SUSTAINABILITY BOND FRAMEWORK

November 2021
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## Contents

1. **Sustainable Development in Mexico**  
   1.1 The 2030 Agenda for Sustainable Development  
   1.2 Nationally Determined Contributions  

2. **Nacional Financiera, S.N.C, I.B.D**  
   2.1 Strategic Sectors  
   2.2 Legal and Regulatory Framework  
   2.3 Support to Mexican MSMEs  
   2.4 NAFIN in Numbers  
   2.5 NAFIN’s Commitment to Sustainable Financing and the Fight Against Climate Change  
   2.6 Issuance of Green and Social Bonds  

3. **Sustainability Bond Framework**  
   3.1 Use of Resources  
   3.2 Evaluation and Project Selection  
   3.3 Management of Proceeds  
   3.4 Report  

Annex 1: Target Beneficiary  
Annex 2: Exclusion List  
Annex 3: Impact Indicators
Sustainable Development in Mexico
The National Development Plan 2019-2024 (PND, by its initials in Spanish) frames Mexico’s commitment to promote:

“A development model that is respectful of the habitat and its inhabitants, that is equitable, oriented towards reducing rather than aggravating inequalities, that protects the diversity of cultures and natural environments, that is sensitive to regional and local economic modes and singularities, and aware of the needs of the future inhabitants of the country to whom we cannot pass on a territory in ruins”.

Mexico aims to promote sustainable development to reduce social injustice and promote economic development without affecting peaceful coexistence, solidarity, cultural diversity, or the environment. As a result, the Federal Executive Branch considers the impacts of its policies and programmes in the social fabric, the environment, and the political and economic landscapes of the country.

Mexico’s Development Vision

**Economic Vision**

“To transform and position the economy globally as a dynamic country where strong economic performance is reflected in wealth generation and substantial improvement in the living conditions of the population, especially the marginalised”.

**Social Vision**

“To promote inclusive and egalitarian development, where all people, individually and collectively, are recognised for their identities, characteristics and diversity to improve their economic, social, cultural and environmental situation”.

**Environmental Vision**

“To fulfil the human right to a healthy environment, where people build and strengthen their ties with nature and productive activities and act responsibly in favour of people and ecosystems through production systems that minimise their impact on the environment”.

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1.1 The 2030 Agenda for Sustainable Development

Mexico has developed a National Strategy for the implementation of the 2030 Agenda with the goal of not leaving anyone behind: For the good of all, poor people first, care for the environment and an inclusive economy.

The strategy is a long-term view to guide coordinated actions that will drive a deep transformation to ensure the well-being of present and future generations. The implementation of the Strategy is supported by the National Council of the 2030 Agenda for Sustainable Development. The Council promotes coordination between the Federal Government, local governments, the private sector, civil society, and academia for the design and implementation of strategies and programs leading to the achievement to the 2030 Agenda.

The SDGs are part of the country’s efforts and they are included in this document as an international benchmark outlined in the Sustainable Bond Guidelines (SBG), Green Bond Principles and Social Bond Principles (The Principles) of the International Capital Markets Association (ICMA) 2021.
1.2 Nationally Determined Contribution

Mexico has taken on the responsibility to meet its Nationally Determined Contribution (NDC) referred to in the Paris Agreement of the United Nations Framework Convention on Climate Change (UNFCCC).

Mexico’s NDC\(^2\) includes an unconditional\(^3\) GHG emission reduction of 22% and 51% reduction of black carbon emission by 2030. This commitment could increase to 36% and 70%, respectively, provided that sufficient international climate finance is made available and/or the international price for carbon is set.

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**The NDC mitigation component includes 8 sectors:**

- Transport
- Electricity Generation
- Residential & Commercial
- Oil & Gas
- Industry
- Agriculture & Livestock
- Waste
- Land use, Land-use change and Forestry

**Mexico’s NDC includes adaptation objectives across 5 Axes:**

- **AXES A**
  - Prevention and consideration of negative impacts to human population and land

- **AXES B**
  - Resilient productive systems and food security

- **AXES C**
  - Conservation, restoration, and sustainable use of biodiversity and ecosystem services

- **AXES D**
  - Integrated management of water resources with climate change focus

- **AXES E**
  - Strategic infrastructure and tangible cultural heritage protection

It is worth mentioning that the NDC commitments are aligned with the countries climate action efforts and are included in this document as a second international benchmark as outlined in the ICMA SBG 2021.

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\(^3\) Unconditional NDC refer to those actions that the country can afford with its own resources to reduce national GHG emissions and adapt to the effects of climate change.
Nacional Financiera, S.N.C, I.B.D
Nacional Financiera (NAFIN) is a Mexican development bank established in 1934. NAFIN’s mission is to contribute to the economic development of the country by facilitating the access of micro, small and medium-sized enterprises (MSMEs), entrepreneurs and priority investment projects to financing and other business development services, as well as contributing to the formation of financial markets and acting as a fiduciary and financial agent of the Federal Government, which allows for the promotion of innovation, improved productivity, competitiveness, job creation and regional development.

NAFIN is headquartered in Mexico City, has regional representation throughout the country and a branch office in London, as of the date of publication.

NAFIN focuses on fostering economic growth by financing the productive vocations of each State, especially those where the presence of priority sectors is incipient.

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2.1 Strategic Sectors

NAFIN seeks to promote the development of productive sectors, including traditional and high technology sectors. The sectors selected are based on the following criteria:

- **Traditional**: Value of exports and imports above USD 2 billion, domestic products below 45% and manage the level of carry-over from other economic sectors.

- **High-tech**: Capacity to generate competitive advantages in the national industrial sector, capacity to provide tools that allow the generation of proprietary technology at the national level; a high inter-sectoral impact and generation of quality jobs.

![NAFIN’s Strategic Sectors Diagram](image-url)
2.2 Legal and Regulatory Framework

To promote the country's development, NAFIN channels resources and support to various objectives.

NAFIN’s Legal Framework

<table>
<thead>
<tr>
<th><strong>Nacional Financiera Organic Law</strong></th>
<th>I. Promote, manage and implement projects that address sectoral needs in the different areas of the country or that promote the best use of the resources of each region.</th>
</tr>
</thead>
<tbody>
<tr>
<td>I.</td>
<td>Establish financing programs to support economic activities that promote job creation in indigenous companies or organizations; that allow the incorporation of technologies to help them increase their productive capacity, as well as to ensure their equitable access to supply and marketing systems.</td>
</tr>
<tr>
<td>III.</td>
<td>Promote technological development, training, technical assistance and productivity enhancement.</td>
</tr>
<tr>
<td>VI.</td>
<td>Conduct economic and financial studies to determine priority investment projects in order to promote their implementation among potential investors.</td>
</tr>
<tr>
<td>VIII.</td>
<td>Promote industrial restructuring, the production of exportable goods and efficient import substitution.</td>
</tr>
</tbody>
</table>

Source: Organic Law of Nacional Financiera


NAFIN’s Institutional Program 2020-2024 aims to contribute to the country’s sustainable economic development by promoting micro, small and medium-sized enterprises in the country, under the principles of austerity, honesty and the fight against corruption that characterize the commitments of the Government of Mexico.
### National Development Plan 2020 - 2024

#### Three fundamental themes
1. Politics and Government, 2. Social Policy and 3. Economy, aligned to generate population welfare, eradicating corruption, detonating the country’s economic growth, promoting regional development, and reactivating the economy and the domestic market.

<table>
<thead>
<tr>
<th>National Development Finance Program 2020 - 2024</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Main Objective 6</strong></td>
</tr>
<tr>
<td>Expand and strengthen the financing and planning of development banks and other financing vehicles of the Federal Public Administration, as well as to promote greater financial inclusion of the target sectors and greater participation of the private sector, in order to contribute to the sustained economic development of the country and to social welfare.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Institutional Program of Nacional Financiera 2020 - 2024</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Objectives</strong></td>
</tr>
<tr>
<td>1. Contribute to economic development and promote regional development by financing companies whose activities are aligned with the priority sectors and/or the productive sectors of each State.</td>
</tr>
<tr>
<td>2. Promote the strengthening of local procurement chains through financial support to companies, mainly MSMEs, so that they can be embedded into national and global value chains.</td>
</tr>
<tr>
<td>3. Promote greater credit penetration in the private sector, with special emphasis on MSMEs.</td>
</tr>
<tr>
<td>4. Provide training and technical assistance to MSMEs and non-bank financial institutions in order to increase credit penetration in the private sector.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Strategy of Nacional Financiera 2020 -2024</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Axes</strong></td>
</tr>
<tr>
<td>1. Promotion of national industrial development with a focus on productive sectors.</td>
</tr>
<tr>
<td>2. Promotion of regional development based on the productive sectors of each region.</td>
</tr>
<tr>
<td>3. Promotion and support of the Federal Government’s priority economic projects.</td>
</tr>
</tbody>
</table>

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Source: NAFIN Institutional Program 2020-2024
2.3 Support to Mexican MSMEs

According to the latest figures published by the National Institute of Statistics and Geography (INEGI), as of 2018, there were 4,493,459 MSMEs\(^5\) in Mexico, which represents 93% of the total number of economic units\(^6\) of the country.

### MSMEs in 2018

<table>
<thead>
<tr>
<th>Micro-enterprises</th>
<th>Small enterprises</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>97.5%</td>
<td>2.4%</td>
<td>100%</td>
</tr>
<tr>
<td>4,493,459 MSMEs(^5)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Economic Sector</th>
<th>Amount</th>
<th>Total % Representation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade (2,083,076)</td>
<td>46%</td>
<td></td>
</tr>
<tr>
<td>Private non-financial services</td>
<td>40.6%</td>
<td></td>
</tr>
<tr>
<td>Manufacturing activities</td>
<td>12.4%(^8)</td>
<td></td>
</tr>
</tbody>
</table>

**Table 1: Percentage of economic units by size**

<table>
<thead>
<tr>
<th>Economic Unit</th>
<th>Amount</th>
<th>Total % Representation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medium</td>
<td>18,523</td>
<td>0.1%</td>
</tr>
<tr>
<td>Small</td>
<td>94,513</td>
<td>2.4%</td>
</tr>
<tr>
<td>Micro</td>
<td>4,057,719</td>
<td>97.5%</td>
</tr>
<tr>
<td>Total</td>
<td>4,493,459</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: INEGI (2019).

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\(^6\) According to the North American International Classification System (2018), an economic unit is an entity that produces goods or services.

\(^7\) The 2019 Economic Census considers as small enterprises those ranging from 11 to 50 people regardless of economic sector, and as medium enterprises those ranging from 51 to 250 people regardless of economic sector.

Table 2: MSMEs by economic sector

<table>
<thead>
<tr>
<th>Manufacturing</th>
<th>Trade</th>
<th>Private non-financial services</th>
<th>Other economic activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>558,804</td>
<td>2,083,076</td>
<td>1,822,846</td>
<td>28,733</td>
</tr>
</tbody>
</table>

Source: INEGI (2019).

MSMEs face major challenges:

- **Limited participation in domestic value chains**: The involvement of SMEs in the value chain represents 4.6% of the total value of goods.

- **Low competitiveness and productivity**: due to low levels of technology adoption, specialized training, and management skills, lack of data gathering systems and monitoring.

- **Low access to funding**: as a result of insufficient access channels and low financial education levels; high informality levels, high risk aversion from financial institutions, high funding costs, and lack of trust in financial institutions.

Commercial banks, popular savings banks, family and friends, and moneylenders are the main sources of financing for MSMEs.

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The role of development banks, and specifically NAFIN is key to expand the number of MSMEs with access to finance. According to its Institutional Programme 2020-2024, NAFIN contributes 30% of commercial credit and, through guarantees, approximately 65% of loans granted to MSMEs.¹⁰

NAFIN seeks to promote the country’s economic development by financing Mexican companies whose activities are aligned with the priority sectors and/or the productive vocations of each federal state. Based on this, NAFIN’s strategy seeks to serve Mexican companies based on a sectoral model with the aim of strengthening the areas where the country is competitive and enhancing companies’ financial inclusion.

### Table 3: MSMEs by access to finance, 2017

<table>
<thead>
<tr>
<th></th>
<th>With access to finance</th>
<th>Without access to finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>SMEs</td>
<td>23.2%</td>
<td>76.8%</td>
</tr>
<tr>
<td>Micro</td>
<td>7.6%</td>
<td>92.4%</td>
</tr>
</tbody>
</table>

Source: INEGI (2019).

### Table 4: Total beneficiaries¹¹ of NAFIN’s financing activities by economic unit¹²

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Micro</td>
<td>455,905</td>
<td>639,938</td>
<td>488,800</td>
<td>438,527</td>
<td>347,876</td>
<td>551,140</td>
<td>188,729</td>
</tr>
<tr>
<td>Small</td>
<td>71,807</td>
<td>70,187</td>
<td>71,632</td>
<td>66,448</td>
<td>65,066</td>
<td>38,089</td>
<td>21,201</td>
</tr>
<tr>
<td>Medium</td>
<td>5,480</td>
<td>4,365</td>
<td>3,858</td>
<td>2,873</td>
<td>3,666</td>
<td>2,623</td>
<td>1,858</td>
</tr>
<tr>
<td>Large</td>
<td>1,078</td>
<td>1,251</td>
<td>1,241</td>
<td>1,402</td>
<td>2,065</td>
<td>1,285</td>
<td>1,049</td>
</tr>
</tbody>
</table>


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¹¹ Includes natural persons with business activity.

The Directorate of Business Development and Technical Assistance (DDEAT by its initials in Spanish) is in charge of training entrepreneurs and MSMEs through two channels: online through the www.nafintecapacita.com platform; and in person, through the Business Development Center (CEDEM by its initials in Spanish) and its network of consultants and instructors. As of December 31, 2020, CEDEM contributed to developing the technical and managerial skills of 251,069 entrepreneurs and SMEs, through face-to-face and online courses, workshops, conferences, internships or work meetings and technical assistance, of which 134,559 were women and 116,510 men.
2.4 NAFIN in Numbers

NAFIN’s business model divides the credit portfolio by sector as follows:

- The first tier segment includes the credit portfolio that is directly allocated to the public and private sector, while the second tier segment consists of the credit portfolio channelled through bank and non-bank financial intermediaries.
- The balances of the Financial Agent segment consist of resources from International Finance institutions that the Federal Government has mandated that NAFIN manage on its behalf.

Table 5: NAFIN relevant numbers 2015-2021 (million pesos)

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</tr>
</thead>
<tbody>
<tr>
<td>Total Credit Portfolio</td>
<td>$ 171,702</td>
<td>$ 214,313</td>
<td>$ 228,459</td>
<td>$ 259,632</td>
<td>$ 225,950</td>
<td>$ 221,412</td>
<td>$ 181,112</td>
</tr>
<tr>
<td>2nd Tier Credit Portfolio</td>
<td>$ 127,863</td>
<td>$ 147,920</td>
<td>$ 165,390</td>
<td>$ 186,037</td>
<td>$ 165,637</td>
<td>$ 166,609</td>
<td>$ 127,370</td>
</tr>
<tr>
<td>1st Tier Credit Portfolio</td>
<td>$ 43,730</td>
<td>$ 66,299</td>
<td>$ 63,004</td>
<td>$ 73,566</td>
<td>$ 60,304</td>
<td>$ 54,803</td>
<td>$ 53,742</td>
</tr>
<tr>
<td>Financial Agent Portfolio</td>
<td>$ 109</td>
<td>$ 94</td>
<td>$ 65</td>
<td>$ 29</td>
<td>$ 9</td>
<td>$ 0</td>
<td>$ 0</td>
</tr>
</tbody>
</table>


The Institutional Promotion Network is the main channel for linking NAFIN with the business community and local governments in Mexico’s 32 States. In addition to contributing to business development through the promotion, sale and support of institutional products and services, the Institutional Promotion Network has the ultimate goal of boosting regional economic development.
### Table 6: NAFIN Credit Operation 2018-2021

<table>
<thead>
<tr>
<th>Credit Operation&lt;sup&gt;13&lt;/sup&gt;</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>January-July 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume of operations</td>
<td>2,080,266</td>
<td>1,853,988</td>
<td>1,189,457</td>
<td>749,736</td>
</tr>
<tr>
<td>Percentage contribution by economic sector</td>
<td></td>
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<tr>
<td>Trade (48%)</td>
<td></td>
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<tr>
<td>Industry (29%)</td>
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<tr>
<td>Service (22%)</td>
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<tr>
<td>Other (1%)</td>
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<tr>
<td>Industry (29%)</td>
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<td>Service (21%)</td>
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<td>Other (1%)</td>
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<tr>
<td>Trade (46%)</td>
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<tr>
<td>Industry (29%)</td>
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<tr>
<td>Service (25%)</td>
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<tr>
<td>Other (0%)</td>
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<tr>
<td>Trade (44%)</td>
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<tr>
<td>Industry (31%)</td>
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<tr>
<td>Service (25%)</td>
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<tr>
<td>Other (0%)</td>
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<tr>
<td>Percentage contribution by region</td>
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<tr>
<td>Central (35%)</td>
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<tr>
<td>Northeast (28%)</td>
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<td>West (16%)</td>
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<tr>
<td>Northwest (12%)</td>
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<tr>
<td>Southeast (9%)</td>
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<tr>
<td>Central (37%)</td>
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<td>Northeast (24%)</td>
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<td>Central (38%)</td>
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<td>Northeast (21%)</td>
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<td>West (16%)</td>
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<td>Northwest (13%)</td>
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<tr>
<td>Southeast (12%)</td>
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<tr>
<td>Central (38%)</td>
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<tr>
<td>Northeast (14%)</td>
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<td>West (18%)</td>
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<tr>
<td>Northwest (14%)</td>
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<tr>
<td>Southeast (8%)</td>
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</tbody>
</table>


### Table 7: NAFIN Relevant indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>January-June 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of enterprises with direct and induced financing to the private sector (cumulated)</td>
<td>509,250</td>
<td>418,673</td>
<td>593,137</td>
<td>212,837</td>
</tr>
<tr>
<td>Total amount of direct and induced credit balance to the private sector (millions of pesos)</td>
<td>$451,119</td>
<td>$415,496</td>
<td>$399,607</td>
<td>$341,621</td>
</tr>
<tr>
<td>Total number of enterprises served for the first time with direct and induced financing to the private sector</td>
<td>206,000</td>
<td>137,527</td>
<td>289,011</td>
<td>90,031</td>
</tr>
<tr>
<td>Total amount of direct and induced credit balance to the private sector of enterprises served for the first time (millions of pesos)</td>
<td>$44,236</td>
<td>$18,400</td>
<td>$17,092</td>
<td>$13,826</td>
</tr>
<tr>
<td>Total amount of direct and induced credit balance granted to the private sector of enterprises served for the first time (millions of pesos)</td>
<td>$85,134</td>
<td>$79,414</td>
<td>$102,074</td>
<td>$40,829</td>
</tr>
<tr>
<td>Total number of training and technical assistance courses carried out</td>
<td>209,150</td>
<td>170,592</td>
<td>275,406</td>
<td>296,213</td>
</tr>
</tbody>
</table>


<sup>13</sup> NAFIN. Nafin in Figures. Operation Analysis. Retrieved from: [https://www.nafin.com/portalnf/content/nafin-en-cifras/analisis_operacion.html](https://www.nafin.com/portalnf/content/nafin-en-cifras/analisis_operacion.html)
2.5 NAFIN’s Commitment to Sustainable Financing and the Fight Against Climate Change

NAFIN is key to Mexico’s sustainable economic development by granting financing to companies that promote sustainable development projects, based on more sustainable use of natural resources and respect for human rights.

To this end, NAFIN promotes a sustainable culture within the Institution and with its network of Financial Intermediaries.

- NAFIN is an environmentally and socially responsible development bank, which has had an Environmental and Social Policy and an Environmental and Social Management System (ESMS) since 2020.

- The ESMS objective is to strengthen the lending process through a methodology that establishes a comprehensive management framework that includes policies, tools and a training plan to identify, monitor and manage the institution’s exposure to the potential environmental and social impacts of first-tier financial operations. It voluntarily adopts the Equator Principles, the International Finance Corporation (IFC) Performance Standards and the national regulatory framework.

- Key commitments of the Environmental and Social Policy include a) granting financing to companies that promote projects which lead to economic and sustainable development; b) providing training to NAFIN’s staff on ESMS; c) communicating the Environmental and Social Policy to clients, financial intermediaries and other interested parties; and d) collaborating with clients so that they are aware of and adopt environmental and social risk management as a tool for sustainable development.

14 NAFIN. Retrieved from: https://www.nafin.com/portalnf/content/sobre-nafin/saras/
• In 2021, NAFIN become accredited as a Direct Access Entity of the Green Climate Fund (GCF) to mobilise up to USD 250 million through concessional credits per project and/or programme with high climate impact in Mexico. As a GCF accredited entity, NAFIN will seek to promote energy efficiency projects for MSMEs and the transport sector and will support other Mexican government entities so that GCF resources can finance climate change-related projects, thus contributing to Mexico’s international objectives and commitments.

• In addition to NAFIN’s accreditation to the GCF, NAFIN signed the Sustainability Protocol\textsuperscript{15} of the Mexican Bank Association (ABM) in December 2019, which is aligned with the Sustainable Development Goals (SDGs) and Agenda 2030.

• NAFIN promotes the financial inclusion of women and young people. In 2020, it granted 4,425 loans for 6,549 million pesos through its Support for Women Entrepreneurs programme and placed 958 loans for 1,310 million pesos as part of the Young Entrepreneurs programme\textsuperscript{16}.

• NAFIN has a funding strategy aligned with International Financial Institutions (OFI) to meet the objective of promoting priority projects for the development of Mexico. As of September 2021, NAFIN manages a portfolio of 17 loans contracted with different OFIs: the German Development Bank (KfW), the Inter-American Development Bank (IDB), the European Investment Bank (EIB), the World Bank (WB) and the Latin American Development Bank (CAF).

• NAFIN has a Deputy Directorate General of Digital Banking whose objective is to identify business opportunities, implemented through Digital Systems/Financial Marketplace, to promote financial inclusion with the Institution’s product offerings.


2.6 Issuance of Green and Social Bonds

In 2015, NAFIN issued the first green bond in Mexico for USD 500 million and another in 2016 for MXN 2 billion pesos to finance its renewable energy portfolio. In 2017, NAFIN issued the first social bond in Mexico for MXN 4 billion pesos to finance its social programs. The bonds were aligned with ICMA principles and received a Second Party Opinion from Sustainalytics.

NAFIN Green and Social Bonds

<table>
<thead>
<tr>
<th>Year</th>
<th>Description</th>
<th>Amount</th>
<th>Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>Issued the first green bond in Mexico for USD 500 million</td>
<td>USD 500 million</td>
<td>Renewable energy</td>
</tr>
<tr>
<td>2016</td>
<td>Issued the second green bond in Mexico for MXN 2 billion pesos</td>
<td>MXN 2 billion pesos</td>
<td>Renewable energy</td>
</tr>
<tr>
<td>2017</td>
<td>Issued the first social bond in Mexico for MXN 4 billion pesos</td>
<td>MXN 4 billion pesos</td>
<td>Social programs</td>
</tr>
</tbody>
</table>

The bonds were aligned with ICMA principles and received a Second Party Opinion from Sustainalytics.
Sustainability Bond Framework
This framework was developed based on ICMA SBG 2021 and is aligned with the four core components of the Green Bond Principles (GBP) 2021 and Social Bond Principles (SBP) 2021.

The Principles are voluntary guidelines on transparency and reporting that promote the integrity and disclosure of thematic bond issuances.

**Main Components of the Principles and of this Framework**

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting
Definition of Green, Social and Sustainability Bonds according to ICMA

<table>
<thead>
<tr>
<th>Green Bond</th>
<th>Social Bond</th>
<th>Sustainability Bond</th>
</tr>
</thead>
<tbody>
<tr>
<td>Green Bonds are debt instruments where the full proceeds are used to finance or refinance eligible green projects, i.e. with new and/or existing environmental benefits, and which are aligned with the four core components of ICMA’s Green Bond Principles (GBP)</td>
<td>Social Bonds are debt instruments where the full proceeds are used to finance or refinance eligible social projects i.e. with social benefits for a target population, new and/or existing, and which are aligned with the four core components of ICMA’s Social Bond Principles (SBP)</td>
<td>Sustainability Bonds are debt instruments where the entire proceeds are used to finance or refinance a combination of green and social projects. Sustainability Bonds are aligned with the four core components of both the GBP and the SBP.</td>
</tr>
</tbody>
</table>


NAFIN is committed to contributing to the sustainable economic development of the country through the promotion of MSMEs in Mexico, under the guiding principles of the PND: austerity, honesty, and fight against corruption. The eligible categories defined by this Framework are aligned with the priority sectors of the institution, its mandate and those of the Federal Government.
3.1 Use of Resources

Net resources obtained from bonds issued through this framework will be used to finance and/or refinance new and/or existing green and/or social financing or expenditures, deriving from the bank’s direct and indirect operations that meet the criteria outlined in this section.

Through this framework, NAFIN can issue:

**GREEN BONDS** | **SOCIAL BONDS** | **SUSTAINABILITY BONDS**
---|---|---

To this end, NAFIN has identified four eligible green categories and three eligible social categories aligned with ICMA’s Principles and international best practices. The categorisation is based on the eligibility criteria described in sections 1.1 and 1.2, as well as the reporting indicators, as presented in Annex 3.

### Green And Social Categories

#### Eligible Green

1. Clean transportation
2. Energy efficiency
3. Renewable energy
4. Sustainable solid waste management

#### Eligible Social

1. Improved access to essential services including education, vocational training, as well as financial services and financing for low income and young people communities.
2. Support for SMEs and programs designed to create jobs, prevent and/or alleviate unemployment caused by socioeconomic crisis or natural disasters.
3. Women’s empowerment and socioeconomic progress, including their equitable participation and integration into the market and society.
### 3.1.1 Green Categories

**a. Eligible green categories**

<table>
<thead>
<tr>
<th>Eligible green categories</th>
<th>Eligibility criteria</th>
<th>Direct and indirect Benefits</th>
<th>Priority SDG</th>
<th>Priority NDC (axis or component)</th>
<th>Component</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clean transportation</td>
<td>Study, design, construction, acquisition, substitution, maintenance, and operation of clean transportation with no direct or low emissions and dedicated infrastructure, including: I. Electric, hydrogen or hybrid(^{17}) passenger and freight vehicles(^{18}). II. Clean public transportation with no direct emissions, or low emissions, including electric, hydrogen or hybrid(^{19}) buses. III. Infrastructure dedicated to clean transportation(^{20}) (for example, electric charging points, grid connection improvements, hydrogen fueling stations or electric highways). IV. Investments in digital systems(^{21}) that allow data collection and processing of eligible projects for the purpose of tracking environmental or social risks and impacts.</td>
<td>• Support the transition towards low-carbon mobility and alternative transport models. • Greenhouse gas (GHG) emission reduction • Reduction of short-lived climate pollutants, including black carbon • Air quality improvement</td>
<td>3</td>
<td>Transport</td>
<td></td>
</tr>
</tbody>
</table>

---

17 Vehicle complies with the universal threshold of 50 gCO2/p-km (passengers per kilometer).
18 With direct emissions below 25gCO2/t-km and excluding freight vehicles transporting fossil fuels.
19 Vehicle complies with the universal threshold of 50 gCO2/p-km (passengers per kilometer).
20 Infrastructure that supports the electric charging points from an electrification and availability perspective.
21 Limited to 5% of total allocations.
Eligible green categories | Eligibility criteria | Direct and indirect Benefits | Priority SDG | Priority NDC (axis or component)
--- | --- | --- | --- | ---
Energy efficiency | I. Programs dedicated to energy efficiency improvements that comply with the definitions set forth in the Sustainable Energy Use Law, the Official Standards and the guidelines issued by the National Commission for the Efficient Use of Energy in:
   a. MSMEs, including, but not limited to, upgrades in the thermal insulation of buildings, air conditioning, refrigeration systems, thermal, concentrated, and photovoltaic solar systems, and lighting replacement with more efficient devices and systems (for example, LED technology).
   II. Investments in digital systems that allow data collection and processing of eligible projects for the purpose of tracking environmental or social risks and impacts.
   | - Energy saving
   - Greenhouse gas (GHG) emission reduction
   - Reduction of short-lived pollutants
   - Health benefits of implementing LED technology | Component

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22 Energy efficiency measures with motor vehicles that use fossil fuels are not eligible.
25 Excluding general purpose financing.
26 Limited to 5% of total allocations.
### Renewable energy

**Generation of electricity and heat**

I. Design, construction, operation, and maintenance of facilities that generate power and heat from:
   a. Wind energy\(^{28}\),
   b. Photovoltaic solar energy, concentrated solar energy\(^{29}\) and thermal solar energy\(^{30}\) and
   c. Hydroelectric power plants\(^{31}\) (less than 10 MW) including pumping stations.

II. Transmission, distribution and energy storage infrastructure dedicated to supporting the energy generation assets recognized by this framework.

III. Information and Communication Technologies (ICTs)/Smart Network Applications such as controls, computers, automation, sensors, meters, ICT platforms and technology dedicated to smart grid systems.

IV. Investments in digital systems\(^{32}\) that allow data collection and processing of eligible projects for the purpose of tracking environmental or social risks and impacts.

<table>
<thead>
<tr>
<th>Eligible green categories</th>
<th>Eligibility criteria</th>
<th>Direct and indirect Benefits</th>
<th>Priority SDG</th>
<th>Priority NDC (axis or component)</th>
</tr>
</thead>
</table>
| Renewable energy          | Generation of electricity and heat | - Greenhouse gas (GHG) emission reduction  
- Air quality improvement  
- Improve affordable and safe access to electricity and heat  
- Mexico’s industrial development given the power generation potential with clean sources | | |

---

28 Power generated from non-renewable sources must not exceed 15% in wind power stations. Expenses/investments related to power generation from wind energy are only eligible when recycling is guaranteed at the end of their useful life based on waste management plans and dismantling/retirement processes at the end of the assets’ useful life, for example, by means of contractual agreements.

29 Under this framework, NAFIN will not finance concentrated solar power projects with fossil-fuel back up generation.

30 Power generated from non-renewable sources must not exceed 15% in solar installations. Expenses/investments related to power generation from photovoltaic solar energy are only eligible when durability and ease of assembly and repair through component accessibility and interchangeability are guaranteed, for example, by means of supply sources or approved certifications. Likewise, they will only be eligible when recycling is guaranteed at the end of their useful life based on waste management plans, dismantling/retirement processes at the end of the assets’ useful life, for example, by means of contractual agreements.

31 Facilities operating with life-cycle emissions below 100gCO2e/kWh. NAFIN requires an environmental and social impact assessment in compliance with its internal Environmental and Social Management System.

32 Limited to 5% of total allocations
### Eligible green categories

<table>
<thead>
<tr>
<th>Eligible green categories</th>
<th>Eligibility criteria</th>
<th>Direct and indirect Benefits</th>
<th>Priority SDG</th>
<th>Priority NDC (axis or component)</th>
</tr>
</thead>
</table>
| **Sustainable waste management** | I. Design, construction, operation, and maintenance of facilities for the collection, sorting and disposal of non-hazardous waste for the purpose of preparation for reuse, and/or recycling\(^{33}\).  
II. Projects that capture biogas from closed landfills\(^{34}\).  
III. Investments in digital systems\(^{35}\) that allow data collection and processing of eligible projects for the purpose of tracking environmental or social risks and impacts. | • Improve affordable and safe access to electricity and heat  
• Mexico’s industrial development given the power generation potential with clean sources | |  

---

\(^{33}\) Fossil-fuel related operations are not considered eligible under this Framework.  
\(^{34}\) With gas capture efficiency of 75% and above.  
\(^{35}\) Limited to 5% of total allocations.
## 3.1.2 Social Categories

### a. Eligible Social Categories

<table>
<thead>
<tr>
<th>Eligible social categories</th>
<th>Eligibility criteria</th>
<th>Benefits</th>
<th>Priority SDG</th>
<th>Priority NDCs (axis or component)</th>
</tr>
</thead>
</table>
| Improved access to essential services that include education, vocational training as well as financial services and financing for low-income communities\(^{36}\) and young\(^{37}\) entrepreneurs and students. | Financial support for education, capacity building and access to essential services, including access to water and sanitation, access to finance or other financing schemes intended for low-income populations and young people (between 18 and 35 years of age). Digital systems Investments in digital systems\(^{38}\) that allow data collection and processing of eligible projects for the purpose of tracking environmental or social risks and impacts. | - Reduction of income inequalities  
- Fostering young people participation in the national economy  
- Promote inclusive finance  
- Advance gender equality | 1 - 10  
- 4 - 4  
- 6 - 6  
- 8 - 8  
- 10 - 10 | Adaptation Component, Axis A:  
- Prevention and management of negative impacts on the human population and the territory.                                                                 |
<table>
<thead>
<tr>
<th>Eligible social categories</th>
<th>Eligibility criteria</th>
<th>Benefits</th>
<th>Priority SDG</th>
<th>Priority NDCs (axis or component)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Support for SMEs and programs designed to create jobs, prevent and/or alleviate unemployment caused by socioeconomic crisis or natural disasters³⁹.</td>
<td>The funds under this category will be allocated to loans or other financial support for micro, small and medium-sized enterprises <strong>Digital systems</strong> Investments in digital systems⁴⁰ that allow data collection and processing of eligible projects for the purpose of tracking environmental or social risks and impacts.</td>
<td>• Unemployment prevention and reduction • Increase in funding access for MSMEs • Regional development, competitiveness, and productivity improvement • Advance gender equality</td>
<td>Adaptation Component, Axis A: • Prevention and management of negative impacts on the human population and the territory.</td>
<td></td>
</tr>
<tr>
<td>Women’s empowerment and socioeconomic progress, including their equitable participation and integration into the job market and society.</td>
<td>Loans or other financial support aimed at improving women’s participation in the job market and society, reducing the gender pay gap and supporting women entrepreneurship <strong>Digital systems</strong> Investments in digital systems⁴¹ that allow data collection and processing of eligible projects for the purpose of tracking environmental or social risks and impacts.</td>
<td>• Reduction of economic inequalities • Advance gender equality • Fostering women participation in the national economy</td>
<td>Adaptation Component, Axis A: • Prevention and management of negative impacts on the human population and the territory.</td>
<td></td>
</tr>
</tbody>
</table>

³⁹ Refer to ANNEX 1: Target Beneficiary for more information on the target beneficiaries.
⁴⁰ Limited to 5% of total allocations.
⁴¹ Limited to 5% of total allocations.
3.2 Evaluation and Project Selection

The Deputy General Directorates (DGAs by its initials in Spanish) of Issuances and International Relations, Financial Institutions, Corporate Banking, and the Financial DGA will oversee the validation of investments/expenses in terms of their compliance with the eligibility criteria established under this framework. These DGAs will ensure that proceeds of bonds issued under this Framework comply with the eligibility criteria defined in section I. Use of Proceeds. Additionally, in the event that financing or expenditures initially included in an issuance no longer fulfills the eligibility criteria of this Framework due to changes in its nature or its execution, DGAs will reallocate on a best effort basis the proceeds to other eligible expenditures complying with this Framework.

NAFIN will ensure that investments/expenditures respect NAFIN’s exclusion list (see Annex 2). Likewise, for first tier operations, NAFIN will ensure the application of internal process in accordance with the Bank’s Environmental and Social Management System (ESMS).

The process for identification and management of social and environmental risks is described in the following sections:

3.2.1 Management System of Social and Environmental Risks

NAFIN’s ESMS for first tier operations consists of five elements in alignment with the International Finance Corporation’s own ESMS: policy, environmental and social capacity, assessment and monitoring processes, and reporting. Additionally, it defines the bank’s mission and vision, which are as follows:

**ESMS’ Vision and Mission**

**VISION**

To be an institution that ensures the best environmental and social practices in project financing, in compliance with a national regulatory framework and good international practices.

**MISSION**

Promote and implement measures for the management of environmental and social risks in the financing of projects for MSMEs, entrepreneurs and priority investment projects, focused on enhancing national sustainable economic development, which promotes innovation, improving productivity, and competitiveness, among others.

Source: NAFIN.
The specific objective of the ESMS is to strengthen the credit process through the following activities:

**NAFIN ESMS’ Objective and Scope**

- **Identify, evaluate, mitigate** and monitor the environmental and social risks of the projects and/or companies that request the credit and that represent credit risks for first-tier financial operations, in all their products.

- **Validate** compliance with the laws and regulations of the United Mexican States, as well as the alignment of the projects to be financed with the **Equator Principles** and Performance Standards of the International Finance Corporation.

- **Supervise the environmental and social performance** of the projects financed by NAFIN, before clients, investors and other interested parties.

Source: NAFIN.

Projects and financial operations are categorized according to the nature and scope of the environmental and social risk assessment, considering industries / sectors and are classified into the following three categories A, B or C:

**Table 8. Project and transaction classification in accordance with environmental and social risk**

<table>
<thead>
<tr>
<th>Credit Characteristics</th>
<th>Credit Amount</th>
<th>Required Documentation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investment Projects classified in the A and B category (energy sector)</strong></td>
<td>More than 10 million dollars or its equivalent in pesos at the time of the analysis</td>
<td>Environmental and Social Due Diligence in accordance with the nature, magnitude, and stage of the project as stated by the Equator Principles</td>
</tr>
<tr>
<td><strong>Investment projects classified in the B (except energy sector) and C category.</strong></td>
<td>More than 10 million dollars or its equivalent in pesos at the time of the analysis</td>
<td>In accordance with NAFIN methodology in compliance with current environmental and social regulations.</td>
</tr>
<tr>
<td><strong>Investment projects classified in the A, B, and C category.</strong></td>
<td>Less than 10 million dollars or its equivalent in pesos at the time of the analysis</td>
<td>In accordance with NAFIN methodology in compliance with current environmental and social regulations.</td>
</tr>
<tr>
<td><strong>Other type of transaction to be financed (Categories A, B and C)</strong></td>
<td>Open amount or its equivalent in pesos at the time of the analysis</td>
<td>In accordance with NAFIN methodology in compliance with environmental and social current regulations.</td>
</tr>
</tbody>
</table>

Source: NAFIN.

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42 NAFIN establishes the guidelines for the report of the Environmental and Social Due Diligence. For more information, see [https://www.nafin.com/portalnf/files/secciones/Acerca_de_Nafin/nafin-saras/pdf/Lineamientos_de_DD_SARAS_NAFIN.pdf](https://www.nafin.com/portalnf/files/secciones/Acerca_de_Nafin/nafin-saras/pdf/Lineamientos_de_DD_SARAS_NAFIN.pdf)
Table 9. Categorization of environmental and social risks for NAFIN

<table>
<thead>
<tr>
<th>Risk Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>CATEGORY A</td>
<td>Refers to projects or transactions that probably will cause adverse Environmental and Social effects to a considerable degree, which could be of a delicate nature (may become irreversible), varied or without precedent (such as the loss of an important natural habitat or in areas of ecologic importance, such as wetlands, forests, and other natural habitats, as well as communities with significant indigenous population or areas with an important cultural heritage). Said projects affect a greater area than that of the sites or facilities object of material constructions. This category considers high-risk activities defined in listings by SEMARNAT and ASEA.</td>
</tr>
<tr>
<td>CATEGORY B</td>
<td>Refers to projects or transactions with probable adverse Environmental and Social impacts on human populations or important environmental areas. Mostly reversible and easy to address. It considers those industries/areas whose effects are less negative than those of Category A and may be related to sites, and few or none of their effects are irreversible. The mitigation measures may be formulated with more ease than if dealing with a Category A project.</td>
</tr>
<tr>
<td>CATEGORY C</td>
<td>A transaction and/or project shall be classified under this category if the probability of it causing adverse effects on Environmental and Social aspects is minimal or null.</td>
</tr>
</tbody>
</table>

Source: NAFIN.

Once the characteristics of the loan and the level of environmental and social risk categorization have been defined, NAFIN carries out an environmental and social risk assessment of the proposed transaction which results in an environmental and social action plan to ensure the mitigation, supervision and monitoring of the client’s environmental and social performance.

NAFIN’s ESMS Coordination published an annual environmental and social report summarizing the findings of ESMS implementation throughout the year. The ESMS internal process involves several directorates involved across the loan disbursement process.
Participation of ESMS in NAFIN in the Credit Process

<table>
<thead>
<tr>
<th>Responsible</th>
<th>Procedure</th>
</tr>
</thead>
</table>
| **1** Deputy General Directorate of Business Banking Business Development | • Review Exclusion List  
• Assign initial categorization of Projects (A, B, C) |
| **2** ESMS Coordination Categorization and Evaluation | • Validation of categorization (A, B, C)  
• Issue ESMS File  
• Develop annual report A and S |
| **3** Deputy General Legal Directorate Formalization | • Incorporate A and S contractual obligations during the term |
| **4** Credit Administration Directorate Resource Request Delivery | • Receives validation and scope ESMS file of conditional operations |
| **5** Directorate of Monitoring and Recovery Supervision | • Validation of environmental and social obligations in SISEC |

Source: NAFIN.

For the implementation of the ESMS, NAFIN counts on a dedicated Environmental and Social Management System Coordination Unit which participates in the five steps of the credit disbursement process, from origination to supervision.

With regards to the supervision process, the Coordination Unit oversee the clients’ compliance with their environmental and social obligations through five monitoring and reporting activities:

1. Monitoring clients’ compliance with environmental and social contractual requirements through NAFIN’s Credit Tracking Tool (SISEC).

2. Conduct site visits to review environmental and social issues, issue reports and produce recommendations.

3. Develop environmental and social supervision reports for investment projects in compliance with the Equator Principles and IFC Performance Standards, mainly in the energy sector.

4. Analyse the reports produced by external supervisors assigned to investment projects (i.e. during the construction phase) in sectors other than those regulated by the Equator Principles and IFC Performance Standards.

5. Proactive monitoring of public information related to environmental or social impacts of clients.
The main functions performed by the ESMS Coordination Unit are shown in the diagram below:

1. Evaluation of Social and Environmental Risk
2. Management of Social and Environmental Risk in the portfolio
3. Socio-environmental System
   Promoting sustainable banking

Source: NAFIN.

NAFIN is currently developing an ESMS for second-tier operations based on the categorization and supervision of its financial intermediaries.

3.2.2 Second tier project selection

For second-tier projects, NAFIN will be responsible for validating that the operations selected meet the eligibility criteria established in this framework and that they respect NAFIN’s exclusion list (see ANNEX 2: Exclusion List). It will also replace, if necessary, operations that no longer meet the criteria established in this framework with new financing that does.
3.3 Management of Proceeds

The Sustainability Bonds Framework establishes the general approach applicable to future issuances. NAFIN will guarantee that an amount at least equal to the bond’s proceeds will be allocated to financing and/or refinancing of recent investments and expenditures (made in the three preceding fiscal years), current investments and expenditures (made in the current fiscal year) and future investments and expenditures (to be incurred until the maturity of the bond).

The net resources of the bond will be credited to a designated account of NAFIN’s choice in order to ensure transparency and traceability of the use of the proceed and will be used to finance, in whole or in part, investments and/or expenditures that fulfill the eligibility criteria defined by this Framework, guaranteeing transparency and traceability of disbursements. NAFIN’s Issuances and International Relations DGA, in coordination with the Financial DGA, will be in charge of the allocation of proceeds.

The proceeds from bond emissions will be managed according to NAFIN’s liquidity policy while guaranteeing the prevention of double counting of a single project. NAFIN will pursue efforts to allocate proceeds within 36 months of each bond issuance, or as soon as reasonably practicable.

In the event that some financing or expenditures initially included in an issuance no longer fulfills the eligibility criteria of this Framework due to changes in its nature or its execution, the expenditures financed or refinanced will not be counted toward the specific bond in question. NAFIN will reallocate on a best effort basis the proceeds to other eligible expenditures which are compliant with the Eligibility Criteria as described in the Use of Proceeds section as soon as reasonably practical.
3.4 Report

NAFIN is responsible for providing an Allocation Report to investors, along with an Impact Report during the period of circulation of the bonds issued under this Framework. The first report will be published the year following the emission. The framework and reports will be made available on NAFIN’s web page: https://www.nafin.com

3.4.1 Allocation Report

NAFIN will pursue efforts to provide information to investors and stakeholders about the allocation of net proceeds until complete allocation of funds through the publication of an annual Allocation Report, including:

- Brief description of the financing or expenditures
- Amounts disbursed by eligible category
- Percentage of proceeds allocated per project or category
- Percentage of proceeds allocated for financing and refinancing
- Remaining balance of unallocated proceeds

In cases where there is a confidentiality agreement, a consideration related to competition, or there are a large number of underlying projects, NAFIN will present the information in generic terms and/or aggregates.

3.4.2 Impact Report

As long as the Sustainability Bond remains in effect, and to the extent possible, NAFIN will publish an annual Impact Report. NAFIN will consolidate the information on social and environmental indicators received from financial intermediaries and investee companies in an annual Impact Report. Where feasible, the Impact Report will include:

- The expected impact of the expected impact of the financing and expenses based on the framework’s indicators
- The methodology and assumptions used to prepare the performance indicators
- At least one indicator for each eligible category. The indicator(s) will be equal or similar to those provided in Table 10 and Table 11

In case confidentiality agreements, competition consideration or a large number of underlying projects, NAFIN will present the information in generic terms and/or aggregates.

3.4.3 Bond Framework Addendum

NAFIN reserves the right to modify this framework in accordance with the best international practices or any national and international commitments the bank may enter, without implying a change in the rules once the bond is issued.
ANNEX 1: Target Beneficiary

The MSMEs official stratification is made based on the number of workers and the total annual sales. For the purposes of this framework, the classification used in this framework corresponds to the classification used by NAFIN and indicated in the Agreement establishing the stratification of micro, small and medium-sized enterprises43:

### Table 9: MSMEs classification

<table>
<thead>
<tr>
<th>Enterprise stratification</th>
<th>Sector</th>
<th>Number of persons employed</th>
<th>Annual sales (million pesos) range amount</th>
<th>Combined upper limit*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro-enterprise</td>
<td>All</td>
<td>0 to 10 persons</td>
<td>Up to $4</td>
<td>4.6</td>
</tr>
<tr>
<td>Small enterprise</td>
<td>Trade</td>
<td>11 to 30 persons</td>
<td>From $4.01 to $100</td>
<td>93</td>
</tr>
<tr>
<td></td>
<td>Industry and Services</td>
<td>11 to 50 persons</td>
<td>From $4.01 to $100</td>
<td>95</td>
</tr>
<tr>
<td>Medium-sized Enterprise</td>
<td>Trade</td>
<td>31 to 100 persons</td>
<td>From $100.01 to $250</td>
<td>235</td>
</tr>
<tr>
<td></td>
<td>Services</td>
<td>From 51 to 100</td>
<td>From $100.01 to $250</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Industry</td>
<td>From 51 to 250</td>
<td>From $100.01 to $250</td>
<td>250</td>
</tr>
</tbody>
</table>

* Combined Upper Limit: (Workers) X 10% + (Annual Sales) X 90%


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ANNEX 2: Exclusion List

1. Non-compliance with the workers fundamental principles and labor rights.
2. Any product or activity considered illegal under the laws and regulations of the country or under the treaties and international agreements.
3. Manufacturing or trafficking of weapons and ammunition.
4. Production or commercialization of alcoholic beverages (excluding beer, wine and those beverages originated in Mexico).
5. Production or commercialization of tobacco.
6. Gambling, casinos, and other similar activities.
7. Manufacturing or sale of radioactive materials, except for the purchase of medical equipment, quality control equipment (measurement) and any other equipment for which it may be demonstrated that the radioactive source is either insignificant or shall be adequately covered.
8. Production, marketing or use of non-agglomerate asbestos.
9. Production or marketing of wooden products or other forest products without the corresponding plan for sustainable management.
10. Projects or forest operations in fragile or environmentally sensitive areas, that do not have a forest management plan and an approved Environmental permit.
11. Manufacturing or sale of products with Polychlorinated Biphenyls.
12. Production, commerce, storage, or transport of important volumes of dangerous chemical products that do not comply with Mexican regulations.
14. Production or commerce of pharmaceutical specialties subjected to phased withdrawal or international prohibition.


45 The Fundamental Principles and Rights at Work mean: i) freedom of association and trade union freedom and the effective recognition of the right to collective bargaining; ii) the prohibition of all forms of forced or compulsory labor; iii) the prohibition of child labor, including, but not limited to, the prohibition of persons under 18 years of age working in hazardous conditions (including construction activities), performing night work and being declared fit to work based on an examination doctor; and iv) the elimination of discrimination in employment and occupation, in which discrimination is defined as any difference, exclusion or preference based on race, color, sex, religion, political opinion or national or social origin. (International Labor Organization, http://www.ilo.org).

46 This restriction does not apply to companies for which operations or activities related to the criteria represent less than 30% of the company’s total annual revenues.

47 This restriction does not apply to project sponsors who do not have a substantial involvement in these activities. “Not having a substantial involvement” means that the activity in question is secondary to the main activities of the project sponsor.

48 This restriction does not apply to project sponsors who do not have a substantial involvement in these activities. “Not having a substantial involvement” means that the activity in question is secondary to the main activities of the project sponsor, e.g. for the tourism sector whose main activity is hospitality and among its secondary activities is the marketing of alcoholic beverages.

49 This restriction does not apply to the purchase or use of asbestos cement boards with an asbestos content of less than 20%.

50 Defined by the Basel Convention (http://www.basel.int).

51 Pharmaceuticals that are being phased out of the market or have been banned, according to the United Nations publication Banned Products. Consolidated list of products whose consumption or sale have been banned, withdrawn, severely restricted or not approved by governments (latest 2001 version: www.who.int/medicines/library/gsm/edm-gsm-2001_5.pdf).
15. Production or commerce of pesticides or herbicides subjected to phased withdrawal or international prohibition and Persistent Organic Pollutants (POP)\textsuperscript{52}

16. Production or commerce of those substance that damage the ozone subjected to phased withdrawal on an international level\textsuperscript{53}

17. Trammel fishing and drift-net fishing in the maritime environment with nets larger than 2.5 km

18. Productions or activities that may harm those lands property of indigenous populations or that may have been reclaimed by adjudication, without the documented full consent of said populations

19. Production or commercialization of products or activities considered to be illegal in accordance with local regulations or with international conventions or agreements, such as wild fauna or products regulated by the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES)\textsuperscript{54}

20. Projects that may implicate violations to local or international conventions or treaties about indigenous populations and native communities\textsuperscript{55}.

For the purposes of this framework, the financing of projects with activities based on fossil fuels is excluded.

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\textsuperscript{52} Defined in the International Convention on the Reduction and Elimination of Persistent Organic Pollutants (POPs; September 1999); currently includes the pesticides aldrin, chlordane, dieldrin, endrin, heptachlor, mirex and toxaphene, as well as the industrial chemical chlorobenzene (\url{www.pops.int}).

\textsuperscript{53} Ozone Depleting Substances (ODS) are chemical compounds that react with and deplete stratospheric ozone, resulting in the aforementioned “ozone holes”. The Montreal Protocol includes a list of these substances and target dates for their reduction and phase-out. Some of the chemicals regulated by the Montreal Protocol are aerosols, refrigerants, blowing agents, solvents, and fire protection agents (\url{https://ozone.unep.org/treaties/montreal-protocol/montreal-protocol-substances-deplete-ozone-layer}).

\textsuperscript{54} Convention on International Trade in Endangered Species of Wild Fauna and Flora. \url{https://www.cites.org/}

\textsuperscript{55} Supreme Court Judgment or Inter-American Court Judgment.
## ANNEX 3: Impact Indicators

### Table 10: Green Impact Indicators

<table>
<thead>
<tr>
<th>Eligible Green Category</th>
<th>Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Renewable Energy</strong></td>
<td>• Reduced/prevented GHG annual emissions in CO₂ equivalent tons/a&lt;br&gt; • Annual renewable energy generation in MWh/GWh (electricity) and GJ/TJ (other energies)&lt;br&gt; • Renewable energy installed capacity in MW</td>
</tr>
<tr>
<td><strong>Energy Efficiency</strong></td>
<td>• Annual energy savings in MWh/GWh (electricity) and GJ/TJ (other energy savings)/a&lt;br&gt; • Reduced/prevented GEI annual emissions in tons equivalent CO₂/b&lt;br&gt; • Number of persons benefitted</td>
</tr>
<tr>
<td><strong>Transport</strong></td>
<td>• Number of clean vehicles deployed (e.g., electric)&lt;br&gt; • Reduced/prevented GHG annual emissions in tCO₂-e per year&lt;br&gt; • Annual reduction of atmospheric contaminants: particles (PM), sulfur oxides (SOx), nitrogen oxides (NOx), carbon monoxide (CO), and non-methane volatile organic compounds (NMVOCs)&lt;br&gt; • Number of users served</td>
</tr>
<tr>
<td><strong>Sustainable management of solid waste</strong></td>
<td>• Annual renewable energy from the valorization of waste MWh/GWh&lt;br&gt; • Renewable energy installed capacity in MW</td>
</tr>
</tbody>
</table>
### Table 11: Social Impact Indicators

<table>
<thead>
<tr>
<th>Eligible Social Category</th>
<th>Indicators</th>
</tr>
</thead>
</table>
| **Improved access to essential services that include education, vocational training as well as financial services and financing for low-income communities and young entrepreneurs and students.** | • Total number of beneficiaries broken down by gender and age  
• Number of beneficiaries per program executed  
• Number of benefitted students and young people (under 35) |
| **Support for SMEs and programs designed to create jobs, prevent and/or alleviate unemployment caused by socioeconomic crisis or natural disasters.** | • Number of benefitted SMEs  
• Number of benefitted SMEs headed by women  
• Value of the credits granted to SMEs  
• Number of jobs created related to SMEs competitive programs |
| **Women’s empowerment and socioeconomic progress, including their equitable participation and integration into the market and society.** | • Number of benefitted women  
• Number of benefitted SMEs headed by women |