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## Second Party Opinion

# Grupo de Bursatilización Conjunta's Sustainable Framework

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**Location:** Mexico

**Sector:** Financial services

## Alignment With Principles

Aligned = ✓    Conceptually aligned = ○    Not aligned = ✗

- ✓ Social Bond Principles, ICMA, 2023
- ✓ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)
- ✓ Sustainability Bond Guidelines ICMA, 2021

See [Alignment Assessment](#) for more detail.

## Strengths

**Projects are in line with criteria and definitions from Mexico's Sustainable Taxonomy.** The group's framework alignment to the Mexican taxonomy provides additional eligibility criteria and thresholds for project eligibility, which provides more certainty around social and environmental risk mitigation.

## Weaknesses

**Participating financial institutions in the securitization group, Grupo de Bursatilización Conjunta (GBC), lack a defined sustainability strategy.** These entities are still in the beginning stages of developing a sustainability strategy and building internal capabilities in sustainability, including impact reporting and implementing an environmental and social risk management policy. While the group has developed a plan and timeline to align to sustainability best practices, group members are yet to build a record of effective execution and ensuring their project evaluation and selection process meets the commitments and eligibility criteria defined in GBC's sustainable framework.

## Areas to watch


**The framework's broad scope and numerous project categories create some uncertainty about specific future projects that will be financed under this framework.** Some project categories may include activities with environmental risks such as livestock production and fossil-fueled machinery use that may be exposed to lock-in greenhouse gas emissions.

**Eligible projects, which are mapped to the Mexican Sustainable Taxonomy, may allow financing of expenditures with indirect or unclear contribution to stated impact goals.** Specifically, some types of certifications, such as those considered for food safety, do not guarantee stand-alone environmental or social benefits, despite their thematic link.

## Eligible Green Projects Assessment Summary

Eligible projects under the issuer's green finance framework are assessed based on their environmental benefits and risks, using Shades of Green methodology.

### **Environmentally sustainable agriculture and livestock**

 **Medium to Light green**

Agriculture basic practices (organic fertilizers, soil conservation, minimal tillage, productive reconversion, etc.)


Advanced or transformative practices (restoration of degraded soils, eligible certifications, etc.)

Investment practices (drones, precision seeders, bioenergy biofuels, conservation tillage, etc.)

Animal husbandry and exploitation (animal welfare certification, organic certifications, etc.)

Additional criteria (environmental services, regeneration or conservation, protection of protected rural and ecological reserves, etc.)

### **Biodiversity conservation and forest management**

 **Medium green**

Projects that use land sustainably, such as ranging from sustainably managed forests with certifications

Practices such as soil remediation, conservation agriculture (minimum or direct tillage), integrated and accurate management of soil fertility and nitrogen, and controlled grazing


### **Efficient use of energy and renewable sources**

 **Dark to Medium green**

Projects that guarantee at least a 20% reduction in energy consumption


Projects aimed at producing equipment for and developing, manufacturing, constructing, operating, distributing, and maintaining renewable energy generation sources

### **Waste management and innovation for circular economy**

 **Medium green**

Developing technologies and processes aimed at improving waste co-processing, as well as implementing specialized equipment for waste collection, recovery, recycling, and treatment

### **Responsible use and consumption of water**

 **Medium to Light green**

Wastewater treatment plants: Facilities designed to treat industrial wastewater before it is released into the environment or reused, helping reduce pollution and protect aquatic ecosystems

Rainwater harvesting systems (rain nests): These systems collect and store rainwater for use in industry, reducing dependence on groundwater and surface water sources

Water efficiency systems for the processing industry

See [Analysis Of Eligible Projects](#) for more detail.

## Issuer Sustainability Context

This section provides an analysis of the issuer's sustainability management and the embeddedness of the financing framework within its overall strategy.

### Company Description

Grupo de Bursatilización Conjunta (GBC) is a financing vehicle for four nonbank financial institutions (NBFIs) in Mexico (Crédito Especializado al Campo, Proaktiva, Servicios y Financiamiento Agrícola, and Soluciones Financieras Internacionales.), created in 2024 to issue securitized debt obligations backed by a pool of loans originated by its NBFIs sponsors. Through this financing mechanism, the NBFIs are able to diversify their financing sources and access capital markets funding with better terms and in a cost-effective way. This enables them to improve their lending capacity to customers, mainly small and midsize enterprises (SMEs) in the agribusiness sector. The NBFIs provide loans, working capital credit lines, leasing, and factoring. GBC was conceived under sustainable securitization tenets to promote capital mobilization into projects with environmental and/or social impacts.

### Material Sustainability Factors

#### Climate Transition Risk

Financial institutions are highly exposed to climate transition risk through their financing of economic activities, which affect the environment. Agriculture, forestry, and other land use is responsible for 22% of global greenhouse gas (GHG) emissions according to the International Panel on Climate Change (IPCC)'s 6th Assessment report and is a major contributor to emissions of nitrous oxide (a potent GHG), with the bulk coming from deforestation, raising livestock, and soil management. Carbon taxes or other stricter policies on land use and changing consumer behavior pose regulatory and reputational risks. Agribusinesses are at the early stages of addressing emissions in the value chain by reducing emissions from production. Enhancing carbon capture and recycling waste for biofuels represent opportunities for the sector. Aquaculture and livestock feed supply chains may have substantial climate impacts, including deforestation and other land use change from production of soy, palm oil, and other plant-based ingredients. About half of Mexico's agriculture production is done by small-scale farmers. Adopting sustainability practices may represent an opportunity to attract new financing sources with both environmental and social benefits.

#### Physical Climate Risk

Physical climate risks will affect many economic activities as climate change will increase the frequency and severity of extreme weather events. Poor output--driven by volatile and more frequent and severe acute physical risks like drought, heatwaves, floods, and wildfires--are affecting crops, forests, and pose risks to livestock and supply of feed. Agricultural drought is almost twice as likely to occur now than before industrialization, according to the IPCC. The increasing frequency and severity of these events increase the likelihood of global shortages and/or inflated prices, alongside the potential for climate change to shift climate zones in many regions over time. Given Mexico's diverse geography, it is exposed to extreme weather events such as tropical cyclones and floods, as well as extreme temperatures and erratic rainfall that could potentially affect coastal and rural areas.

#### Biodiversity & Resource Use

Financial institutions contribute to significant resource use and biodiversity impact through the activities they fund or invest in. Current agricultural practices have increased food production in a cost-effective manner and enabled the industry to meet growing demand profitably despite reducing biodiversity and increasing land use. The overuse of some chemicals harms soil and water health and excessive land use harms biodiversity by expanding into spaces of natural habitat. This has a negative impact on a wide number of stakeholders, including people that depend on the natural ecosystems for their livelihoods. We see growing stakeholder pressure on farmers and their industrial customers to switch to more methods such as regenerative soil treatment

and no-tilling, and increasing the mix of organic crops. Poor biodiversity can also jeopardize the longevity of agribusiness through the long-run general health of nature.

## Water

Financial institutions with large agribusiness loan books are indirectly exposed to water-related risks through their lending activities. Agriculture is responsible for over 70% of global freshwater withdrawals, and agribusiness may face various water supply and quality challenges depending on location and operational water needs. Water supply and quality issues may result from multiple factors, including acute physical climate events such as droughts and floods, chronic physical climate risks (e.g., sea level rise and changing precipitation patterns), or degradation of the watershed near extraction points due to human intervention or pollution including excess nutrients from agricultural runoff. This may escalate stakeholder conflicts driven by competing demands for limited water resources.

## Access and Affordability

Financial institutions' large impact on society and the economy stems from their role in enabling access to financial services to individuals and businesses. In most countries, unbanked and underserved population segments are still meaningful, although the access gap is most acute in emerging economies. Market imperfections such as low competition, incomplete information, and lack of financial literacy often result in costly alternatives for small businesses and low-income people, so ensuring affordable access to financial services, especially to the most vulnerable population, remains a challenge for the banking industry. While structural issues such as poverty, informality, and lack of financial literacy partly limit access to financial services, banks have large opportunities to support economic development through financial inclusion. According to data from the Mexican 2022 Agricultural Census, only 5.9% of Agricultural Production Units (UPA) had access to formal loans.

## Issuer And Context Analysis

**All project categories address some of GBC's material sustainability factors.** All eligible categories aim to address climate transition risk and physical climate risk, which are particularly relevant given the group's participation in financing the agriculture sector. In addition, SME lending seeks to contribute to access and affordability and the economic empowerment of target populations and their communities. While some of the projects could potentially have some environmental risks, such as emissions lock-in from fossil-fueled machinery, we think alignment to the eligibility criteria of the Mexican Sustainable Taxonomy (MST) could help mitigate these risks and provide positive environmental benefits.

**All bonds financed through the framework will improve access to financing for GBC's members, allowing them to provide more financing to SMEs, primarily in the agriculture sector.**

All of GBC's members (Crédito Especializado al Campo, Servicios y Financiamiento Agrícola, and Soluciones Financieras Internacionales) focus on offering financial services to entities in the agriculture sector in Mexico. In addition, the companies focus on SME lending, which is especially important for local economic development in Mexico given their job creation potential, especially in the context of the country's large informal sector. We believe funding under the framework will allow GBC's entities to expand their presence and financing capacity in their areas of operation and help promote economic development in rural and semiurban locations.

**GBC entities' sustainability strategy is nascent and still lacks relevant policies around water and biodiversity, which we deem as material given the main sectors that they finance.**

In 2024, the four entities were assessed on their internal processes. As a result, they plan to develop their first impact report that will allow them to evaluate next steps. Their sustainability strategy aims to incorporate external and internal pillars that will help each entity integrate sustainable products, as well as develop and implement environmental and social risk policies (ESRP). However, the lack of established policies and track record limits our view on how effective the entities will be at implementing the strategy.

# Alignment Assessment

This section provides an analysis of the framework's alignment to the Social and Green Bond/Loan principles and the Sustainability Bond Guidelines.

## Alignment With Principles

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- ✓ Social Bond Principles, ICMA, 2023
- ✓ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)
- ✓ Sustainability Bond Guidelines ICMA, 2021

### ✓ Use of proceeds

We assess all the framework's green project categories as having a green shade and consider all social project categories to be aligned. The issuer commits to allocate the net proceeds issued under the framework exclusively to eligible green and social projects. The maximum look-back period for refinanced projects is 12 months, in line with market practice. Please refer to the Analysis of Eligible Projects section for more information on our analysis of the environmental and social benefits of the expected use of proceeds.

### ✓ Process for project evaluation and selection

The issuer has established a sustainable bond committee, comprising representatives from each member entity from the commercial, analysis, risk, portfolio management, and management business functions. The sustainable bond committee will ensure that the projects in each segment meet the eligibility criteria and that the impact indicators of each eligible project are integrated. Furthermore, the issuer has outlined an exclusionary list that makes sure that no activities related to fossil fuels, gambling, tobacco, etc., can be financed under the framework. Finally, the framework defines a hierarchy for the eligible projects that helps align projects under the eligibility criteria and allows for consistent categorization and labeling of projects, with environmental and gender-focused definitions at the top of the hierarchy.

### ✓ Management of proceeds

GBC and its entities will assign a master administrator to maintain a register to track the allocation of proceeds. The company intends to allocate an amount equal to the net proceeds within two years from the date of each issuance. Annually, the master administrator will review the eligibility of projects and reallocate proceeds within six months if any projects fail to meet eligibility criteria or exclusion criteria. Unallocated proceeds will be managed in accordance with each member entity's liquidity portfolio--invested in cash, cash equivalents, and/or other liquid instruments.

### ✓ Reporting

GBC commits to publish an annual report or a report in the event of material changes until the maturity of the instruments issued under the framework. The report will include the allocation of net proceeds, financial and impact indicators, and the remaining balance of unallocated proceeds. The report will be published on each member's webpage.

# Analysis Of Eligible Projects


This section provides details of our analysis of eligible projects, based on their environmental benefits and risks, using the "[Analytical Approach: Shades Of Green Assessments](#)," as well as our analysis of eligible projects considered to have clear social benefits and to address or mitigate a key social issue.

Over the two years following issuance of the financing, GBC expects to allocate up to 25% of proceeds to refinancing projects that were originated up to 12 months before instrument's issuance, and direct 75% of proceeds to financing new projects.

## Green project categories

### Environmentally sustainable agriculture and livestock

#### Assessment

 **Medium to Light green**

#### Description

Projects that align with the agriculture and livestock sectors of the MST, including development, installation, manufacturing, construction, renovation, operation, and maintenance in the following areas:

#### Agriculture:

Basic practices:

- Crop rotation (improves soil quality and increases productivity)
- Integration of cover crops.
- Conservation of fragments and linear corridors of native vegetation and promotion of diversified and multi-layer living fences.
- Soil analysis for optimal fertilizer use (reduces costs).
- Planning in fertilizer application.
- Substituting synthetic fertilizers for organic fertilizers or bio-inputs.
- Carrying out soil conservation works (terraces, gabion dams, contour lines, soil drainage).
- Incorporating organic matter into the soil (crop residues, compost, etc.).
- Integration of agroforestry system, polyculture, or associated crops into permanent crops.
- Minimal or reduced tillage application.
- Productive reconversion (transforming underutilized or degraded land into productive, sustainable agricultural land).
- Reduced burning of crop residues or plant parts to facilitate harvesting.
- Increasing tree species (native or non-invasive) in the plots.

#### Advanced or transformative practices:

- Installing agricultural facilities with recycled materials.
- Restoration of degraded soils. These projects must comply with the standards and criteria established by the MST to ensure their viability and environmental sustainability.
- Certifications or distinctions of sustainable production. For example: Primus GFS, Global Gap, organic, USDA, SENASICA, Rainforest Alliance, RSPO, (HACCP), BRC, ISO 14001, ISEAL ALLIANCE, or others that guarantee greenhouse gas mitigation.

Investment practices and concepts to which the resources mentioned in the MST are allocated and taken into account in the framework are:

- Drones for agricultural use
- Precision seeders
- Machinery and accessories that facilitate minimum tillage and conservation
- Machinery and accessories that provide alternatives to burning waste
- Macrotunnels
- Greenhouses (as long as the material is recyclable)
- Production of bioenergy biofuels, including biofuel production machinery and equipment such as biodigesters
- Protected agriculture: Greenhouses Shade nets Aquaponics
- Efficient motors
- Efficient pumping systems
- Cooling system modernization
- Establishment of forest plantations
- Maintenance of forest plantations
- Living fences
- Conservation tillage
- Agrosilvopastoral systems (which integrate forestry, livestock, and crop production on the same land)
- Silvopastoral systems (which integrate forestry and livestock production on the same land)
- Agrosilvicultural systems (which integrate forestry and crop production on the same land)
- Shade production
- Acquisition of equipment and expansion and optimization of agricultural irrigation systems: Drip irrigation: manual or automated sprinkler irrigation hydroponics

#### **Animal husbandry and exploitation:**

Animal husbandry and exploitation projects mentioned in the MST that comply with at least one of the following elements, including but not limited to:

- Animal welfare certifications for activities or farms that have a specialized nature or a low-carbon storage capacity, such as enclosures, feeders, stalls, or farms. Some of the relevant certifications include Humane Farm Animal Care, RSPCA Assured, Animal Welfare Approved by A Greener World, Beter Leven Levels 2 and 3, G.A.P Levels 4 and 5, and FARM. In addition, certifications for power systems such as RSB, RTRS, ISCC Plus, Proterra; or any practice that reduces or compensates methane by 20% compared to a previously verified baseline.
- National and international seals and/or other relevant certifications, including Organic Mexico (SADER), Agroecological Certificate Conservation Soil (Mexico City), Collective Seal Sustainability in Calakmul, products of Areas Voluntarily Destined for Conservation (CONANP) or Private Areas of Conservation.
- Reporting information to the National Livestock Registry of the SADER.
- Monitoring information and improving national statistics on the livestock sector in Mexico.

#### **Additional (and optional) criteria for agricultural and livestock projects:**

- Make payments for environmental services (CONAFOR).
- Dedicate or allocate a percentage of the property for regeneration or conservation.
- Promote and protect rural and ecological reserves and areas voluntarily destined for conservation as part of a landscape management strategy that contributes significantly to the sustainability of agricultural and livestock activities.

**Analytical considerations**

- Agriculture-related projects tackle both climate change mitigation and adaptation in the global food production systems. These projects aim to improve farming practices while incorporating environmental considerations. Sustainable farming practices can help mitigate greenhouse gas emissions and promote positive environmental effects. According to data from the United Nations' Environmental Programme, agriculture is the second biggest source of greenhouse gas emissions in Mexico (15.5%). We think these projects will contribute to reducing emissions in line with the country's Nationally Determined Contributions (NDC) targets.
- While some of the eligible projects lack a clear sustainability benefit on their own, GBC intends to follow the MST eligibility criteria and processes, which include identifying a clear main parameter, providing a substantial environmental contribution, doing no significant harm (DNSH), and other minimum criteria. We consider this alignment to the MST to be in line with local best practices and providing reassurance that eligible projects aim to mitigate environmental risks and/or have a positive impact on agricultural practices. Eligible projects must comply with the selection criteria of eligible crops under the MST and incorporate a transition plan that includes at least two improvement practices, such as the ones listed under the above eligible project categories. The wide range of possible projects and resulting uncertainty about the environmental benefit of the overall category limits our opinion, but the safeguards in the MST provide some certainty, so we assign the category a Medium to light green shade.
- While we do not see a direct environmental benefit for animal welfare certifications, BRC and HACCP certifications focus on food safety. Eligible projects also include reporting information for the National Livestock Registry of the Agriculture and Rural Development Secretary (SADER) and the tracking that information. Given the requirements of the MST, we think these projects will promote practices beyond business-as-usual in Mexico.
- Eligible projects include the use of agricultural machinery or irrigation systems. While these projects may present emissions lock-in risks from the use of fossil fuels, we see a clear environmental benefit from practices such as minimal and conservation tillage, which can promote more sustainable practices and biodiversity. In addition, we view alignment with the MST's DNSH as an effective mitigant for environmental risks. In Mexico, zero-emission machinery for the agricultural sector is scarce, as is the required infrastructure to enable the availability and use of such machines. For these reasons, we assign these projects a Light green shade.
- GBC will follow the MST's criteria for bioenergy, which establishes minimum criteria for greenhouse gas emissions (below 100 grams of carbon dioxide equivalent per kilowatt hour [gCO2e/kWh]), aligned with ISO 14067, an international standard that defines quantification and reporting of a product's carbon footprint. Projects should also have biogas emission control and tracing plans in place. In addition, biomass sourcing must come from residual biomass--defined as waste biomass from the agricultural, forestry, urban, industrial, and livestock sectors--following the Biomass National Atlas definitions.
- In our view, the framework's eligibility criteria will help mitigate some of the environmental risk related to projects that involve water use and waste management. The MST's DNSH criteria considers water use, adaptation measures, biodiversity protection, pollution prevention, and the circular economy, which are in line with industry best practices.

**Biodiversity conservation and forest management**

**Assessment**

 **Medium green**

**Description**

Projects that make sustainable use of land:

- Sustainably managed forests with certifications such as Forest Stewardship Council (FSC), Programme for the Recognition of Forest Certification (PEFC), CONAFOR's preventive technical audit, or NMX-AA-143-SCFI-2015.
- Practices such as soil remediation, conservation agriculture (minimum or direct tillage), integrated and precise management of soil fertility and nitrogen, and controlled grazing.

**Analytical considerations**



- Sustainable management of land is a key piece in managing greenhouse gas emissions and adaptation to climate change. The benefits of growing forests for wood production are twofold: in the growing phase, forests absorb carbon dioxide, and when used for sustainable materials, the carbon dioxide is stored and often replaces fossil fuel-intensive processes. In addition, conservation of biodiversity, natural ecosystems, and habitats can have substantial co-benefits for climate change mitigation and adaptation because ecosystems can provide carbon sequestration, local climate regulation, soil stabilization, and storm surge protection.
- Eligible projects related to financing sustainable forest management will follow FSC or PEFC certifications. The FSC certification focuses on sustainable forest management, while the PEFC one has a larger emphasis on the supply chain. At the same time, certification systems vary significantly in stringency, can contain loopholes, and in many cases cannot adequately address larger systemic issues. That said, implementing internationally recognized certifications is an effective way to ensure that a wide range of environmental risks is managed for each project. For these reasons, we assign this category a shade of Medium green.
- In our view, eligible projects will help protect forests in Mexico. According to data from the National Forestry and Soil Inventory, 70.6% of Mexican territory is covered by some kind of forestry vegetation and is capable of capturing 188.3 million tons of carbon dioxide annually (25% of total national emissions). However, the country has faced significant loss of trees and forests. According to data from Global Forest Watch, from 2002 to 2023, Mexico decreased its humid primary forest by 8.5%.
- While some of the certifications, like the NMX-AA-143-SCFI-2015, allow for land conversion, both the certification and the MST offer safeguards, criteria, and processes that help mitigate environmental risks from these activities. These include financial and social viability assessment and exclusions for forests that are habitats for species under Mexico's NOM-059-SEMARNAT-2010 norm, forests with high biological diversity, and areas with high social and cultural value.
- Like the other project categories, eligibility criteria will follow those defined by the MST.

### Energy efficiency and renewable energy

#### Assessment

 Dark to Medium green

#### Description

##### Energy efficiency:

Projects that guarantee at least a 20% reduction in energy consumption, including projects that:

- Develop or implement products or technologies that reduce the energy consumption of assets, products, technologies, or systems.
- Include advanced cooling systems, improved lighting technology, and reduced electricity use in manufacturing processes.
- Optimize efficiency in energy services, including central heating and cooling systems, smart grids, energy recovery technologies, as well as energy storage, transmission, and distribution processes that minimize energy losses.
- Manufacture components that facilitate energy efficiency, such as LED lights, fuel cells, and meters for smart grids.

The MST provides a list of examples:

- Cogeneration power equipment
- LED lighting
- Efficient boilers
- Efficient motors
- Efficient pumping systems
- Cooling system modernization
- Power cogeneration equipment

##### Renewable energy:

- Projects produce equipment for and develop, manufacture, construct, operate, distribute, and maintain renewable energy generation sources. Examples include solar power equipment, solar energy heaters, wind generators, geothermal power

generation equipment, renewable bioenergy installations, solar thermal systems, and photovoltaic systems.

### Analytical considerations

- Renewable energy--including solar, wind, and geothermal--is a key element in the transition to a low-carbon economy if effects on local biodiversity are carefully managed. Considering that, we assign these projects a Dark green shade.
- Bioenergy can have climate-mitigation benefits and contribute to the circular economy, but its climate risks and impacts depend on multiple factors such as feedstock, fugitive emissions, and transportation distances and mode. Project should also have a biogas emission control and tracing plan. In addition, biomass sourcing must come from residual biomass following the Biomass National Atlas definitions. GBC will also comply with eligibility criteria that limits project emissions from electricity generated to be 100 gCO<sub>2</sub>e, in line with global best practices.
- We assign energy efficiency projects a Medium green shade. We see positively that the issuer commits to a quantitative threshold of at least 20% energy efficiency improvement. These projects also help mitigate climate change by reducing energy use and therefore scope 2 greenhouse gas emissions.
- Like the other project categories, eligibility criteria will follow those defined under the MST.

### Waste management and innovation for the circular economy

#### Assessment

 Medium green

#### Description

Waste management and innovation projects mentioned in the MST and that meet the MST's minimum criteria to determine if is the project is considered sustainable.


These projects include the development of technologies and processes aimed at improving waste co-processing, as well as the implementation of specialized equipment for the collection, recovery, recycling, and treatment of waste. For example, this includes biodigesters for pig farms, which use organic waste to produce energy. In addition, agriculture and livestock-related projects that promote the reuse and recycling of resources are considered, creating more sustainable and closed production systems

### Analytical considerations

- Waste management projects are key pollution prevention measures and help avoid harm to human health and local ecosystems. Recycling and reuse programs can reduce greenhouse gas emissions and energy and the use of natural resources. They also lower greenhouse gas emissions throughout the value chain--recycling avoids carbon emissions that usually result from the use of virgin materials to make new products and emissions from landfilled waste.
- Biodigesters help manage organic waste, reduce landfill use, and promote a renewable energy source that could be used for electricity generation, heating, or fuel for vehicles. The development of landfill gas capture for energy generation from decommissioned landfills helps prevent harmful, unabated methane emissions during waste decomposition, but still generates carbon dioxide emissions.
- In our opinion, the eligible projects' alignment to MST's criteria helps mitigate the projects' main environmental risks and aligns them with local best practices. The criteria incorporate considerations for waste sourcing, equipment characteristics, waste hierarchy requirements, and greenhouse gas emissions. For these reasons, we assign a shade of Medium green.
- According to data from USAID, Mexico is the second-largest greenhouse gas emitter in Latin America and the Caribbean. The agriculture and livestock sectors account for 14% of emissions. Projects that help manage waste from this sector will reduce emissions and contribute to developing a circular economy in the country.
- Like the other project categories, eligibility criteria will follow those defined by the MST.

### Responsible water use and consumption

**Assessment**

 **Medium to Light green**

**Description**







Projects that involve efficient and responsible water management, such as:

- Wastewater treatment plants: Facilities designed to treat industrial wastewater before its release into the environment or its reuse, reducing pollution and protecting aquatic ecosystems.
- Rainwater harvesting systems (rain nests): These systems collect and store rainwater for use in industries, reducing dependence on groundwater and surface water sources.
- Water efficiency systems for the transformation of the wastewater industry:
  - Consumption reduction technologies: Including equipment and processes designed to use less water. For example, recirculation technologies that allow water to be reused in several production cycles before needing treatment or discharge.
  - Graywater reuse: Systems that treat and reuse wastewater from industrial processes for less demanding uses within the same plant, such as cooling, irrigating green areas, or in cooling towers.
  - Process optimization: Adjustments to production procedures to minimize the need for fresh water. This may include modifying process times, reconfiguring equipment to improve water efficiency, or adopting dry process technologies where possible.
  - Monitoring and management: Using sensors and automated control systems to monitor and regulate water use in real time. This helps identify leaks, reduce waste, and ensure that water is used efficiently.

**Analytical considerations**

- Financing activities for wastewater treatment plants can result in environmental benefits in terms of water consumption and water security and are necessary for to achieve the objectives of the Paris Agreement. These projects can also help mitigate pollution in water systems and allow for more efficient water use for various industries. The projects help improve water quality in line with selection criteria determined by the MST, which incorporates considerations for structural leaks and emissions, which we view as in line with a Dark green shade.
- Water treatment plants' minimum criteria includes a median energy use for extraction and purification below 0.5 kilowatt hours per square meter (kwh/m3), a structural leakage threshold equal to or below of 1.5 per m3 according to a leakage index, and below 100 CO2e/KWh for desalination plants. However, the framework doesn't consider energy sourcing, which could allow use of fossil fuel energy and its potential emissions lock-in.
- Investments made in rainwater harvesting systems, process optimization, and monitoring and management projects can help industries better manage and use water. These systems can mitigate the need to use water from freshwater bodies and help create reliable supplies for water availability during drought.
- Projects that promote efficient water use--such as consumption reduction technologies, automated control systems, and recirculation technologies--help reduce use of fresh water and overall water use for industries, which we view as in line with a Light green shade. However, due to the range of shades on the category's eligible projects and uncertainty around the future allocation of proceeds, we assign the category a shade of Medium to light green.
- Projects in this category are particularly relevant for industries in Mexico, where most states will face high exposure to water-related stress by 2050, which could lead to decreased economic growth. According to CONAGUA (the national water commission), nearly two-thirds of the country's land area is arid or semiarid, and water scarcity is becoming an increasingly urgent issue, especially in the Northern and Bajío regions (See "More Mexican States Could Face Water Stress by 2050," published April 4, 2023). In addition, the country is highly exposed to extreme weather events relates to the El Niño and La Niña climate patterns.

S&P Global Ratings' Shades of Green

Assessments					
Dark green	Medium green	Light green	Yellow	Orange	Red
<b>Description</b>					
Activities that correspond to the long-term vision of an LCCR future.	Activities that represent significant steps toward an LCCR future but will require further improvements to be long-term LCCR solutions.	Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term LCCR solutions.	Activities that do not have a material impact on the transition to an LCCR future, or, Activities that have some potential inconsistency with the transition to an LCCR future, albeit tempered by existing transition measures.	Activities that are not currently consistent with the transition to an LCCR future. These include activities with moderate potential for emissions lock-in and risk of stranded assets.	Activities that are inconsistent with, and likely to impede, the transition required to achieve the long-term LCCR future. These activities have the highest emissions intensity, with the most potential for emissions lock-in and risk of stranded assets.
<b>Example projects</b>					
 Solar power plants	 Energy efficient buildings	 Hybrid road vehicles	 Health care services	 Conventional steel production	 New oil exploration

Note: For us to consider use of proceeds aligned with ICMA Principles for a green project, we require project categories directly funded by the financing to be assigned one of the three green Shades.

LCCR--Low-carbon climate resilient. An LCCR future is a future aligned with the Paris Agreement; where the global average temperature increase is held below 2 degrees Celsius (2 C), with efforts to limit it to 1.5 C, above pre-industrial levels, while building resilience to the adverse impact of climate change and achieving sustainable outcomes across both climate and non-climate environmental objectives. Long term and near term--For the purpose of this analysis, we consider the long term to be beyond the middle of the 21st century and the near term to be within the next decade. Emissions lock-in--Where an activity delays or prevents the transition to low-carbon alternatives by perpetuating assets or processes (often fossil fuel use and its corresponding greenhouse gas emissions) that are not aligned with, or cannot adapt to, an LCCR future. Stranded assets--Assets that have suffered from unanticipated or premature write-downs, devaluations, or conversion to liabilities (as defined by the University of Oxford).

## Social project categories

### Women-owned SMEs

The framework considers a business women-owned if it meets the following criteria:

- At least 51% owned by women; or
- At least 20% owned by women; and
  - has at least one woman as CEO/COO/President/Vice President; and
  - has at least 30% of the board of directors made up of women, where there is a board of directors.

### Analytical considerations

- GBC clearly defines the eligibility criteria for women-owned SMEs using annual sales based on investment units (UDIS) as defined by Fideicomisos Instituidos en Relación con la Agricultura (FIRA), an agricultural trust fund managed by Mexico's government, as a starting point. In addition, it uses the IFC's definition for the target population, which we view positively.
- Projects related to providing financial services to women help mitigate access gaps and encourage economic inclusion. According to data from the Entrepreneur Association of Mexico in its 2023 report on women entrepreneurs, the highest gap between men and women lies in access to credit lines and bank loans. Only 24.2% of women entrepreneurs have access to financing through banking institutions compared to 33.3% of male entrepreneurs.
- GBC also considers the number of jobs in women-led businesses, which we view positively, since it gives more clarity about the positive impact projects could have on communities and the possible improvement in these enterprises with the services granted through the bond's proceeds.
- While we consider the positive social benefits from this project category, the framework lacks additional considerations that could help mitigate social risks related to high debt levels, unconscious biases, and lack of financial education, which are some of the main restrictions for women to access financial services.

### Financial inclusion

Initiatives that promote access to resources and opportunities by

- Granting credit for productive projects of companies that have not received institutional financing and whose business does not correspond to any of the exclusion lists.
- Facilitate access to credit in rural communities with less than 50,000 inhabitants to boost labor and economic growth or that are on the list of rural cities with high and very high marginalization, as defined by Mexican regulation.
- Granting the first institutional loans for projects in rural communities or municipalities.

### Analytical considerations

- Similar to other social projects under the framework, the main criteria to define eligibility of SMEs is based on annual income. In addition, the eligible projects are aimed at entities that have not been granted financing through formal institutions, and that are in marginalized rural communities, according to the definitions of FIRA and Mexico's General Law For Social Development. According to Mexican regulation, eligible marginalized communities are assessed based on different criteria like their income, average educational level, access to health services, and housing quality, among others.
- Eligible projects in the category aim to contribute to the financial inclusion of people in the abovementioned communities in Mexico, in line with the group's business practices and its alignment with the MST and the United Nation's Sustainable Development Goals.
- We think the group's efforts to target specific SMEs could boost their financial inclusion and economic development. According to data from the U.N.'s Development Programme, poverty levels in Mexico are higher in rural communities (55.9%) compared to urban ones (38.1%).

## **SMEs**

SMEs that according to the FIRA classifications meet the criteria to be considered as SMEs according to their turnover in UDIS and that aren't included in the previous categories.

Projects that generate new jobs, use resources in productive projects that allow growth and/or increase in sales and/or expand the business.







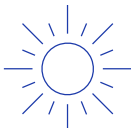




### **Analytical considerations**

- Like other social projects under the framework, eligibility criteria will be based on annual income of SMEs. In addition, the framework has a hierarchy for social categories that classifies the projects.
- Support and promotion for SMEs boosts employment and economic development for communities since these are the main sources of employment for many people in the region. According to data from the National Institute of Geography and Statistics (INEGI), there are over 4.9 million SMEs in Mexico, which provide over 79% of jobs. In addition, 54% of Mexican companies had not applied to any financing mainly due to high interest rates, complicated procedures, and requirements. Members of GBC have processes in place to provide additional aid for customers to guarantee their ability to pay.
- We view positively that the framework includes an exclusion list and a clear commitment to exclude sectors and projects on that list, even when these comply with local regulation but pose significant social or environmental risk.

# Mapping To The U.N.'s Sustainable Development Goals

Where the Financing documentation references the Sustainable Development Goals (SDGs), we consider which SDGs it contributes to. We compare the activities funded by the Financing to the International Capital Markets Association (ICMA) SDG mapping and outline the intended linkages within our SPO analysis. Our assessment of SDG mapping does not impact our alignment opinion.

This framework intends to contribute to the following SDGs:

Use of proceeds	SDGs			
Environmentally sustainable agriculture and livestock				
	<b>2. Zero hunger*</b>	<b>6. Clean water and sanitation</b>	<b>13. Climate action</b>	<b>15. Life on land*</b>
Biodiversity conservation and forest management				
	<b>13. Climate action</b>	<b>15. Life on land*</b>		
Efficient use of energy and renewable sources				
	<b>7. Affordable and clean energy*</b>	<b>9. Industry, innovation and infrastructure*</b>	<b>13. Climate action</b>	
Waste management and innovation for circular economy				
	<b>9. Industry, innovation and infrastructure</b>	<b>12. Responsible consumption and production*</b>		

Responsible water use and consumption

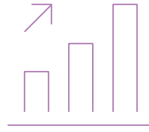


**6. Clean water and sanitation\***

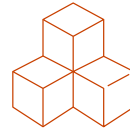
Women-owned SMEs



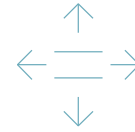
**5. Gender equality**



**8. Decent work and economic growth\***



**9. Industry, innovation and infrastructure\***



**10. Reduced inequalities**

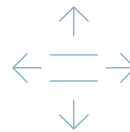
Financial inclusion



**8. Decent work and economic growth\***



**9. Industry, innovation and infrastructure\***



**10. Reduced inequalities\***

SMEs



**8. Decent work and economic growth\***



**9. Industry, innovation and infrastructure\***

\*The eligible project categories link to these SDGs in the ICMA mapping.



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## Second Party Opinion: Grupo de Bursatilización Conjunta's Sustainable Framework

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