MOODY'S INVESTORS SERVICE

ASSESSMENT
7 December 2023

Send Your Feedback

Contacts

Gonzalo Marambio
Sustainable Finance Analyst
gonzalo.marambio@moodys.com

Donovan Hotz
Sustainable Finance Associate
donovan.hotz@moodys.com

Adriana Cruz Felix
VP-Sustainable Finance
adriana.cruzfelix@moodys.com

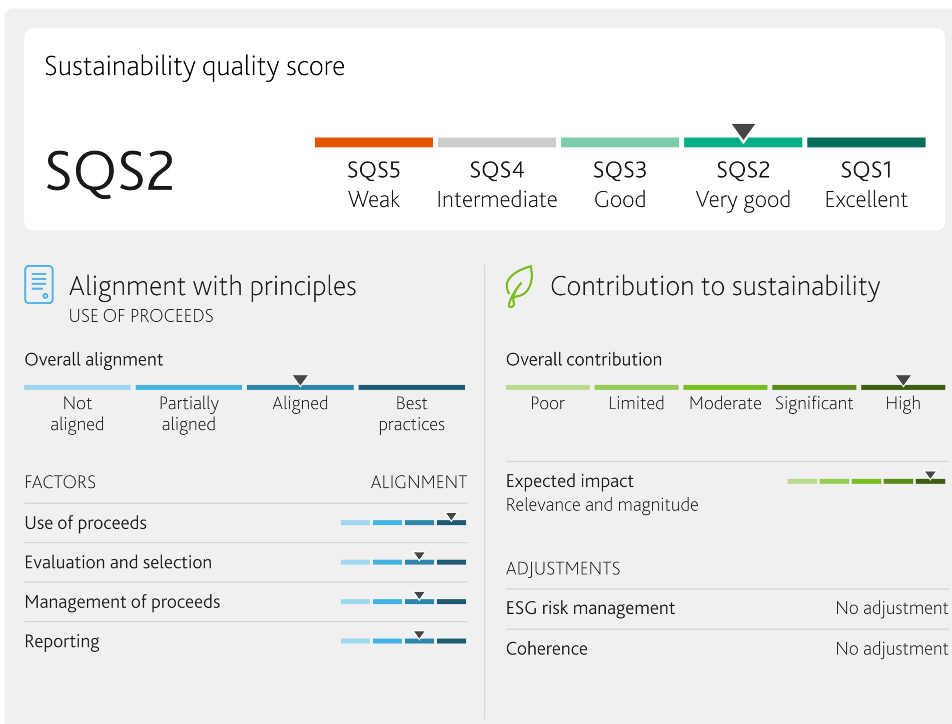
Matthew Kuchtyak
VP-Sustainable Finance
matthew.kuchtyak@moodys.com

Fondo Especial para Financiamientos Agropecuarios

Second Party Opinion – Financial Inclusion Social Bond Framework Assigned SQS2 Sustainability Quality Score

Summary

We have assigned an SQS2 Sustainability Quality Score (Very Good) to Fondo Especial para Financiamientos Agropecuarios' (FEFA) financial inclusion social bond framework dated November 2022. FEFA has established its use-of-proceeds framework with the aim of financing projects across three eligible social categories. The framework is aligned with the four core components of the International Capital Market Association's (ICMA) Social Bond Principles 2023, and the framework demonstrates a high contribution to sustainability.



Scope

We have provided a Second Party Opinion (SPO) on the sustainability credentials of FEFA's financial inclusion social bond framework dated November 2022, including the framework's alignment with the four core components of the ICMA's Social Bond Principles 2023. Under this framework, FEFA issued one social bond in 2022 to finance projects across three social categories, as outlined in Appendix 2.

Our assessment is based on the last updated version of FEFA's financial inclusion social bond framework dated November 2022 and focuses on the social bond issued in 2022, allocated to eligible social expenditures. Our opinion reflects our point-in-time assessment of the details contained in this version of the framework, as well as other public and non-public information provided by the bank.

We produced this SPO based on our Framework to Provide Second Party Opinions on Sustainable Debt, published in October 2022.

Issuer profile

Los Fideicomisos Instituidos en Relación con la Agricultura (FIRA) was established in 1954 by the Federal Government of Mexico as the trustor and the Bank of Mexico as the trustee. FIRA manages four trusts: the Guarantee and Promotion Fund for Agriculture, Livestock Breeding and Poultry Farming (FONDO); 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). Each trust operates its own assets, granting second-tier financial products and services, with their activities complimenting each other to promote the development of agriculture, livestock breeding, fishing, forestry and rural sectors in Mexico.

The social bonds under our assessment were issued by FEFA, which facilitates access to financing through credit and discount operations for agriculture, livestock, poultry farming, agro-industries, fishing and other related projects in the sector.

Strengths

» Most of the funds to be allocated toward microloans and family-level lending, with the aim of addressing financial accessibility and socioeconomic disparities in Mexico's rural regions

» Mechanisms implemented to promote education among the target population, including sustainable agricultural practices

» History of following through on reporting and other framework commitments following the bank's debut social bond issuance

Challenges

» Allocation of proceeds and social indicators have not been externally audited

» Livestock activities pose negative environmental externality risks despite accounting for a small portion of financing under the inaugural issuance.

Alignment with principles

FEFA's social framework and bond issuance are aligned with the four core components of the ICMA's Social Bond Principles 2023:

- ○ Green Bond Principles (GBP)
- ✓ Social Bond Principles (SBP)
- ○ Green Loan Principles (GLP)
- ○ Social Loan Principles (SLP)
- ○ Sustainability-Linked Bond Principles (SLBP)
- ○ Sustainability Linked Loan Principles (SLLP)

Use of proceeds

Not aligned | Partially aligned | Aligned | **Best practices** ▼

Clarity of the eligible categories – BEST PRACTICES

The issuer has clearly and comprehensively communicated the nature of expenditures, the eligibility and exclusion criteria for all financed projects, and the locations of the projects across each region in Mexico. The target populations for each category are clearly defined, and include micro, small and medium enterprises (MSMEs) in the agriculture, forestry, fishing and rural sectors.

Clarity of the environmental or social objectives – BEST PRACTICES

The issuer has clearly described the social objectives associated with all three eligible categories, which are financial inclusion and socioeconomic development. Each category is relevant to the respective social objectives, and the identified objectives are matched to and coherent with the UN Sustainable Development Goals (SDGs).

Clarity of expected benefits – BEST PRACTICES

The issuer has identified clear and relevant expected social benefits for all three categories. The benefits are measurable for each category and have been quantified in the post-issuance reporting at an eligible category level and at a regional level within Mexico. The inaugural bond issuance (FEFA 22S) did not include any refinancing according to the bond report.

Best practices identified - use of proceeds

- Eligibility criteria are clearly defined for all project categories
- Objectives set are defined, relevant and coherent for all project categories
- Relevant benefits are identified for all project categories
- Benefits are measurable and quantified for most projects, either ex-ante with clear baselines or with a commitment to do so in future reporting
- Commitment to transparently disclose the share of proceeds used for refinancing where feasible
- Commitment to transparently communicate the associated lookback period(s) where feasible

Process for project evaluation and selection

Not aligned	Partially aligned	Aligned ▼	Best practices

Transparency and quality of the process for defining eligible projects – BEST PRACTICES
The issuer has established a clear decision-making process for the evaluation and selection of eligible projects formalized in its framework and internal documentation. FEFA's promotion, business, finance and portfolio teams are responsible for identifying the eligibility criteria. The portfolio team is responsible for creating a database on eligible projects, the business team verifies that the projects comply with the eligibility criteria, and the business and portfolio teams identify eligible projects to avoid double counting with thematic bonds or loans from international finance institutions. In case any funded project is no longer compliant with the eligibility criteria, the issuer has committed to reallocate funding to another eligible project.

Environmental and social risk mitigation process – ALIGNED
The issuer has established an environmental and social risk administration system (SARAS), which is disclosed in the framework. FIRA's monitoring through SARAS would take place throughout the life of the bond; however, SARAS does not cover most of the financed projects because they do not meet the established threshold of $10 million for SARAS to take effect. FIRA also includes mechanisms to monitor compliance of financial intermediaries with national environmental law, and to manage social risks to beneficiaries.

Best practices identified - process for project evaluation and selection

» The roles and responsibilities for project evaluation and selection are clearly defined and include relevant expertise

» There is evidence of continuity in the selection and evaluation process through the life of the financial instrument(s), including compliance verification and procedures to undertake mitigating actions when needed

» The process for project evaluation and selection is traceable

» Presence of corrective measures to address environmental and social risks across projects

Management of proceeds

Not aligned	Partially aligned	Aligned ▼	Best practices

Allocation and tracking of proceeds – BEST PRACTICES
The issuer has defined a clear process for the management and allocation of proceeds in its framework, with proceeds from the bond held in a FEFA account to ensure transparency and traceability. FEFA's promotion and business teams are responsible for managing the allocation of proceeds. All funds from the inaugural bond issuance have been allocated according to the first annual post-issuance report.

Management of unallocated proceeds – ALIGNED
Temporarily unallocated proceeds are to be held in liquid assets or bank accounts as disclosed in the framework. The issuer commits to avoid investing temporarily unallocated funds in activities included in its exclusion list; however, some greenhouse gas (GHG)-intensive activities are not included in this list. In the case of divestment or postponement of a funded project, the issuer commits to reallocate the proceeds. As of this SPO, all funds from the inaugural bond issuance have been allocated to eligible projects.

Best practices identified - management of proceeds

- Broad disclosure of a clearly articulated and comprehensive management of proceeds policy to external stakeholders; bondholders or lenders at a minimum
- Short allocation period, for example typically less than 24 months
- Commitment to reallocate proceeds to projects that are compliant with the framework

Reporting

Not aligned	Partially aligned	Aligned	Best practices

Transparency of reporting – ALIGNED

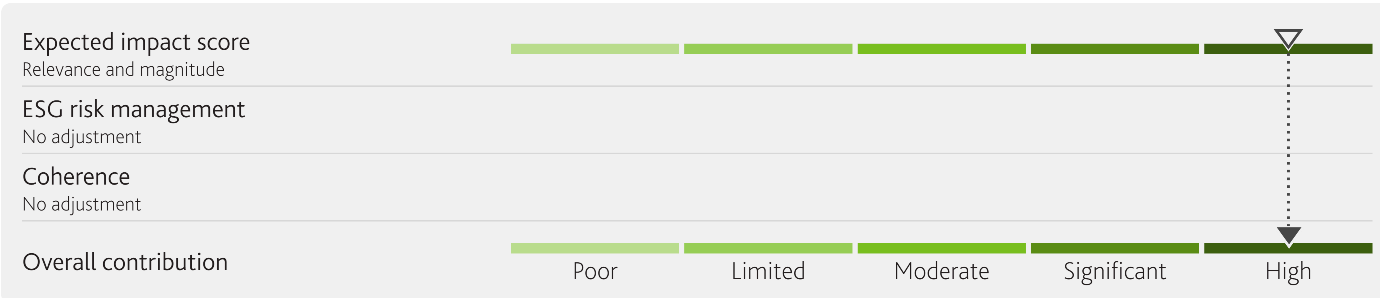
The issuer commits to annually publish a publicly available report on the use of bonds issued under the framework until their maturity. Reporting details cover a description of the financing, amounts disbursed per eligible category, distribution of all net proceeds allocated to each category and benefit indicators for each category. There is no commitment to report on potential controversies of funded projects or to externally verify reporting beyond the first annual report. As of this SPO, the allocation of proceeds of the first annual post-issuance report on the allocation of proceeds has not been externally verified. There is no commitment to include case studies of selected social projects in the impact reporting.

Best practices identified - reporting

- Reporting until full bond maturity or loan payback
- Reporting on allocation of proceeds and benefits done at least at eligible category level
- Exhaustive allocation reporting – balance or % of unallocated funds, types of temporary investments (e.g. cash or cash equivalent) and share of financing vs re-financing
- Clear and relevant indicators to report on the expected environmental/social impact of all the projects, where feasible, or eligible categories
- Disclosure of reporting methodology and calculation assumptions to bondholders or lenders at a minimum

Contribution to sustainability

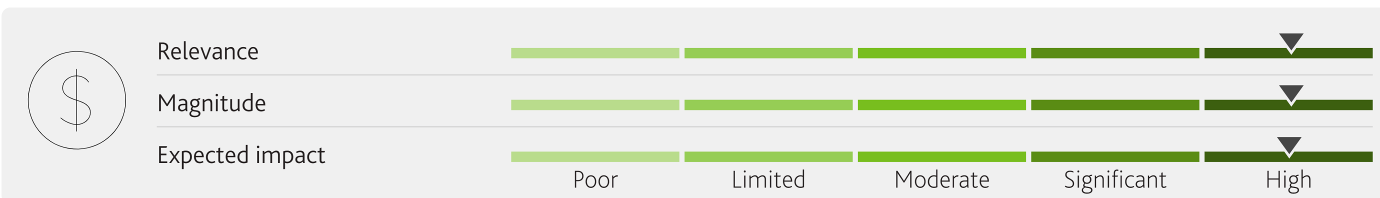
The framework demonstrates a high overall contribution to sustainability.



Expected impact

The expected impact of the eligible social projects on the stated objectives is high. Based on information provided in the FEFA 22S report, we have weighted the categories based on the number of beneficiaries reached in each category. Category 1 is weighted 32%, category 2 is weighted 20% and category 3 is weighted 48%.

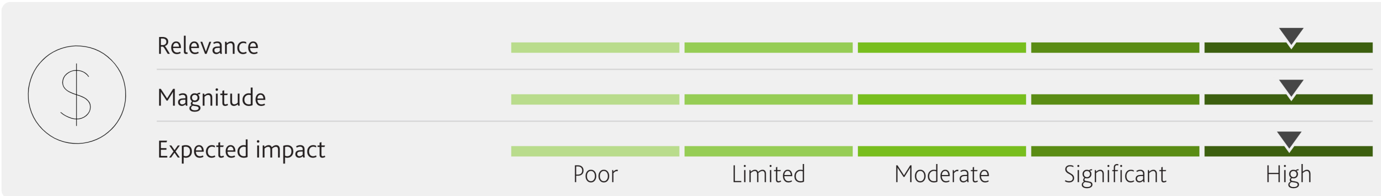
Financial inclusion - Access to financial products and services for producers and companies in the agricultural, forestry, fishing and rural sectors



The projects funded under this category address the highly relevant barriers to financial inclusion and access to financial products and services in these sectors in the Mexican context. These include a lack of information on the part of traditional financial institutions regarding the factors that affect production in rural microbusinesses, lack of traditional financial infrastructure including bank branches in less populated rural areas, lack of financial education on the part of potential beneficiaries and the fact that most production units in the rural agricultural sectors are in vulnerable economic conditions including poorly regulated land ownership rights. Addressing these barriers tackles social issues of poverty, hunger, socioeconomic development and inequalities.

This category funds projects in Mexican municipalities where FIRA operates with high and very high indices of economic marginalization as determined by the Government of Mexico or where infrastructure for financial services is scarce. The social impact of the funded projects on the target population is likely high. FEFA aims to provide access to financial products and services to MSME beneficiaries. In the FEFA 22S bond report, bond proceeds of MXN1.59 billion ($92.2 million) reached 11,484 beneficiaries in this category. Among the beneficiaries in the category, most of the proceeds were allocated toward micro and family-level loans. This shows that the category is focused on the most vulnerable population. While we acknowledge the potential for negative environmental externalities of the agriculture, fishing, forestry and livestock activities, we consider the fact that FIRA provides support to beneficiaries in the form of training, advisory, consulting and technology transfers with the aim of increasing productivity and promoting sustainable agriculture practices, including for micro and small farmers.

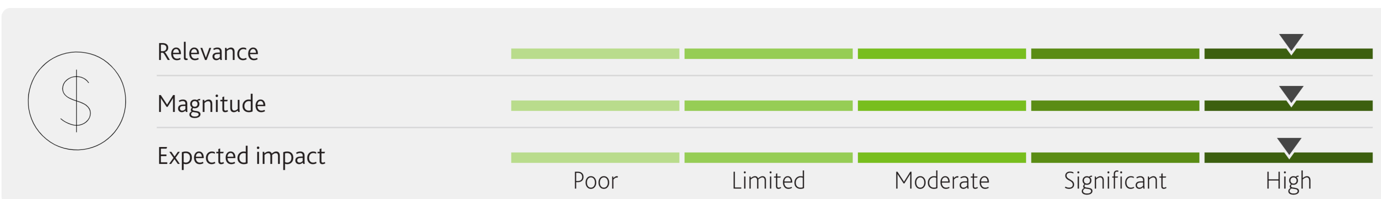
Financial penetration - Use of financial products and services for entrepreneurs, producers and companies in the agricultural, forestry, fishing and rural sectors



Unlike the first category, this category aims to increase the use of financial products and services by MSMEs that have already gained access to financial products and services and also aims to provide microloans to entrepreneurs in rural communities with up to 50,000 inhabitants. Like the first category, the funded projects under this category also address the same highly relevant barriers to financial inclusion and access to financial products and services in these sectors in the Mexican context.

This category funds projects in Mexican municipalities where FIRA operates with high and very high indices of economic marginalization as determined by the Government of Mexico or where infrastructure for financial services is scarce. The social impact of the funded projects on the target population is likely high. In the FEFA 22S bond report, the bond proceeds bond proceeds of MXN473 million ($27.4 million) reached 7,570 beneficiaries in this category. Among the beneficiaries in the category, most of the proceeds were allocated toward micro and family-level loans. This shows that the category is focused on the most vulnerable population. While we acknowledge the potential for negative environmental externalities of the agriculture, fishing, forestry and livestock activities, we consider the fact that FIRA provides support to beneficiaries in the form of training, advisory, consulting and technology transfers with the aim of increasing productivity and promoting sustainable agriculture practices, including for micro and small farmers.

Strengthening of financial channels - Financial intermediaries increasing the supply of products and services that help overcome barriers to financial inclusion



Like the other categories, the funded projects under this category also address the same highly relevant barriers to financial inclusion and access to financial products and services in these sectors in the Mexican context.

This category provides funding and guarantees for non-bank financial intermediaries and parafinancial companies that contribute to financial inclusion of micro, family and small primary producers. The social impact of the funded projects on the target population is likely high. In the FEFA 22S bond report, bond proceeds of MXN1.867 billion ($109 million) reached 17,029 beneficiaries in this category). Among the beneficiaries in the category, most of the proceeds were allocated towards micro and family-level loans. This shows that the category is focused on the most vulnerable population. While we acknowledge the potential for negative environmental externalities of the agriculture, fishing, forestry and livestock activities, we consider the fact that FIRA provides support to beneficiaries in the form of training, advisory, consulting and technology transfers with the aim of increasing productivity and promoting sustainable agriculture practices, including for micro and small farmers.

ESG risk management

We have not applied a negative adjustment for ESG risk management to the expected impact score. FIRA has a set of policies and principles to promote sustainability within the bank's financing, including mechanisms to monitor compliance of financial intermediaries with national environmental law, promote sustainable agriculture projects and manage social risks to beneficiaries that include site visits. The bank is an experienced issuer of green bonds, financing projects to reduce the environmental impact of agricultural activities in Mexico.

Coherence

We have not applied a negative adjustment to the expected impact score for coherence. The framework is aligned with FIRA's Institutional Plan 2020-24, which identifies the goals and strategies the issuer will follow to achieve the objectives identified in Mexico's National Development Plan 2019-24.

Appendix 1 - Mapping the eligible categories to the United Nations' Sustainable Development Goals

The three eligible categories included in FEFA's framework are likely to contribute to five of the UN SDGs, namely:

UN SDG 17 Goals	Eligible Category	SDG Targets
GOAL 1: No Poverty	1) Financial inclusion 2) Financial penetration 3)Strengthening of financing channels	1.4: Ensure all have equal rights to economic resources, access to basic services, property ownership and finance
GOAL 2: Zero Hunger	1) Financial inclusion 2) Financial penetration 3)Strengthening of financing channels	2.3: Double agricultural productivity and incomes of small-scale farmers through equal access to resources and opportunities
GOAL 8: Decent Work and Economic Growth	1) Financial inclusion 2) Financial penetration 3)Strengthening of financing channels	8.3: Promote policies that support productivity, job creation, entrepreneurship, innovation, and encourage the growth of SMEs
	3)Strengthening of financing channels	8.10: Strengthen the capacity of domestic financial institutions to expand access to insurance and financial services for all
GOAL 9: Industry, Innovation and Infrastructure	1) Financial inclusion 2) Financial penetration 3)Strengthening of financing channels	9.3: Increase SMEs' access to finance, and their integration into value chains and markets, particularly in emerging markets
GOAL 10: Reduced Inequality	1) Financial inclusion 2) Financial penetration 3)Strengthening of financing channels	10.2: Empower and promote the social, economic and political inclusion of all

The UN SDGs mapping in this SPO takes into consideration the eligible project categories and associated sustainability objectives/ benefits documented in the issuer's financing framework, as well as resources and guidelines from public institutions, such as the ICMA SDG Mapping Guidance and the UN SDG targets and indicators.

Appendix 2 - Summary of the eligible categories in FEFA's framework

Eligible Category	Description	Sustainability Objectives	Impact Reporting Metrics
Financial inclusion	Access to financial products and services for producers and companies in the agricultural, forestry, fishing, and rural sectors to beneficiaries that receive FIRA resources for the first time through different programs: -Rural financing -Access to financing with incentives of FONAGA service guarantees -Financing to rural medium agriculture and food businesses (PROEM) -Supplier development (PDP) -Price hedging program	-Financial inclusion -Socioeconomic development	-Amount of credit awarded -Number of beneficiaries -Distribution between fixed asset loans and working capital loans
Financial penetration	Use of financial products and services for entrepreneurs, producers and companies in the agricultural, forestry, fishing, and rural sectors in municipaliteis with high and very high economic marginalization where financial service infrastructure is scarce through diffierent programs: -Rural financing -Access to financing with incentives of FONAGA service guarantees -Financing to rural medium agriculture and food businesses (PROEM) -Supplier development (PDP) -Price hedging program	-Financial inclusion -Socioeconomic development	-Amount of credit awarded -Number of beneficiaries -Distribution between fixed asset loans and working capital loans -Distribution between areas of high and very high marginalization
Strenghtening financing channels	Financial intermediaries that increase the supply of products and services to help overcome barriers to financial inclusion. Funding and gurantees are provided through non-banking financial intermediaires and parafinancial companies that contribute to financial inclusion of primary producers through: -Credit massification schemes -Financing programs for non-banking financial intermediaries -Financial intermediaries in development	-Financial inclusion -Socioeconomic development	-Amount of credit awarded -Number of beneficiaries -Distribution between fixed asset loans and working capital loans -Distribution between types of financing channels -Distribution by region

REPORT NUMBER 1388064