

Fondo Especial para Financiamientos Agropecuarios

POST-ISSUANCE VERIFICATION LETTER

PROTECTED AGRICULTURE IN MEXICO, WATER INFRASTRUCTURE, SOLAR ENERGY AND FORESTRY CRITERIA OF THE CLIMATE BONDS STANDARD

Type of engagement: Assurance Engagement

Period engagement was carried out: November 20, 2020 – December 16, 2020

Approved verifier: Sustainalytics

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Scope and Objectives

In 2019, Fondo Especial para Financiamientos Agropecuarios (“FEFA”)¹ issued a green bond (FEFA 19V) to finance projects aimed at increasing water efficiency, environmentally sustainable agriculture, and renewable energy. In November 2020, FEFA engaged Sustainalytics to review the projects funded through the issued green bond, and provide an assessment as to whether the projects met the Post-Issuance Requirements (Part A, Part B and Part C) of the Climate Bonds Standard.

Green bond projects include:

- Protected agriculture in Mexico
- Water infrastructure:
- Solar Energy
 - Onshore solar electricity generation facilities
- Forestry
 - Requirements for plantation forestry

Schedule 1 provides details of the green bond projects and Disbursement of Proceeds.

Compliance Evaluation Criteria

Post-issuance requirements under Climate Bonds Standards Version 2.1:

- Part A: General Requirements - All the requirements in Part A shall be met to be eligible for post-issuance certification.
- Part B: Eligible Projects & Assets - Part B requirements shall be met based on the projects & assets associated with the bond and the specified eligibility criteria.
- Part C: Requirements for Specific Bond Types - Part C requirements shall be met to be eligible for post-issuance certification and are used selectively, depending on the type of bond in question.

Issuing Entity’s Responsibility

FEFA is responsible for providing accurate information and documentation, in its capacity as a second-tier financial institution, relating to the details of the projects that have been funded, including description of projects, total development cost of each project, and disbursed amounts.

Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of FEFA’s green bond, issued to finance protected agriculture, forestry, water efficiency projects and solar photovoltaic systems, and provided an independent opinion informing FEFA as

¹ FEFA is one of four trusts funds which together form the Trust Funds for Rural Development (Fideicomisos Instituidos en Relación con la Agricultura or FIRA), a Mexican second-tier development financial institution which offers credit and support to the agricultural and fisheries sectors and promotes rural industrial development.

to the conformance of the green bond with the Post-Issuance requirements and the Protected Agriculture: Mexico, Water Infrastructure, Solar Energy and Forestry criteria of the Climate Bonds Standard.

Sustainalytics has relied on the information and the facts presented by FEFA with respect to the Nominated Projects. Sustainalytics is not responsible nor shall it be held liable if any of the opinions, findings, or conclusions it has set forth herein are not correct due to incorrect or incomplete data provided by FEFA.

Sustainalytics makes all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight over the assessment of the bond.

Verifier’s Responsibility

Sustainalytics conducted the verification in accordance with the Climate Bonds Standard Version 2.1 and with International Standard on Assurance Engagements 3000 (ISAE 3000) – Assurance Engagements other than Audits or Reviews of Historical Information.

The work undertaken as part of this engagement included conversations with relevant FEFA employees and review of relevant documentation to confirm the conformance of FEFA’s green bond with the Programmatic Post-Issuance Requirements (Part A, Part B and Part C) of the Climate Bonds Standard Version 2.1.

Exceptions

No exceptions were identified. All projects aligned with the Post-Issuance requirements of the Climate Bonds Standard and were in conformance with the Protected Agriculture: Mexico, Water Infrastructure, Solar Energy and Forestry criteria.

Conclusion

Based on the limited assurance procedures conducted, nothing has come to Sustainalytics’ attention that causes us to believe that, in all material respects, the allocation of MXN 1,537 million from the FEFA green bond, issued to fund eligible green projects, is not in conformance with the Post-Issuance requirements of the Climate Bonds Standard.

Detailed Findings

Eligibility Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
Compliance to Part A: General Requirements	Verification of 12 protected agriculture, one forestry, 181 water efficiency and 67 solar projects funded by the green bond between 2019 and 2020 to determine if Part A: General Requirements were met (See Schedule 2A a 2B).	All 261 projects reviewed complied with the General Requirements.	None
Compliance to Part B: Eligible Projects & Assets	Verification of 12 protected agriculture, one forestry, 181 water efficiency and 67 solar projects funded by the green bond between 2019 and 2020 to determine if projects fall into (i) one of the investment areas of the Climate Bonds Taxonomy (ii) meet the Protected Agriculture: Mexico, Water Infrastructure, Solar Energy and Forestry technical criteria.	All 261 projects – 12 on Protected Agriculture: Mexico, one on Forestry, 181 on Water Efficiency and 67 on Solar Energy – meet the Technical Requirements.	None
Compliance to Part C: Requirements for Specific Bond Types	Bond Type Applicable: Use of Proceeds Bond.	The requirements of Project Holding, Settlement Period and Earmarking have been met.	None

Schedule 1: Detailed Overview of Nominated Projects and Assets

FEFA has disclosed to Sustainalytics the amount allocated to each eligible category. A summary of these allocations, broken-down by eligibility criteria, is provided below:

Use of Proceeds Category	Projects	Number of Projects	Allocated Asset (MXN – Millions)
Environmentally Sustainable Agriculture	Protected Agriculture	12	529.7
	Forestry	1	242.5
Water Efficiency	Localized irrigation ²	72	287
	Sprinkler irrigation	109	144.4
Renewable Energy	Solar photovoltaic systems	67	334.3
Total		261	1,537.9
Balance (unallocated)		--	962.1

In accordance with the commitments in the Framework, FEFA has made available the following impact reporting data:

Use of Proceeds Category	Projects	Annual reduction in water consumption (m ³)	Annual GHG emissions reduced, avoided or captured (ton CO ₂ e)
Environmentally Sustainable Agriculture	Protected Agriculture	5,694,300	23.5
	Forestry	N/A	200,000
Water Efficiency	Localized irrigation	18,881,573	N/A
	Sprinkler irrigation	9,025,863	N/A
Renewable Energy	Solar photovoltaic systems	N/A	5,575
Total		33,601,736	205,598.5

² Includes drip and micro sprinkling irrigation systems.

Schedule 2A: Post-Issuance General Requirements of the Climate Bonds Standard

Nominated Projects & Assets	<p>4.1 Statement on the environmental objectives of the bond</p> <p>4.2 Nominated Projects meet the Climate Bonds criteria</p> <p>4.3 Confirmation that Nominated Projects and Assets will not be nominated to other Climate Bonds</p>
Use of Proceeds	<p>5.1 Net Proceeds of the bond allocated to the Nominated Projects</p> <p>5.2 Funds allocated to Nominated Projects within 24 months of issuance of the bond</p> <p>5.3 Estimate of the share of the Net Proceeds used for financing and re-financing</p> <p>5.4 Net Proceeds of the bond shall be tracked by the Issuer following a formal internal process</p> <p>5.5 Net Proceeds of the bond shall be no greater than the total investment or the total Fair Market Value of the Nominated Projects & Assets at the time of issuance</p>
Non-Contamination of Proceeds	<p>6.1 Tracking of proceeds</p> <p>6.2 Managing of unallocated proceeds</p> <p>6.3 In the case of a Force Majeure, the Issuer may apply to the Climate Bonds Standard Board for an extension to the asset allocation period</p>
Confidentiality	<p>7.1 Information about the Nominated Projects & Assets provided to the Verifier and to the Climate Bonds Standard Board</p> <p>7.2 Issuer should disclose information about the bond and the Nominated Projects & Assets to the market</p>
Reporting Post-Issuance	<p>8.1 Report containing the list of Nominated Projects & Assets to which proceeds of the bond have been allocated</p>

Schedule 2B: Conformance to the Post-Issuance Requirements of the Climate Bonds Standard

Procedure Performed	Factual Findings	Error or Exceptions Identified
Verification of Nominated Projects & Assets	<p>4.1 The objective of the bond is to use proceeds to finance projects aimed at increasing water efficiency, environmentally sustainable agriculture and renewable energy.</p> <p>4.2 FEFA's management confirms that the nominated projects meet the Eligibility Criteria.</p> <p>4.3 FEFA's management confirms that the projects shall not be nominated to other Climate Bonds.</p>	None
Verification of requirements specified under Use of Proceeds	<p>5.1 Net Proceeds of the bond have been allocated to the 261 Nominated Projects.</p> <p>5.2 FEFA's management has confirmed that 62% of funds have been allocated to Nominated Projects and that the remainder will be allocated within 24 months of the issuance.</p> <p>5.3 FEFA's management has confirmed that of the proceeds allocated, 21% were used for financing and 79% for the refinancing of loans and investments.</p> <p>5.4 FEFA's management has confirmed that Net Proceeds of the bond shall be tracked by the Issuer following a formal internal process.</p> <p>5.5 FEFA's management has confirmed that the Net Proceeds of the bond shall be no greater than the total investment in the Nominated Projects or the Total Development Cost of the Nominated Projects.</p>	None
Verification of requirements specified under Non-Contamination of Proceeds	<p>6.1 FEFA's management confirms that the proceeds have been segregated and tracked in a systematic manner and were exclusively used to finance Nominated Projects.</p> <p>6.2 FEFA's management confirms that pending the investment of proceeds, these are being held in liquid assets, bank accounts of the institution, or temporarily invested in line with FEFA's liquidity management policy.</p> <p>6.3 Not applicable to-date.</p>	None
Verification of requirements specified under Confidentiality	<p>7.1 FEFA's management confirms that all relevant information about the Nominated Projects has been provided to the Verifier and to the Climate Bonds Standard Board to support the assessment of conformance with the Climate Bonds Standard.</p> <p>7.2 FEFA's management confirms that all relevant information about the bond and the Nominated Projects has been disclosed to the market.</p>	None
Verification of requirements specified under Reporting Post-Issuance	<p>8.1 FEFA's management has provided a report containing the list of Nominated Projects to which proceeds of the bond have been allocated (See Schedule 1).</p>	None

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In case of discrepancies between the English language and translated versions, the English language version shall prevail.

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The
Green Bond
Principles