

## FEFA's Annual Green Bond Report

### 1. General overview

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 and consists of four trusts funds (FONDO, **FEFA**, FEGA and FOPECA) that were created and integrated to fulfil its current structure. FEFA is the Green Bond issuer.

The mission of the institution 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.

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 October 2018, FEFA issued its first Green bond (the "Green Bond") with a portfolio composed of hundreds of small, medium and big projects distributed throughout Mexico. The Green Bond Framework<sup>1</sup> (the "Framework") received a positive second opinion by Sustainalytics for meeting ICMA's Green Bond Principles and it concludes: "**... FEFA Green Bond Framework is credible and Impactful...**"

The Green Bond includes two major project categories:

- Sustainable Agriculture: Including Protected Agriculture.
- Efficient use of water: Dripping, sprinkling and micro-sprinkling irrigation systems.

FIRA, in collaboration with the Interamerican Development Bank (IDB), worked with the Climate Bond Initiative (CBI) to develop a specific Protected Agriculture Criteria for Mexico, which was released in March 2019. The Green Bond obtained the Climate Bonds Initiative (CBI) certification in April 2019<sup>2</sup>.

FIRA's Green Bond is innovative. It is the first certified Green bond in the world to incorporate Protected Agriculture projects. Therefore, in April 2019, FIRA received a "Green, Social and

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<sup>1</sup> 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).

<sup>2</sup> [https://www.climatebonds.net/certification/fira\\_fefa](https://www.climatebonds.net/certification/fira_fefa)

Sustainable MX Bond Award” from the Green Finance Council and the Mexican Stock Exchange for this green bond emission.

**2. Use of Proceeds**

FEFA issued the Green Bond in 2018 according to the following:

**Table 1. FEFA’s inaugural Green Bond details.**

<b>Issuer:</b>	Fondo Especial para Financiamientos Agropecuarios
<b>Issuer Rating<sup>3</sup>:</b>	mxAAA by S&P and AAA by HR
<b>Issued amount (MXN):</b>	2,500 million
<b>Date of Issuance:</b>	October 23 <sup>rd</sup> , 2018
<b>Maturity Date:</b>	October 19 <sup>th</sup> , 2021
<b>Tenor:</b>	3 years
<b>Bond details:</b>	Floating rate bond, coupon of TIIE <sup>4</sup> + 15 bp
<b>Bond symbol:</b>	FEFA 18V

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.

Sustainalytics, a provider of ESG research to institutional investors, issued the second-party opinion (SPO) on the Framework, the pre-issuance verification report required by CBI and the annual review for this report.

**Use of Proceeds and Environmental Performance**

The proceeds of the Green Bond were fully allocated on January 2019 to financing<sup>5</sup> or refinancing<sup>6</sup> 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. The allocations were consistent with our pre-issuance disclosures.

In particular, protected agriculture projects refers to the development, manufacturing, construction, operation and maintenance to grow food under conditions in which the farmer reduces the effects of environmental factors on his crops, improve productivity, resource efficiency and environmental impacts.

<sup>3</sup> The issuer rating at the moment of the issuance was mxAAA by S&P and AAA (mex) by Fitch.

<sup>4</sup> In its Spanish acronym, *Tasa de Interés Interbancaria de Equilibrio*.

<sup>5</sup> Allocation of bond proceeds to new projects: 4%.

<sup>6</sup> Allocation to bond proceeds to refinanced projects: 96%.

Water efficiency projects refer to the development, manufacturing, construction, operation and or maintenance of Infrastructure projects that are oriented to improve the efficiency of water utilization, such as irrigation systems.

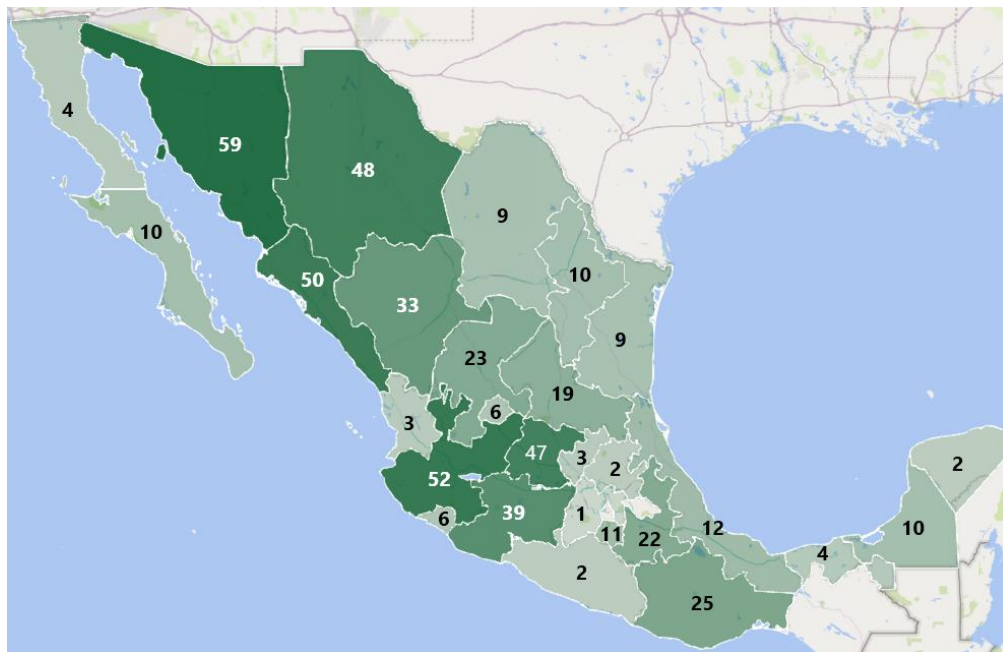
All the eligible projects were marked using a unique identifier (FEFA18V) and identified in the credit management system of FIRA denominated SIIOF<sup>7</sup>. This registry was used for continuous monitoring, matching and reporting of the use of proceeds.

The table below summarizes the green projects, which account for the Green 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**

Eligible Green Project	Projects	CBI Criteria	Value (MXN – Millions)	Number of projects	Amount of eligible green projects
Environmentally Sustainable Agriculture	Protected Agriculture	Protected Agriculture: Mexico	1,311	103	
Water Efficiency	Localized irrigation <sup>8</sup>	Water Infrastructure	744	287	
	Sprinkler irrigation		448	131	
<b>Total</b>			<b>2,503</b>	<b>521</b>	

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



<sup>7</sup> In its Spanish acronym, Sistema Informático Integral de las Operaciones de FIRA.

<sup>8</sup> Includes dripping and micro sprinkling irrigation systems.

### 3. Impact Reporting

In accordance with FEFA’s Green Bond 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 reported quantitative parametric indicators are estimated annual reduction in water consumption (m<sup>3</sup>) and estimated annual GHG emissions reduced, avoided or captured. For water efficiency projects, the reported quantitative parametric indicator is estimated annual reduction in water consumption (m<sup>3</sup>). Table 3 shows the estimated values for each project category.

**Table 3. Quantitative parametric indicators per project category**

Eligible Green Project	Projects	Annual reduction in water consumption (m3)	Annual GHG emissions reduced, avoided or captured.
Environmentally Sustainable Agriculture	Protected Agriculture	67,405,260	279 ton CO2e
	Localized irrigation	51,916,404	not applicable
Water Efficiency	Sprinkler irrigation	11,888,044	not applicable

### 4. External Review

Sustainalytics, a global leader in ESG & Corporate Governance, has been selected to independently review FEFA’s first annual reports compliance regarding its compliance with FEFA’s Green Bond Framework. In particular:

1. If the projects meet the Use of Proceeds the Eligibility Criteria outlined in the Framework.
2. FEFA reported on the Key Performance Indicators 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, for a more details please refer to the Compliance Review appendix of this report.