

Environmental and Social Review Summary (“ESRS”)

BCONJCB 24 - Mexican SOFOMs Alliance for Sustainability Bond / 14880-01 – Mexico

Original language of the document: English
Issuance date: April 2024

- 1. Scope of Environmental and Social Review.** The Environmental and Social (“E&S”) review of the proposed transaction was carried out through desk research, client phone calls, and a portfolio review. The bond will be issued by a new Special Purpose Vehicle (“SPV”) in the form of a master trust. The bond is structured as an asset backed security, backed by a portfolio of segregated assets from four intermediary originators (Multiple Purpose Financial Society, SOFOM for their acronym in Spanish) with operations primarily in the agribusiness and agri-industrial sector.¹ FIRA will provide a partial financial guaranty to this issuance.
- 2. Environmental and Social Categorization and Rationale.** The proposed Sustainable Bond issuance is classified as an FI-2 per IDB Invest’s Sustainability Policy, as the potential E&S risks of the subprojects included in the transaction are moderate. The sub-loans will be used to fund SMEs as well as green and sustainable projects, in accordance with the Sustainable Financing Framework. Such examples could include projects that promote environmentally sustainable management of living natural resources and land use, sustainable water and wastewater management, access to essential services, among others. The portfolios of each the four SOFOMs are mainly focused on working capital loans for the agricultural sector (40-60%). The average value of the four SOFOM sub-loans is US\$71,600 with an average tenor of three years.²

Category A sub-projects, per IDB Invest’s definition, are excluded and not considered in the context of this asset class. The project is considered Paris Agreement aligned based on an analysis conducted in accordance with the IDB Group Paris Alignment Implementation Approach.
- 3. Environmental and Social Risks and Impacts.** The main E&S risks of this transaction are associated with the SOFOMs’ capacity to identify and manage the risks associated to their loans mainly focused in the SME segment and agribusiness sector. Such risks may include the following environmental and social issues: workers’ health and safety, water management, land degradation, waste generation, among others. The E&S impacts and risks associated with the subprojects are considered low to moderate.
- 4. Mitigation Measures.** Currently, no SOFOM has an Environmental and Social Management System (“ESMS”), and E&S management is generally limited at each SOFOM. Through this operation, each SOFOM will be required to develop an ESMS suitable for the level of risk of the subprojects to be financed and ensure compliance with related requirements in IIC’s Sustainability Policy. The ESMS of each SOFOM will include an E&S policy, an exclusion list, an E&S risk categorization matrix, an E&S risk assessment, and procedures to manage and mitigate the E&S risks including related monitoring when in portfolio. The ESMS will be developed in accordance with the International Finance Corporation (“IFC”) Interpretation Note on FIs and ensure compliance with local E&S laws and

¹ Multiple Purpose Financial Intermediary (SOFOM). The four originators are: CRESCA (Crédito Especializado al Campo), Proaktiva (Proaktiva SAPI de CV SOFOM ENR), SFI (Soluciones Financieras Internacionales), and SEFIA (Servicios y Financiamiento Agrícola).

² CRESCA’s sub-loans average amount is US\$78,000 with an average tenor of three years. Proaktiva’s sub-loans average amount is US\$215,000 with an average tenor of 3.5 years. SFI’s average sub-loans amount to US\$120,000 with an average tenor of three years. SEFIA’s sub-loans average amount is US\$94,000 with an average tenor of 2.7 years.

regulations as well as Mexican Sustainable Finance Taxonomy. To ensure alignment to the Taxonomy, the ESMS will comply with the four elements of the Technical Evaluation Criteria (“CET”, for their acronym in Spanish)³ as well as the minimum criteria economic activities must meet to be considered sustainable, with emphasis on the Agriculture and Forestry subsectors. A Second Party Opinion (“SPO”) will confirm that the use of proceeds of the bond are aligned with the Taxonomy’s CET.

In addition, each SOFOM will appoint a responsible individual assigned to review E&S matters and will be required to undergo training on E&S management (see action plan in detail). Individual Sub-loans will not exceed US\$1.5 million in individual value.

The SOFOMs shall assure that all subprojects funded with the Sustainable Bond comply with the provisions in the framework of reference, IDB Invest’s exclusion list, the local applicable E&S regulations, and the ESMS. Impacta CS will be responsible for the development and initial implementation of the ESMS. Subsequent monitoring and reporting will be the responsibility of the SPV’s master servicer, Tecnología en Cuentas por Cobrar (“CXC”).

5. Environmental and Social Action Plan (“ESAP”):

Activity	Description	Compliance Indicator	Delivery Date
Policy	1. Development of Environmental and Social Policy for each of the SOFOMs. The policy will detail the commitment of each SOFOM to E&S issues and their respective screening, management, and monitoring as part of the transaction cycle. The Policy will be approved by senior management.	1. Approved Policy by senior management of each program participant (SOFOM).	1. Two months post issuance.
Development and implementation of ESMS	1. Together with an independent consultant (Impacta CS) each SOFOM will develop and implement an ESMS compliant with local regulations applicable to the agricultural and forestry subsectors. The ESMS will include a policy (above), an E&S risk categorization guide, defined roles and responsibilities, legal clauses, and management/monitoring procedures. A sector specific screening tool for agriculture will also form part of the ESMS and align with Mexico's Sustainable Taxonomy criteria. 2. Implement the ESMS in each SOFOM.	1a. Draft terms of reference (TOR) for consultant, Impacta CS, and ESMS scope 1 month prior to issuance. 1b. Signed contract for consultant at issuance. 1c. ESMS Development. 2. Evidence of implementation of the ESMS (e.g. implementation report by Impacta CS with findings and recommendations). The scope of the pilot implementation report will be agreed between IDB Invest and Impacta CS.	1a. One month prior to issuance. 1b. At issuance. 1c. Nine months after issuance. 2. Twelve months after issuance.

³ The main elements of the CET are the main parameter, the substantial contribution of an activity to sustainability (based on metrics and thresholds), criteria of do no significant harm and minimum safeguards.

Activity	Description	Compliance Indicator	Delivery Date
Zero deforestation	<p>1. The use of proceeds of the bond will not allow deforestation in accordance with the Mexican Sustainable Finance Taxonomy. The use of proceeds will comply with the four elements of the Technical Evaluation Criteria (CET), including the minimum criteria for the Agriculture and Forestry subsectors.</p> <p>2. The ESMS will make explicit the exclusion of deforestation in the use of proceeds of the bond.</p>	<p>1. Sustainable Financing Framework</p> <p>2. ESMS including exclusion of deforestation criteria and monitoring processes.</p>	<p>1. At issuance</p> <p>2. At time ESMS is implemented.</p>
Organizational capacity and training	<p>1. Assign personnel in charge of implementing the ESMS.</p> <p>2. Impacta CS will train such personnel to identify E&S risks. The course content will be developed to the satisfaction of IDB Invest.</p> <p>3. Training by Impacta CS of each SOFOM on the ESMS.</p>	<p>1. Functions Assignment Memorandum.</p> <p>2. Training certification.</p> <p>3. Training certification.</p>	<p>1. One month after issuance</p> <p>2. Three months after issuance.</p> <p>3. On ESMS completion.</p>
Monitoring of the SOFOM and the ESMS	<p>1. Tecnología en Cuentas por Cobrar (CXC), the master servicer of the SPV, will be responsible for monitoring subsequent ESMS and consolidating annual monitoring reports submitted by each SOFOM.</p>	<p>1. Annual report in format agreed with IDB Invest and submitted by Cuentas por Cobrar (CXC).</p>	<p>1a. Format agreed at issuance.</p> <p>1b. Each year post disbursement and thereafter.</p>

6. Contact Information For project inquiries, including environmental and social questions related to an IDB Invest transaction please contact the client (see **Investment Summary** tab), or IDB Invest using the email divulgacionpublica@iadb.org. As a last resort, affected communities have access to the IDB Invest Independent Consultation and Investigation Mechanism by writing to mecanismo@iadb.org or MICI@iadb.org, or calling +1(202) 623-3952.