



FEFA Green Bond Framework

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List of Acronyms

AFD: Agence Francaise de Développement
BAU: Business as Usual
CAF: Corporación Andina de Fomento
CC: Climate Change
CDT: Centro de Desarrollo Tecnológico
CONABIO: Comisión Nacional para el conocimiento y uso de la Biodiversidad
FEFA: Fondo Especial para Financiamientos Agropecuarios, the Green Bond issuer.
FEGA: Fondo Especial de Asistencia Técnica y Garantía para Créditos Agropecuarios
FI: Financial Intermediary
FIRA: Fideicomisos Instituidos en Relación con la Agricultura
FONDO: Fondo de Garantía y Fomento para la Agricultura, Ganadería y Avicultura
FOPESCA: Fondo de Garantía y Fomento para las Actividades Pesqueras
GHG: Greenhouse Gases
GRI: Global Reporting Initiative
HT: High Technology
ICMA: International Capital Markets Association
IDB: Interamerican Development Bank
IICA: Instituto Interamericano de Cooperación para la Agricultura
INECC: Instituto Nacional de Ecología y Cambio Climático
KFW: Kreditanstalt für Wiederaufbau
LT: Low Technology
MT: Medium Technology
PA: Protected Agriculture
SAGARPA: Secretaría de Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación
SEMARNAT: Secretaría de Medio Ambiente y Recursos Naturales
SHCP: Secretaría de Hacienda y Crédito Público
SH: Shade House
WB: World Bank

1. Introduction

Trust Funds for Rural Development (Fideicomisos Instituidos en Relación con la Agricultura or FIRA, in its Spanish acronym) 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. FEFA is the Green Bond issuer and is one of the four Trust Funds that form FIRA.

FIRA consists in the following 4 trusts funds that were created and integrated to fulfill FIRA's current structure. These trusts and their respective year of creation are as follow:

- FONDO (1954): canalizes resources to banking institutions, credit unions, general deposit warehouses, and other non-banking financial intermediaries determined by the SHCP, so that these in turn may be passed on to producers through credit loans; for agriculture, livestock, poultry, and other related activities, or to develop in rural areas.
- FEFA (1965): (the Green Bond issuer) its purpose is to facilitate access to financing through credit and discount operations to projects related to agriculture, livestock, poultry, agro-industry, fisheries and other related activities that are carried out in rural areas.
- FEGA (1972): created for granting credit guarantees, subsidies and other services directly or through financial institutions, for the agricultural, forestry and fishing sectors, as well as agro-industry and other related activities, or those developed in rural areas. In addition, FEGA provides subsidies for developing access to credit and technological development to improve competitiveness and producer's sustainability.
- FOPESCA (1989): Focused on channelling FIRA's resources through banks towards the fishing and aquaculture sectors and related activities.

1.1 Organizational Structure

FIRA is managed by a technical committee formed by financial system authorities such as the ministry of finance (SHCP) and the central bank of Mexico, authorities of the ministry of agriculture, as well as independent representatives of the agri-food industry, banking and organizations of small producers. FIRA has more than 131 offices across the country to support its operation:

- Headquarters in Morelia, Michoacan, Mexico
- Office in Mexico City
- 5 Regional Offices
- 31 State Offices
- 88 Local Offices
- 5 Technology Development Centers

Today, FIRA business model is supported by an extensive network of banking and non-banking financial intermediaries; as well as technological agents and sales executives.

1.2. Products and Services

FIRA has been working for more than 60 years as a second-tier development financial institution that provides funding and guarantees to finance and mitigate risks, and to encourage the participation of Banks and non-banks Banks to provide credit for agriculture, fisheries, livestock, forestry and agribusiness sectors in Mexico.

FIRA offers real solutions for the Agricultural Sector

Credit

As a second-tier development bank, FIRA's credit is given through financial intermediaries registered and licensed to operate FIRA's resources to finance companies in the agricultural, forestry, fisheries and rural sectors.

- Funding for fixed investment.
- Funding to cover working capital needs, such as procurement of inputs, raw materials and materials, payment of wages, salaries and other direct production costs.
- Inventory credit granted to companies with working capital needs, that have either raw materials or finished product inventories, helping them in their marketing and fund raising activities.

Guarantee

Complements guarantees granted by the eligible customers to the financial intermediaries for a given credit, as a backup.

Training, Technical assistance and technology-transfer

To strengthen the organization of producers, facilitate access to financing and its integration into value networks, allowing them to be eligible for loans, develop productivity, profitability and integration for their businesses, promoting the sustainability of natural resources in order to increase their share in the markets where they participate, increasing the levels of wellbeing of the target population.

FIRA has five technological development centers, which objective is to streamline the process of adoption of new technologies and best practices in order to accelerate and increase the efficiency of the development of the agri-food and rural sectors.

Market information and economic analysis

In order to provide timely and useful information to FIRA's decision making committees, business partners (financial institutions), and clients (producers) agricultural, livestock and fishery markets, at the regional, national and global levels are analyzed. One of the main objectives is to detect investment opportunities and assess risks along the value chain.

Green investment portfolio

Constituted by different project categories such as renewable energy, energy efficiency and efficient use of water, sustainable agricultural practices and soil conservation, among others.

Factoring

FIRA facilitates the collection of accounts receivable. Through a platform that allows operations from anywhere, making it easier for customers to manage the resources and have reduced collection costs.

Leasing

In order to support customers who need to invest in fixed assets and need investment alternatives, FIRA's leasing program includes different buying options, with a small down payment, resources can be allocated to other investments and the tax payment can be deferred during the term of the lease.

FIRA works together with government institutions and develop programs for the rural sector in Mexico.

Irrigation modernization

Contributing to the rational use of water in agriculture, by establishing systems to increase technical and productive efficient irrigation.

Southern region development

Driving productivity in the Agri-foods Sector to meet producers in high and very high marginalized communities, through incentive funding, capitalization, market risk management, capacity building, research and technological development in the Southern and Southeastern regions of the country.

Agri-food productivity & Agricultural-parks

Increasing the processing capacity and management of agricultural and fishery products as well as adding value to the physical space and infrastructure, increasing productivity and competitiveness.

Forestry financing

FIRA provides guarantees through the National Forest Fund “FONAFOR” to participating financial intermediaries, to induce financing commercial forest plantations, facilitating access to loans to develop productive projects that create jobs, value, and improve the income of farmers.

FONAGUA

Guarantees to induce financial intermediaries to finance long-term investments which allow hydro-agricultural infrastructure through the modernization of compact irrigation areas, channeling and piping, among others, helping to improve the efficiency of water use.

2. Green Bond Overview

FIRA recognises that the world is at a tipping point on sustainability. Global warming as well as resource scarcity are likely to change current economic models in the upcoming future.

FIRA’s mission is to promote the integral financing of producers in the agriculture, forestry, fishing, food production sector and the rural areas through specialized financial products along with technical assistance and risk mitigation in order to increase their productivity and wellbeing from a regional development, environmental sustainability, and gender equality perspective.

According to FIRA’s institutional program 2013–2018 (2014), Objective 3 of the institutional program is to promote financing in public politics areas of interest. Among those areas, (i) sustainable development, (ii) climate change mitigation and (iii) the programs that alleviate the effects of natural disasters are some explicitly considered as a public politics priority.

FIRA also keeps track of its financing to projects that contribute towards sustainability. The Institutional Program includes a Key Performance Indicator (KPI) that reflects the total credit and guarantees portfolio balance channelled to sustainability projects.

FIRA has a long-standing commitment to sustainability. FIRA as a financial institution is an integrated part of the society and therefore has assumed the responsibility and a key role to play in accelerating the transition towards a sustainable future. FIRA is committed to reduce GHG emissions and to mitigate climate change, as well as to advise and finance resilient and sustainable business models particularly through loans and guarantees to FI in order to finance assets and projects with a positive and measurable impact on the environment.

FIRA has implemented sustainability actions in the use of resources. In 2017 it achieved total savings of 8.59% in the consumption of electricity and 11.84% in paper consumption with respect to 2016, as well as a 15% reduction in GHG emissions. Regarding the sustainable use of water, a volume of just over 15,800 m³ of rainwater was used, mainly for the irrigation of green areas; other experiences include the installation of 549 photovoltaic panels in the Tezoyuca Technological Development Center, which is expected to save 70% of its annual electricity consumption.

During 2017, the implementation of an Environmental Risk Analysis (SARAS) methodology was approved by the technical committee of FIRA, which was developed with the assistance of international consultants and IDB financing. The methodology is based on the international guidelines of the Equator Principles and the Performance Standards on Environmental and Social Sustainability of the World Bank IFC. The SARAS methodology is applied to credits that require authorization from the Senior Credit Committee of FIRA.

The technical assistance received for the generation of its green portfolio with the IDB, AFD and the European Union and the experience channelling resources through second-tier lending, meeting specific constraints from international financing and leveraging of subsidies destined to mitigation and resilience of climate change for government agencies, allowed FIRA to develop systems to targeting specific sectors with any particular funding source. This means, green projects, mainly associated with the food supply chain, which proves the generation of benefits to the environment and society could be identified for specific funding.

FEFA's issuance of green bonds (each, a Green Bond) is part of its overall sustainability approach of FIRA to support projects with a positive environmental impact within the fields of protected agriculture (PA) production, energy efficiency and water saving projects. The sustainability actions of FIRA are reported annually in the document "Memorias de Sostenibilidad" (Sustainability Memoirs) publicly available in FIRA's website. The document follows guidance from the Global Reporting Initiative (GRI) and the Global Compact. The next section shows the Projects Selection Criteria that is aligned with one or more of the following Sustainable Development Goals: 2.3, improve agricultural productivity, 2.4 Sustainable and resilient agricultural practices adoption, 7.2, Increase the use of renewable energy, and 7.3 Improve energy efficiency rate.

3. Use of Proceeds

The proceeds will be used for financing credit operations to the agricultural sector through the different authorized programs and products and according to the purposes established in the trust agreement dated August 26, 1965, called "FEFA", which has been modified from time to time.

In specific, the proceeds of FEFA's Green Bond will be used to finance and re-finance, granted loans and investments of eligible green projects which provide clear environmental benefits and promote the transition to low-carbon and climate resilience granted from the last 24 months, therefore any existing or future loan or any other form of financing could be considered for the Eligible Green Projects.

Eligible Green Projects	Selection Criteria
Environmentally Sustainable Agriculture	<p>Projects for development, manufacturing, construction, operation and maintenance for:</p> <ul style="list-style-type: none"> • Protected agricultural projects growing food under conditions in which the farmer reduces the effects of environmental factors on his crops, improve productivity, resource efficiency and environmental impacts. <ul style="list-style-type: none"> - Examples include plastic tunnel structures on semi-rigid supports, shade houses, and energy efficient greenhouses. • Climate-smart agriculture projects that increase agricultural productivity, adaptation and the creation of resilience in the face of climate change and the reduction and / or absorption of greenhouse gases, as far as possible. <ul style="list-style-type: none"> - Examples include sustainable land use, Certificated FSC or PEFC sustainably managed forests, afforestation or reforestation, and preservation or restoration of natural landscapes soil remediation; non till production, direct seeding (no-tillage), Integrated soil fertility management (inorganic and organic. Precise management of nitrogen, controlled grazing. • Biodiversity conservation projects that aim to promote knowledge, conserve, restore or use biodiversity in a sustainable matter. <ul style="list-style-type: none"> - Examples include ecotourism, silvopastoral systems, eco-label honey, eco-label cocoa, and eco-label shade-grown coffee, MSC certified fishery and aquaculture, and sustainable animal husbandry.

Eligible Green Projects	Selection Criteria
Water Efficiency	<ul style="list-style-type: none"> • Projects for development, manufacturing, construction, operation and maintenance of: water recycling and wastewater treatment facilities or water storage facilities or water distribution systems with improved efficiency/quality, Infrastructure and hydrological administration projects that are oriented to improve the efficiency of water utilization. - Examples include efficient use of water in irrigation systems, wastewater treatment systems, resiliency projects, among others.
Energy Efficiency	<p>Projects for development, manufacturing, construction, operation and maintenance of:</p> <ul style="list-style-type: none"> • Development of products or technology and their implementation that reduces energy consumption of underlying asset, technology, product or system(s). <ul style="list-style-type: none"> - Examples include improved chillers, improved lighting technology, and reduced power usage in manufacturing operations. • Improved efficiency in the delivery of bulk energy services <ul style="list-style-type: none"> - Examples include district heating/ cooling systems, smart grids, energy recovery technology, and the storage, transmission and distribution of energy that results in reduced energy losses • Manufacture of components to enable energy efficiency described above <ul style="list-style-type: none"> - Examples include LED lights, fuel cells, smart grid meters
Renewable Energy	<ul style="list-style-type: none"> • Projects for equipment, development, manufacturing, construction, operation, distribution and maintenance of renewable energy generation sources: <ul style="list-style-type: none"> - Examples include Onshore and offshore wind energy, Solar energy, Tidal, Geothermal energy (with direct emissions $\leq 100\text{g CO}_2/\text{kWh}$), Energy from biomass sourced from agriculture or forestry residue and Waste-to-energy.

4. Green Project Evaluation and Selection Process

The Green Projects Evaluation and Selection Process is a key factor for ensuring that Green Bond Proceeds are allocated to projects which meet the criteria in Section 3 of this

framework. It will also guarantee that the use of proceeds does not fund other activities outside the Eligible Green Projects.

The environment department will specify to the Development products Department and Operations Department all the parameters needed so that they can configure an application in the system that will generate a database to keep track of the allocation of the funds in the different Eligible Green Projects.

4.1. The credit process and procedure for Selection of Eligible Green Projects

FEFA as a second-tier development financial institution provides loans to different projects through a network of FI who are the ones that grant credits to the final beneficiaries.

The eligible Green Projects from this portfolio of loans will be selected.

The project selection process provides a transparent system by which projects are identified, classified and eventually approved. FIRA will promote the investment in green projects selected for the use of the Green Bond proceeds such as:

- Environmentally Sustainable Agriculture;
- Efficient Water Use ;
- Energy Efficiency Projects and/or
- Renewable Energy

The investment in green projects is fully identified in the credit management system of FIRA (Sistema Informático Integral de las Operaciones de FIRA or SIIOF, in its Spanish acronym) used by the FI to have access to FIRA's services (credit and/or guarantees).

FIRA's exclusion list is based on FIRA's positional statements:

Projects that are involved in following operations will be excluded from financing by FIRA and will be not eligible for the use of Proceeds from the Green Bond:

1. Those who are not allowed by Law, and
2. Those that are meant for projects that promote vices and / or family disintegration¹.

Projects which are potentially eligible for inclusion in the Green Bond Portfolio are initially screened and selected by the Technical Unit in Environment Department.

¹ The list is indicative but no limitative, FIRA can add more concepts to the exclusion list when is needed

The results of the previous selection and screening are parameterized with the Operations department so that the information of Eligible Green Projects can be extracted from SIOF and generated in an automated way.

SIOF will keep relevant information related to the issuance of the Green Bond, including the project location, financed amount, and the applicable eligibility category, relevant key performance indicators and forms for the basis support for the Green Bond Sustainability Analysis.

4.2. Green Bond Sustainability Analysis

The environment department will be in charge to apply a Sustainability Analysis in compliance with the selection criteria including the climate and environmental revision and parametric evaluation through the SIOF System and will select the eligible portfolio for assigning the Green Bond proceeds.

4.3. Green Bond Performance

The Green Project Performance will be reviewed quarterly by the environment department through an automated report from the SIOF System and will perform a Green Bond Sustainability Analysis in order to ratify that every project in the portfolio is an Eligible Green Project for FEFA's Green Bond in accordance with the Framework. The finance department will receive a report accordingly.

4.4. Registration of Eligible Green Projects

Following an approval of FIRA's environment department, the Eligible Green Projects will be marked and identified on a quarterly basis in SIOF. The registry will be used for continuous monitoring, matching and reporting of the use of proceeds, and to ensure that Green Bonds Proceeds are accurately allocated on a regular basis. Eligible Green Projects will be registered using a unique identifier for each Green Bond issuance.

FIRA has internal systems in place to track the proceeds of its Green Bonds. The Green Bond Project registry will be monitored by the environment department on a quarterly basis, to ensure that all proceeds from each Green Bond issuance are allocated. It also ensures that Eligible Green Projects will not be assigned to other Green Bonds issuances or International Credits during the term of the specific Green Bond.

For any FEFA's Green Bond to be issued, the Green Projects Registry must be identified and determined as eligible for a total of Eligible Green Projects at least in the amount of the issuance size. In the case of divestments, or maturities of Eligible Green Projects in the Green Portfolio, FIRA will redistribute proceeds to other Eligible Green Projects. In the case that there are no Eligible Green Projects available, proceeds will be invested in accordance with our internal liquidity management policy, through liquid instruments.

5. Management of Proceeds

The finance department will manage the proceeds from the Green Bond, which will be allocated to Eligible Green Projects. Any remaining proceeds will be kept in liquid assets or bank accounts of FIRA and the Eligible Green Projects will be registered in the internal accounting and credit management system.

Any portion of the net proceeds that have not been allocated to eligible green projects will be temporarily invested in accordance with FEFA's normal liquidity management policy.

6. Reporting

To be fully transparent towards the Green Bond's investors and other market stakeholders, FEFA commits to report at least on an annual basis, the use of proceeds and the environmental impact of the Green Bonds Portfolio.

6.1. Use of proceeds reporting

FEFA will report the use of the Green Bonds Proceeds on an annual basis in its corporate website (<http://www.fira.gob.mx>) through the whole life of any issued Green Bond. This report will also be included in its Corporate Social Responsibility and Sustainability Report that is annually published. The first report on the use of proceeds will be published one year after the corresponding Green Bond is issued.

The report will include:

- Total amount of Green Bonds issued;
- Use of proceeds within each Green Bond's project category;
- Total amount of unallocated proceeds; and
- Share of proceeds used for financing/re-financing.

6.2. Impact reporting

FEFA will publish a Green Impact Report on an annual basis. The report will include parametric indicators on the environmental impact of the Eligible Green Projects on a portfolio level and will continue to be published until the maturity date of FEFA's Green Bond. The information with respect to borrowers and projects will be subject to permitted disclosure in accordance with relevant confidentiality agreements. Example of quantitative impact indicators are outlined in the table below:

Green Bond Principles Category	FIRA Category	Quantitative Parametric Indicators
Sustainable Management of Living Natural Resources & Land use	Protected Agriculture	Estimated annual reduction in water consumption (m ³). Estimated annual GHG emissions reduced or avoided.
	Climate-Smart Agricultura	Estimated annual reduction in water consumption (m ³). Estimated annual GHG emissions reduced, avoided or captured.
	Biodiversity	Estimated land area with biodiversity management (hectare).
Water efficiency	Water efficiency	Estimated annual reduction in water consumption (m ³).
Renewable Energy	Renewable Energy	Estimated annual energy savings in KWh, GHG emissions reduced or avoided (tCO ₂ e).
Energy Efficiency	Energy Efficiency	Estimated annual energy savings in KWh, GHG emissions reduced or avoided (tCO ₂ e).

These indicators could be changed upon better data and/or directives available, and could compute using unitary terms.

7. External Review

The Eligibility criteria will be further verified by the external third parties designated by FEFA to assess the sustainability and relevance of the criteria identified and the resulting Eligible Green Projects.

7.1. Second Opinion

FEFA's Green Bond follows the ICMA Green Bond Principles and will seek a second party opinion to have a mechanism of external review that attest its adherence to such principles.

Additionally, FEFA will seek to certify its Green Bond with the Climate Bond Initiative's Climate Bond Standard if/as soon as the specific sector criteria for "Land Use" and/or "Agriculture" is available (if so).

7.2. Compliance Review

FEFA's green bond portfolio will be verified by an appropriate external provider to independently review the Green Bond Progress Report on an annual basis and resolve on its conformity with FEFA's Green Bond Framework; reports will be made available in FIRA's corporate website.

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