avoided or captured (ton CO ₂ e).
Environmentally Sustainable Agriculture	Protected Agriculture	28,471,500	117.5
	Forestry	not applicable	1,000,000
Water Efficiency	Localized irrigation	111,247,693	not applicable
	Sprinkler irrigation	56,674,751	not applicable
Renewable energy	Solar photovoltaic systems	not applicable	52,568.6
Total		196,393,943	1,052,686

5. EXTERNAL REVIEW

Sustainalytics, a global leader in ESG & Corporate Governance, independently reviewed FEFA's **first** annual report⁷ regarding its compliance with the framework. In particular:

- If the projects meet the Use of Proceeds and the Eligibility Criteria outlined in the framework.
- FEFA reported on the Key Performance Indicators (KPI) for each Use of Proceeds according to the criteria defined in the framework.

Sustainalytics concluded that all projects complied with the use of proceeds and reporting criteria.



⁷ Available in <https://www.fira.gob.mx/Nd/ESG-ambiental.jsp> => Colocación del Segundo Bono Verde en el mercado bursátil (FEFA19V) => "FEFA Green Bond SPO por (Sustainalytics)"

