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Second Party Opinion

**Corporación Financiera de Desarrollo S.A.'s Thematic Bond Framework**

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**Location:** Peru

**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

**Corporacion Financiera de Desarrollo S.A. (COFIDE) has implemented internationally recognized standards as eligibility criteria for many of its project categories.** COFIDE has committed to several international best practices in its screening criteria, many of which go beyond current jurisdiction requirements.

**COFIDE's role as a development bank supports financing sustainable activities.** As part of Peru's 2050 Vision, the government has established its strategic development plan for the country's economic development, in which sustainable management of nature, measures against climate change, and inclusive economy were also taken into consideration. In this context, COFIDE is an important government arm in facilitating funding to sustainable projects in the country.

**For the sustainable waste management category, eligible waste collection vehicles also follow the low-carbon transport criteria.** Considering only green transportation across the value chain of eligible project categories is not common for banks.

Weaknesses

No weakness to report.

Areas to watch

**COFIDE is still developing its climate risk strategy.** Banks face challenges to better understand their exposure to physical climate risks, which are relevant to several eligible projects categories.

**The Framework includes land-use sectors such as agriculture and bioenergy.** There may be inherent risks of deforestation and other adverse impacts on biodiversity and ecosystems from the underlying projects. Nonetheless, COFIDE requires internationally recognized sustainability certifications for agricultural practices and includes a zero deforestation commitment.

**COFIDE could have less control over the social risks of its small and midsize enterprise (SME) lending given its second-floor oriented business.** Still, the bank ensures that its intermediaries align with applicable environmental and social regulation. In addition, COFIDE evaluates financial intermediaries under its environmental and social risk policy.

**Under sustainable fishery and aquaculture, eligible projects may include fossil fuel-powered equipment and machinery.** In our

		<p>view, this may increase the lock-in risk associated with these types of projects.</p>
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### Eligible Green Projects Assessment Summary

Eligible projects under COFIDE's Thematic Bond Framework are assessed based on their environmental benefits and risks, using Shades of Green methodology.

<p><b>Green buildings</b></p>	<p> <b>Medium green</b></p>
<p>Modernization of buildings with a minimum of 20% energy savings, demonstrated through LEED Gold or superior, EDGE and Mi Vivienda Verde certifications and costs associated with modernization of existing buildings to improve the current level of certification to achieve one of the certification standards recognized by this Framework within three years.</p>	
<p><b>Renewable energy</b></p>	<p> <b>Dark green</b></p>
<p>Construction, operation, and maintenance of non-fossil renewable energy source projects.</p>	
<p>Transmission infrastructure fully dedicated to support the electric power generation systems recognized as eligible.</p>	
<p>Investments in solar and/or projects that integrate energy generation and storage.</p>	
<p><b>Energy efficiency</b></p>	<p> <b>Medium green</b></p>
<p>Loans and investments for the improvement of energy efficiency in buildings, houses, and businesses, including improvements in lighting, e.g., replacement with LED technology or new technologies.</p>	
<p>Loans and investments for the improvement of energy efficiency in buildings, houses, and businesses, including energy efficiency investments in buildings, houses, and/or businesses that result in savings of more than 20%; this includes (but is not limited to) retrofitting, thermal insulation, and/or air conditioning system upgrades.</p>	
<p><b>Low-carbon transport</b></p>	<p> <b>Medium to Light green</b></p>

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Construction, operation, and maintenance of transportation projects without direct emissions (metro lines, electric buses, trams, trains, bike paths charging infrastructure, hybrid vehicles, electric vehicles).

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Construction, operation, and maintenance of clean transportation infrastructure, including infrastructure needed for clean transportation, e.g., electric charging points, grid connection upgrades.

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Construction, operation, and maintenance of clean transportation infrastructure, including infrastructure and equipment (including fleets) for active mobility (walking, cycling, electric bikes and electric scooters).

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Construction, operation, and maintenance of clean transportation infrastructure, including infrastructure mainly used for low carbon emission transportation.

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**Natural resources, land use, and marine-protected areas**

 **Dark green**

Sustainable forest management: Commercial management of forests in a sustainable manner for wood production.

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Conservation and restoration programs for native and exotic forests.

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Management and maintenance of national parks and conservation areas.

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Protection and restoration of terrestrial and freshwater ecosystems, biodiversity, habitats, and soil and soil services.

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Aquiculture activity by Marine Stewardship Council (MSC) or Aquaculture Stewardship Council (ASC).

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Infrastructure supporting, and linked to, the forest sector supply chain and initial wood processing of projects eligible under this Framework.

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**Sustainable agriculture**

 **Light green**

Agricultural inputs, including seeds for eligible agricultural practices.

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Establishment or continued operation of agricultural production units with agroforestry and/or silvopastoral systems with eligible certifications.

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Monitoring activities, management associated with information systems, and other technologies (software).

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Drip irrigation systems.

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Water-efficient irrigation systems.

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**Sustainable waste management**

 **Medium to Light green**

Construction, operation, and maintenance of non-hazardous waste collection, sorting, selection, and disposal facilities to prepare them for reuse and/or recycling.

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Acquisition, operation, and/or maintenance of waste collection vehicles, if they meet the low-carbon transportation criteria defined in this Framework.

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Green/garden yard waste processing facilities to produce compost for use in agricultural, municipal, or consumer fields with an Environmental Management Instrument, if applicable.

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Projects to capture biogas from closed landfill facilities.

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**Efficient and resilient water and wastewater management**

  **Dark to Medium green**

Infrastructure and systems to improve the efficient and sustainable management of water and wastewater in accordance with the requirements and objectives of the National Strategy for the Improvement of the Quality of Water.

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Wastewater management: Installation or improvement of wastewater treatment infrastructure; including conveyance, treatment, and disposal systems.

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Conservation of water resources, including protection of water catchment areas and prevention of pollution affecting water supply.

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River flood defense systems, including the construction of reservoirs for the control of water flows.

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Monitoring systems, including smart grids, drought early warning systems, flood early warning systems, and water quality monitoring processes.

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**Sustainable fishing and aquaculture**

 **Medium green**

Artisanal fisheries and fish farms.

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Machinery and equipment for managing and harvesting in fish farms and fisheries, e.g. fishing vessels in relation to MSC or ASC certifications.

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Onshore and offshore fish processing and storage facilities and fish supply chain in relation to MSC or ASC certification.

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Information systems and other technologies.

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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

Founded in 1971, COFIDE is a government-owned development bank in Peru. The Fondo Nacional de Financiamiento de la Actividad Empresarial del Estado owns 99.4% of the bank, Corporación Andina de Fomento (0.5%), and the rest is under COFIDE's treasury management. COFIDE acts as a financial intermediary to execute the Peruvian government's economic and social development strategy. This is done by providing financing and technical assistance to micro, small, and midsize enterprises (MSMEs) through intermediaries, direct financing for productive sectors and infrastructure projects (15% of loan portfolio), and acting as a fiduciary agent, managing several government trusts.

### Material Sustainability Factors

#### Climate Transition Risk

Banks are highly exposed to climate transition risk through their financing of economic activities, which impact the environment. Banks' direct environmental impact is small compared to financed emissions and stems mainly from power consumption (e.g. data centers). Policies and rules to reduce emissions could raise credit, legal, and reputational risks for banks with large exposures to high-emitting sectors, such as oil and gas, metals and mining, real estate or transportation. These medium- to long-term risks are significant and will be proportional to the impact of climate change on the economy. Positively, financing the climate transition offers a growth avenue for banks through lending, debt structuring, and other capital markets activities.

#### Physical Climate Risk

Physical climate risks will affect many economic activities as climate change will increase the frequency and severity of extreme weather events. Banks finance a wide array of business sectors that are exposed to physical climate risks, exposing banks to through their financing activities. However, while climate change is a global issue, weather-related events are typically localized, so the magnitude of banks' exposure is linked to the geographical location of the activities and assets they finance. Banks may contribute to mitigate the effects of physical climate risks by financing adaptation projects and climate-resilient infrastructure, as well as by investing in solutions that support business continuity in exposed geographies.

#### Access & Affordability

Banks' large impact on society and the economy stems from their role in enabling access to financial services to individuals and businesses, and in ensuring the correct functioning of payments systems, which are cornerstones of economic development and stability. 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. New technologies will, however, increasingly enable banks to close this gap through cost efficiencies and product innovation. 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. One of the bank's main business areas is financing of MSMEs in Peru, which are particularly vulnerable to financial risks.

#### Biodiversity & Resource Use

Banks contribute to significant resource use and biodiversity impact through the activities they fund or invest in. For example, the construction sector—which is a major recipient of bank financing—is a large consumer of raw materials such as steel and cement. Similarly, bank-financed agricultural activities can have material biodiversity impacts.

## Issuer And Context Analysis

**All project categories directly address some of COFIDE's material sustainability factors.** Green buildings, renewable energy, energy efficiency, low-carbon transportation, and sustainable waste management aim to address climate transition risks, which are particularly relevant due to the bank's participation in infrastructure projects. Projects under the categories of natural resources, land use and marine protected areas, sustainable agriculture, efficient and resilient wastewater management, and sustainable fishing and aquaculture seek to contribute to biodiversity and resource use by generating sustainable alternatives for resource use. In addition, social and financial inclusion of vulnerable groups, access to essential services, and support for MSMEs seek to contribute to access and affordability and the economic empowerment of targeted populations. Physical climate risks and working conditions are relevant risks in the Framework since some eligible projects cover the construction of potentially large-scale buildings and infrastructure.

**As a development bank, COFIDE plays a key role in strengthening the sustainable development of Peru.** As part of Peru's 2050 Vision, the government has established its strategic development plan for the country's economic development, in which sustainable management of nature, measures against climate change, and inclusive economy were also taken into consideration. In this context, COFIDE is an important arm in facilitating funding to sustainable projects. The bank has defined its key strategic pillars as closing economic gaps, addressing market failures, and promoting triple impact results (economic, social, and environmental). The Framework also supports the implementation of Peru's nationally determined contributions to the Paris Agreement and the United Nations' sustainable development goals. COFIDE has been participating in the sustainable debt market since 2019 with the issuance of green, social, and sustainability bonds.

**The bank is still at an early phase of measuring its financed carbon.** COFIDE is currently tracking Scopes 1, 2, and 3 emissions, although these currently exclude financed emissions, which are the most material source for the financial sector, and the avoided emissions from environmental projects from previous labeled issuances (43,062 tCO<sub>2</sub> in 2021). In addition, the bank has established methodologies and policies within its risk management processes to incorporate social and environmental risks based on the Equator Principles, IFC performance standards, and local regulations. In addition, the bank has participated in local initiatives organized by the Ministry of the Environment, such as the roadmap for sustainable financing and the green taxonomy.

**COFIDE's business plan aims to promote economic development through its financing of MSMEs.** While these products face social risks related to the lack of financial knowledge and the potential for over indebtedness, COFIDE has been able to mitigate these risks through trainings and technical assistance for program promoters and beneficiaries, and a series of financial education initiatives to promote healthy financial management in its areas of operation.

# Alignment Assessment

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

## Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✗

- ✓ Social Bond Principles, ICMA, 2023
- ✓ Green Bond Principles, ICMA, 2021
- ✓ Sustainability Bond Guidelines ICMA, 2021

### ✓ Use of proceeds

All the Framework's green project categories are shaded in Green and all social project categories are considered aligned. The issuer commits to allocate the net proceeds issued under the Framework to finance and/or refinance eligible green and social projects. 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.

COFIDE will use an equivalent amount of the net proceeds issued under this Framework to finance new eligible projects and/or refinance existing ones with a 24-month look-back period, which aligns with market practices.

### ✓ Process for project evaluation and selection

The Framework articulates the process to select and evaluate the eligible projects. The management committee, comprised of representatives of several areas of the bank, such as risk, audit, finance, and business, is responsible for reviewing business proposals against eligibility criteria. All operations are subject to the issuer's Environmental and Social Risk Management Policy (ESMR) based on national guidelines, the IFC performance standards, and the Equator Principles, which classify activities according to their level of impact. In addition to activities on the exclusion list, high-impact projects are not eligible under the Framework. Moreover, the bank identifies relevant objectives for all eligible categories and defines target population for social projects.

### ✓ Management of proceeds

COFIDE will maintain a system to track the allocation of proceeds. The bank intends to allocate an amount equal to the net proceeds within two years from the date of each issuance. Annually, the finance management team will review the eligibility of projects and reallocate proceeds if any projects fail to meet eligibility criteria or exclusion criteria. Unallocated proceeds will be credited to a sub-account, held in cash, or invested in short-term, highly-liquid, and highly-rated instruments until full allocation to new eligible projects in up to 12 months. The same conditions apply to proceeds from divestments and repayments.

### ✓ Reporting

COFIDE commits to annually publish externally verified allocation and impact reports until full allocation. The allocation report will include the amounts disbursed for each project category described and the distribution of proceeds between green and social categories, as well as between financing and refinancing. It will also inform on the balance of unallocated proceeds. In the annual impact report, the issuer will disclose key underlying methodologies for the impact indicators. We view positively that the issuer commits, in line with ICMA's Harmonized Framework, to reporting on both expected and actual impacts.

## 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.

COFIDE is not in a position to share the expected allocation of proceeds from its sustainable debt instruments, given the extensive list of green and social project categories.

The use of the proceeds will include refinancing, i.e., assets for which COFIDE has commenced operations or placed-in-service prior to the applicable sustainable financing, unless otherwise noted in the respective financing documents.

The Framework excludes the financing of projects with non-compliance with the fundamental principles and rights of workers, sectors with negative social perception (including tobacco, alcoholic beverages, gambling, etc.), production or trade of products hazardous to humans and ecosystem health (including radioactive materials, transboundary trade of waste products, pesticides, coal, etc.), activities against indigenous population rights, and activities that threaten sites of cultural or archeological heritage.

### Green project categories

#### Green buildings

##### Assessment

 Medium green

##### Description

Loans and investments for the modernization of buildings with a minimum 20% improvement in energy savings, shown through the following certifications, or other similar certifications:

- LEED Gold or better, EDGE, and Mi Vivienda Verde; and
- Costs associated with modernization of existing buildings to improve the current level of certification or to achieve one of the certification standards recognized by this Framework within three years.

#### Analytical considerations

- The modernization of green buildings can support climate-change mitigation, as it allows for improved energy use, and can lead to additional environmental benefits, such as reduced water consumption, which are needed to achieve low-carbon built environments, in line with the 2050 Paris Agreement.
- All projects must satisfy at least 20% of energy efficiency, which was key for our shading consideration under this category, and in line with local and regional standards.
- Certified green buildings often create sustainability benefits. Certifications address several environmental topics and involve third party for verification. For example, the local certification in scope under the framework includes specific energy considerations, such as efficient heating and bioclimatic requirements, while also considering the water reuse, use of eco-materials, and recycling aspects. However, this does not necessarily guarantee a low-climate impact or highly energy efficient building, particularly in points-based certification systems.
- The Framework does not include criterion to address emissions related to building materials for eligible buildings. However, given that projects are limited to retrofitting of existing building and do not allow for the acquisition of new buildings, embodied emissions are less material. Furthermore, heating is not as common in homes in Peru as in places with colder climates. However, in higher-altitude cities such as Cusco or Arequipa, it is more common to find heating systems in tourist areas.
- Under its environmental and risk management, COFIDE analyzes the geographic location of each project financed as well as the exposure to natural disasters that could cause damage to the project using the geoservice tool from the Ministry of the Environment. There are no specific criteria to mitigate physical climate risks of these eligible buildings. However, the bank

requires an action plan to mitigate identified risks. Increased frequency in extreme weather events such as earthquakes, flooding, droughts, and landslides are key risks in Peru.

## Renewable energy

### Assessment

 **Dark green**

### Description

Loans and investments related to the following:

- Construction, operation, and maintenance of non-fossil renewable energy source projects (wind, solar PV, thermal solar energy, hydropower (less than 25 megawatts [MW], bioenergy from agricultural waste, and geothermal);
- Transmission infrastructure fully dedicated to support the electric power generation systems, recognized as eligible; and
- Investments in solar and/or wind projects that integrate energy generation and storage.

### Analytical considerations

- Renewable energy, like solar, wind, hydro and geothermal, is key to the low-carbon transition and represents a Dark Green shading. However, there are more risks in bioenergy production, given that biomass generation feedstock can deplete existing terrestrial carbon pools. We expect proceeds to bioenergy production to be small compared to the other eligible projects under this category given the Peruvian context.
- Wind and solar facilities must not have more than 15% of their energy coming from non-renewable sources, which is in line with CBI screening criteria. Moreover, circular economy considerations for both solar and wind assets are considered such as durability, disassembly, accessibility, and interchangeability of components, rehabilitation, and recycling, which is not common for banks and strengthens the eligibility criteria in our view. The bank commits to only finance projects that have an end-of-life disposal plan.
- Hydropower can entail significant emissions from construction and water reservoirs. COFIDE is managing this by limiting eligible assets to those with less than 25 MW of generation and setting a lifecycle emissions intensity limit of 100 grams of carbon dioxide equivalent per kilowatt hour (kWh). The same lifecycle threshold is applied to geothermal projects. This in line with the EU Taxonomy's technical screening criteria, which we view positively in our assessment.
- 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. To mitigate such impacts, COFIDE has established that bioenergy facilities must have an 80% greenhouse gas (GHG) emissions reduction compared to the fossil fuel baseline, and emissions from electricity generated must be lower than 100 grams of carbon dioxide equivalent, in line with CBI screening criteria. In addition, the issuer has committed to zero deforestation and has limited the bioenergy feedstock to agricultural waste sourced locally, with no depletion of existing terrestrial carbons pools. Moreover, traceability mechanisms will be put in place to guarantee alignment with credible certifications, such as BONSUCRO and Roundtable of Sustainable Soy.
- Financed infrastructure will be solely used for renewable energy-related projects, a contribution to integrating renewable energy into the national grid. Moreover, energy storage solutions can help mitigate the volatility of renewable energy systems, including solar and wind, against climate risks, such as extreme changes in weather. These investments therefore contribute to a low-carbon and climate-resilient future.
- There is limited consideration of physical climate risks of these projects.

## Energy efficiency

### Assessment

 **Medium green**

### Description

Loans and investments for the improvement of energy efficiency in buildings, houses, and businesses, including:

- Improvements in lighting, e.g., replacement with LED technology or new technologies; and
- Energy efficiency investments in buildings, houses, and/or businesses that result in savings of more than 20%; this includes (but is not limited to) retrofitting, thermal insulation and/or air conditioning system upgrades.

**Analytical considerations**

- Energy efficiency projects contribute to climate-change mitigation by reducing the amount of energy use, and therefore Scope 2 GHG emissions. Eligible projects include energy efficient technologies and/or products that are not powered by fossil fuels such as LEDs, smart meters, energy efficient HVAC and building management systems.
- We see positively that the issuer commits to a quantitative threshold of at least 20% energy efficiency improvement and that national standards for equipment, technical requirements, and energy efficiency ranges are applied.
- Nonetheless, while the production of equipment is crucial, climate and environmental risks can arise during production and are not expressly addressed in the criterion, for example, limits on production emissions.

**Low-carbon transport**

**Assessment**

 **Medium to Light green**

**Description**

Construction, operation, and maintenance of transportation projects without direct emissions, including:

- metro lines (new lines);
- electric buses;
- streetcars;
- trains;
- bicycle lanes;
- freight infrastructure; and
- acquisition of hybrid vehicles, electric vehicles, or alternative vehicles with emissions of less than 75 gCO2/passenger-km.

Construction, operation, and maintenance of clean transportation infrastructure, including:

- Infrastructure needed for clean transportation, e.g., electric charging points, grid connection upgrades, hydrogen fueling stations, etc.
- Infrastructure and equipment (including fleets) for active mobility (walking, cycling, electric bikes and electric scooters).
- Infrastructure mainly used for low carbon emissions.

**Analytical considerations**

- Eligible projects are key for the transition of transportation to a low-carbon economy. Transportation is the second-largest source of GHG emissions in Peru, accounting for 28.3% of the total. The entity's investments in public and alternative transportation will help provide with cleaner solutions for the population, which we view positively. According to Peru's national development strategy and the national policy for urban transportation, 85% of motorized travel in Lima is in the form of public transportation. In addition, the documentation states that main issues for urban transportation stem from low quality of public transportation, obsolete vehicular fleet, and lack of infrastructure.
- Electrification and supporting infrastructure play a key role in decarbonizing the transport sector. However, there are potential risks related to indirect GHG emissions from lifecycle perspective (material sourcing and manufacturing). Charging stations will

be connected to the national grid, which consists of thermoelectric (56.1%), hydroelectric (38.7%), eolic (3.1%), and solar (2.1%), which is still exposed to environmental concerns.

- In Peru, electric vehicles and hybrids represent less than 1% of the country's total fleet. Although the framework's eligibility criteria specify emissions thresholds for hybrids of 75 gCO<sub>2</sub>/passenger-km, in line with The International Council on Clean Transportation guidelines, it does not exclude non-plug-in models. We note that a maximum emissions threshold does not necessarily safeguard against high fossil fuel consumption of hybrid vehicles. Nonetheless, we expect that hybrid financing should be less representative compared to other projects in this category, given that COFIDE's lending is not oriented towards retail financing.
- While hybrid modes of transportation involve combustion of fossil fuels and associated emissions, they represent initial steps to transition toward electric modes of transportation, including supporting behavioral change and where charging infrastructure is less well developed. Still, the lock-in risk from this type of projects limits our shading assessment to Light Green, which contributes to the overall determination of medium-light green shade.

### Natural resources, land use, and marine-protected areas

#### Assessment

 **Dark green**

#### Description

Financing and refinancing of loans and investments related to construction, operation, management, expansion, training, and adaptation for the promotion of land use, biodiversity preservation, and marine-protected areas, including:

- Sustainable forest management: commercial management of forests for wood production, certified by the Forest Stewardship Council (FSC) or the Programme for the Endorsement of Forest Certification (PEFC) and that have a sustainable management plan;
- Conservation and restoration programs for native and exotic forests;
- Management and maintenance of natural parks and conservation areas;
- Protection and restoration of terrestrial and freshwater ecosystems, biodiversity, habitats, and soil services; and
- Infrastructure supporting and linked to the forest sector's supply chain and initial wood processing of projects eligible under the Framework, including machinery and equipment to manage ecosystems and/or land, storage, and information systems and other technologies.

#### Analytical considerations

- The sustainable management of land, including forested land, is a key piece for managing GHG emissions and adaptation to climate change. The benefits of growing forests for wood production are twofold: in the growing phase, forests absorb CO<sub>2</sub> and when used for sustainable materials (e.g., as construction materials) the CO<sub>2</sub> is stored and often replaces fossil fuel-intensive processes. Conversely, conservation of biodiversity, natural ecosystems, and habitats can have substantial co-benefits for climate-change mitigation and adaptation due to critical ecosystem services, including carbon sequestration, local climate regulation, soil stabilization, and storm surge protection.
- COFIDE's financing of sustainable forest management will follow FSC or PEFC certifications. The FSC certification focuses on the 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.
- The issuer has confirmed that the acquisition of land to be converted into commercial forests is not an eligible use of proceeds under the Framework. Furthermore, COFIDE specifies that for supporting infrastructure, only electric equipment will be used to support projects that are eligible under this category, which we view positively. For the above reasons, we shade these projects as Dark Green.

### Sustainable agriculture

#### Assessment

 Light green

#### Description

Financing and refinancing of loans and investments related to:

- Agricultural inputs, including seeds for agricultural practices eligible under the Framework;
- Establishment, or continued operation of agricultural units of production with agroforestry and/or silvopastoral systems under the following certifications: Sustainable Agriculture Rainforest Alliance, Round Table on Responsible Soy Association, EU Organic, USDA Organic, Japanese Agricultural Standards Organic, and Cumplimento de Código ISEAL;
- Monitoring activities, management associated with information systems and other technologies (software);
- **Drip irrigation systems;** and
- Water-efficient irrigation systems, including drip irrigation, flood irrigation, and pivot irrigation systems.

#### Analytical considerations

- Agriculture-related projects tackle both climate mitigation and adaptation in the global food production systems. These projects aim to improve farming practices, while incorporating environmental considerations. Sustainable farming practices can contribute to mitigating GHG emissions and negative environmental impacts.
- Peru's agriculture is characterized by small-scale farmers using traditional low-yielding technologies and farming practices, but the agriculture sector employs nearly 25% of the country's total workforce, which emphasizes the importance of sustainable agricultural practices in the country.
- Sustainability certifications for agricultural products and practices cover important environmental topics and can verify farming practices. We note positively that COFIDE's Framework only considers agricultural projects that adhere to its list of eligible certifications, as this ensures that a variety of environmental risks are addressed throughout the agricultural process. That said, certification systems vary significantly in stringency and are not always directly comparable. They also may not address more important issues such as the land use change from agricultural expansion and associated climate emissions. Therefore, the project category receives a Light Green assessment.
- The issuer has confirmed that it will not provide loans for livestock agriculture under this Framework.
- Agricultural activities are highly exposed to physical climate risk. Peru in particular is vulnerable to water scarcity and droughts. Extreme weather events such as El Niño can also have a profound effect on agricultural yields. While El Niño causes heavy rain in some parts of the country, it can cause droughts in others, emphasizing the importance of efficient irrigation practices, such as drip irrigation. The climate adaptation benefits of these and other irrigation methods will increase resilience to physical climate risks, providing an environmental benefit. We note that investments in water-efficient irrigation systems will be primarily for small-scale farmers, but are not limited to farming operations that have received one of the certifications listed above.
- We view positively that COFIDE addresses this risk by including water-efficient irrigation in the Framework. That said, we note that due to the small scale and short tenor of the projects in this category, COFIDE has taken limited measures to assess or mitigate its portfolio exposure to physical climate risk beyond the irrigation projects mentioned above.

### Sustainable waste management

#### Assessment

 Medium to Light green

#### Description

Financing and refinancing of loans and investments related to:

- Construction, operation, and maintenance of non-hazardous waste collection, sorting, selection, and disposal facilities to prepare them for reuse and/or recycling;

- Acquisition, operation, and/or maintenance of waste collection vehicles, provided that they meet the low-carbon transportation criteria defined in this Framework;
- Green/garden yard waste processing facilities to produce compost for use in agricultural, municipal or consumer fields with an Environmental Management Instrument, if applicable; and
- Projects to capture biogas from closed landfill facilities.

**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 GHG emissions and energy, and the use of natural resources. They contribute to lower GHG 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. The development of landfill gas capture for energy generation from decommissioned landfills helps prevent harmful unabated methane emission during waste decomposition, while still generating carbon dioxide emission.
- Eligible projects contribute to the reduction and reutilization of waste, which is compatible with a circular economy as well as the reuse of waste products for energy generation. While projects that capture biogas do not promote a circular economy, they help reduce GHG emissions and land pollutants. According to Peru's Sistema de Información de Gestión de Residuos Sólidos, 57% of waste being generated is organic, followed by inorganic (21%), and the rest as hazardous and non-usable. In addition, the government has established incentives to promote separation and waste management systems. Currently, 61.75% of waste ends up in sanitary landfill, while 77.64% of waste generated has value potential, and only 1.8% is recycled.
- The Framework is clear on the type of waste that is going to be considered (non-hazardous and green yard waste) and incorporates environmental considerations for vehicles used in waste collection operations. While we view positively the incorporation of environmental considerations, the feasibility of acquiring hybrid vehicles limits our score to Light Green. This limits the overall shade of the category.
- The Framework does not include quantitative thresholds for the selection of waste management projects, as long as they meet the conditions listed in the Framework. This potentially creates uncertainty around the ambition of waste recycling and reuse projects and the actual environmental benefits.
- Projects are in line with local regulations, and thresholds for biogas capture projects are in line with CBI standards, such as gas capture of 75%, and commitment to use gas to generate electricity and input to the natural gas grid or use as vehicle fuel.
- These physical assets are not required to embed physical climate risk considerations as part of the eligibility criteria.

**Efficient and resilient water and wastewater management**

**Assessment**

 **Dark to Medium green**

**Description**

Loans and investments related to construction, operation, maintenance, expansion, and adaptation for the efficient management of water and wastewater and guaranteeing the supply of water, including:

- Infrastructure and systems to improve the efficient and sustainable management of water and wastewater in accordance with the requirements and objectives of the National Strategy for the Improvement of the Quality of Water;
- Wastewater management: installation or improvement of wastewater treatment infrastructure, including conveyance, treatment, and disposal systems;
- Conservation of water resources, including protection of water catchment areas and prevention of pollution affecting water supply;
- River flood defense systems, including the construction of reservoirs for the control of water flows; and

- Monitoring systems, including smart grids, drought early warning systems, flood early warning systems, and water quality monitoring processes.

**Analytical considerations**

- Financing activities for the development, construction, operation, and maintenance of sustainable water and wastewater management projects can result in environmental benefits in terms of water consumption and water security, and are necessary for the achievement of the 2050 Paris Agreement objectives.

According to data from the hydric safety diagnosis for Peru made by World Bank Group and Global Water Security and Sanitation Partnership in 2023, around 10.5 million people in urban areas lack safe access to water and 9.4 million people lack safe sanitation infrastructure. In addition, only 25% of monitored bodies of water has good quality of water, and 60% of wastewater generated from homes are treated before being dumped in the environment.

- However, the bank does not reference quantitative thresholds embedded within its eligibility criteria that promote water conservation, limiting comparability of benefits.
- Investments in climate-change adaptation and resilience may increase an asset's resiliency and limit damages caused by climate-related weather events. Flood protection systems such as flood barriers, warning systems, drain enlargements and improvements can minimize damage to infrastructure, and warn local communities prior to climate events.
- Construction projects can have substantial fossil fuel involvement and local environmental impacts.

**Sustainable fishing and aquaculture**

**Assessment**

 **Medium green**

**Description**

Financing and refinancing of loans and investments related to:

- Artisanal fisheries and fish farms;
- Aquacultural activities;
- Infrastructure supporting, and linked to, the supply chain of the fisheries and aquaculture sector eligible under the Framework, including:
  - Machinery and equipment for harvesting in fish farms and fisheries
  - Onshore and offshore fish processing and storage facilities and fish supply chain
- Information systems and other technologies.

**Analytical considerations**

- Sustainable fisheries and aquaculture are important from a climate perspective. They produce sources of protein with lower carbon and environmental footprint than meat. Nevertheless, environmental risks associated with fishing include over-exploitation of fish stocks and fossil fuel-powered equipment.
- The Framework states that all eligible projects in this category must have a certification from either the MSC, Best Aquaculture Practice (BAP; at least two stars), Seafood Watch Standard for Aquaculture (SWSA; at least Best Choice), or ASC, which we view positively. MSC certifies fisheries as sustainable and well-managed, but has received criticisms for not being sufficiently stringent in all areas.
- BAP is a certification that examines the processor, farm, feed, and hatchery for aquaculture facilities. By achieving two stars, a project will have been certified for both the processor and the farm, each of which have a wide range of considerations including food safety management, environmental and waste management, animal welfare, habitat protection and site selection, effluent management, and water quality, among others.
- SWSA is a point-based certification that considers criteria such as effluent, habitat conversion and function, chemical use, feed, and source of stock, among others. Best Choice is the highest level of this certification.

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- ASC certifications require fish farms to establish traceability of feed to a responsible managed source. Although the source is not yet required to be sustainably certified, these sources must be certified starting in January 2025, improving to some extent traceability of sources of feed. Nonetheless, there is still a climate risk since the feed may be linked to deforestation, which is only partially mitigated by the ASC. We consider aquaculture-related activities to possibly result in detrimental impacts on the local environment such as pollution from chemicals, waste generation, and impacts on local water quality. The ASC focuses on minimizing these impacts, and is regarded as the strictest voluntary certification scheme.
- MSC, BAP, SWSA, and ASC certification schemes can help promote sustainable fishing and aquaculture practices. Like all other certifications, however, there are concerns around implementation and stringency of their requirements. That said, the use of certification schemes mitigates the environmental risks associated with aquaculture but does not provide certainty about outcomes. For these reasons, this project category receives a Medium Green assessment.
- For eligible machinery and equipment under this category, we note that the Framework does not include exclusions around support equipment that may use fossil fuels as a primary energy source.

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

### Social and financial inclusion of vulnerable groups

Financing programs and projects to improve the financial and social inclusion of vulnerable groups in line with public policies for poverty reduction, including people that live below the poverty line, with low levels of education, and vulnerable young people.

#### Analytical considerations

- COFIDE has a long history of working on specific programs to promote financial inclusion through investments in particular sectors and providing financial literacy programs to vulnerable populations. According to data from the Instituto Nacional de Estadística e Informática, 58.6% of Peru's adult population has access to financial services in 2023: 63% of urban population and 38.4% of rural population. We view the eligible loans in this category as helping reduce these gaps in accession financing and promoting economic growth, especially in rural and vulnerable communities.
- Target population for projects under this category are people living below the poverty line, people with low levels of education, elderly people and vulnerable young people. These categories are defined and will be assessed according to the intergovernmental system, Sistema de Focalización de Hogares (SISFOH), which helps the Peruvian government identify vulnerable communities based on socioeconomic and geographic criteria.
- Projects associated with this category will include the Programa Inclusivo de Desarrollo Empresarial Rural, focused on helping local community organizations develop financial resources through the creation of savings and credit unions, called UNICA. Through these initiatives, the issuer also provides financial education programs and guidance for the communities and members of credit unions, which helps mitigate risk and help the continuity and growth of such programs.

### Access to essential services: affordable housing, education, water and sanitation and health services

- Financing of actions and measures (projects and programs) aimed at improving education, housing, and health with a focus on vulnerable groups.
- Financing for the acquisition, repair, expansion, and improvement of social housing.
- Financing of programs aimed at improving the quality of, and access to, basic, secondary, and higher education for vulnerable children and young people.
- Financing for the development of preventive and treatment health programs for vulnerable groups.
- Financing for water and sanitation projects to guarantee access to potable water.

#### Analytical considerations

- As stated on the bank's annual reports, four of the main impacts of this business line are access to essential services, education, access to quality medical care, and inequality reduction. Eligible projects align with Peru's 2050 Vision, helping the bank with its mission of promoting sustainable and inclusive development in the country.
- The eligible projects aim to address the country's infrastructure deficiencies and improve health and educational services, in alignment with the National Plan for Competitive Infrastructure. According to the Ministry of Health, 94.5% of public health facilities have precarious infrastructure and deficiencies in equipment. In the same tenor, the Ministry of Housing, Construction, and Sanitation indicates that around 70% of housing in Peru is built informally.
- COFIDE defined the vulnerable group, in line with its strategic plan, as children, young people, elderly, and women. This in accordance with the SISFOH to evaluate people, homes, and groups in situation of poverty, vulnerability, and exclusion.
- Definition and eligibility of projects considered under social housing are defined by local regulation in alignment with the Sustainable Urban Development Law, which clearly defines what could be included under social housing, the government bodies that will assess, as well as certain determination in term of size, and material used. We view this as positive, mitigating social risk in terms of target population and quality of housing.

### Support to MSMEs for the use of financial services

- Financing of programs aimed at supporting MSMEs as a result of socioeconomic and climate crises.
- Financing of financial inclusion programs for MSMEs.
- Lines of financing or other financial support to MSMEs.

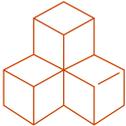
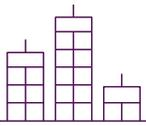
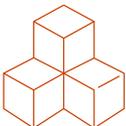
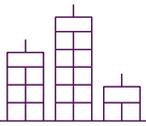
### Analytical considerations

- COFIDE specifies the target population to be MSMEs in line with the Peru's Superintendency of Banking, Insurance, Private Administrators, and Pension Funds. These classifications are based on thresholds for annual sales.
- According to The Organization for Economic Co-operation and Development, 99.5% of Peruvian enterprises were SMEs. These SMEs employ nearly 55% of the country's labor force, and 94% of the country's private-sector workforce. Among these enterprises, only 9.4% had access to the formal financial system. Private banks are currently the main entities that provide loans to SMEs, providing 93.7% of all outstanding loans (as of 2020).

# 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			
Green Buildings	 <b>8. Decent work and economic growth</b>	 <b>9. Industry, innovation and infrastructure</b>	 <b>11. Sustainable cities and communities*</b>	 <b>13. Climate action</b>
Renewable Energy	 <b>7. Affordable and clean energy*</b>	 <b>9. Industry, innovation and infrastructure*</b>	 <b>13. Climate action</b>	
Energy Efficiency	 <b>7. Affordable and clean energy*</b>	 <b>11. Sustainable cities and communities*</b>	 <b>13. Climate action</b>	
Low-carbon Transport	 <b>3. Good health and well-being</b>	 <b>5. Gender equality</b>	 <b>11. Sustainable cities and communities*</b>	 <b>13. Climate action</b>

Natural Resources, Land Use and Marine Protected Areas



**3. Good health and well-being**



**6. Clean water and sanitation**



**9. Industry, innovation and infrastructure**

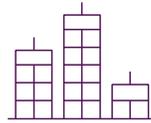


**13. Climate action**

Sustainable Agriculture



**3. Good health and well-being**



**11. Sustainable cities and communities\***



**13. Climate action**



**15. Life on land\***

Waste Sustainable Management



**11. Sustainable cities and communities\***



**13. Climate action**

Efficient and resilient water and wastewater management



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

Sustainable Fishing and Aquaculture



**2. Zero hunger\***



**12. Responsible consumption and production\***



**13. Climate action**



**14. Life below water\***

Social and Financial Inclusion of Vulnerable Groups



**1. No poverty\***



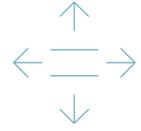
**3. Good health and well-being\***



**5. Gender equality**

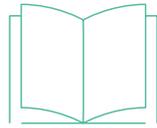


**7. Affordable and clean energy**

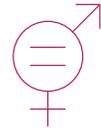


**10. Reduced inequalities\***

Access to Essential Services (e.g., Affordable Housing, Education, Water and Sanitation and Health Services)



**4. Quality education\***



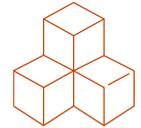
**5. Gender equality**



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

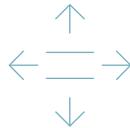


**8. Decent work and economic growth\***



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

Access to Essential Services (e.g., Affordable Housing, Education, Water and Sanitation and Health Services)



**10. Reduced inequalities\***

Support to MSMEs for the Use of Financial Services



**1. No poverty**



**5. Gender equality**



**8. Decent work and economic growth**



**9. Industry, innovation and infrastructure**

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

## Related Research

- [Analytical Approach: Second Party Opinions: Use of Proceeds](#), July 27, 2023
- [FAQ: Applying Our Integrated Analytical Approach for Use-of-Proceeds Second Party Opinions](#), July 27, 2023
- [Analytical Approach: Shades of Green Assessments](#), July 27, 2023
- [S&P Global Ratings ESG Materiality Maps](#), July 20, 2022

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