

# Second-Party Opinion

## VEF Sustainability Bond Framework



### Evaluation Summary

Sustainalytics is of the opinion that the VEF Sustainability Bond Framework is credible and impactful and aligns with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, and Social Bond Principles 2021. This assessment is based on the following:



**USE OF PROCEEDS** The eligible categories for the use of proceeds Financial Inclusion, Financial Fairness and Wellness, Financial Infrastructure / Enablement, Renewable Energy are aligned with those recognized by both the Green Bond Principles and Social Bond Principles. Sustainalytics considers that investments in the eligible categories will lead to positive environmental or social impacts and advance the UN Sustainable Development Goals, specifically SDG 7, 8, and 10.



**PROJECT EVALUATION / SELECTION** VEF's Board of Directors and Sustainability Bond Committee (SBC) are responsible for reviewing eligible investments and making investment recommendations based on the Framework's eligibility criteria. The SBC will make investment recommendation to the Board of Directors for final approval. VEF has a due diligence process to ensure that private equity companies will use the funds to carry out activities aligned with the Framework's eligibility and targeting criteria, and to assess social and environmental risks relevant to companies. Sustainalytics considers the project selection process in line with market practice.



**MANAGEMENT OF PROCEEDS** VEF's processes for management of proceeds are overseen by the SBC and the Company's Board of Directors. VEF will use existing internal systems to track allocation of bond proceeds. Should any proceeds remain unallocated, they will be temporarily held in cash or short-term money market instruments. VEF intends to fully allocate net proceeds within 36 months of issuance. This is in line with market practice.



**REPORTING** VEF intends to report on allocation of proceeds on its website on an annual basis until full allocation. Allocation reporting will include details such as amount invested per category, share of financing vs. refinancing, and balance of unallocated proceeds. In addition, VEF is committed to reporting on examples of investee companies and details of their impact, target population. Sustainalytics views VEF's allocation and impact reporting as aligned with market practice.

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**Evaluation date** March 1, 2022<sup>1</sup>

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**Issuer Location** Stockholm, Sweden

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<sup>1</sup> This document is an update of a second-party opinion originally published in October 2021.

## Introduction

VEF AB (publ) (“VEF”, or the “Company”) is a venture capital firm focused on growth-stage private fintech companies across the emerging world.<sup>2</sup> Headquartered in Stockholm, Sweden, the Company is a long-term investor in companies providing financial services including payments, credit, savings and investments. VEF’s portfolio has holdings in 15 companies valued at USD 750 million.<sup>3</sup>

VEF has developed the VEF Sustainability Bond Framework (the “Framework”) under which it intends to issue sustainability bonds and use the proceeds to finance and/or refinance, equity investments in fintech companies working to improve access to essential financial services in developing countries and equity investments in emerging markets to improve access to installation of solar panels and wind turbines. The Framework defines eligibility criteria in four areas:

1. Financial Inclusion
2. Financial Fairness and Wellness
3. Financial Infrastructure / Enablement
4. Renewable Energy

VEF engaged Sustainalytics to review the VEF Sustainability Bond Framework, dated March 2022, and provide a Second-Party Opinion on the Framework’s environmental and social credentials and its alignment with the Sustainability Bond Guidelines 2021 (SBG), Green Bond Principles 2021 (GBP), and Social Bond Principles 2021 (SBP).<sup>4</sup> This Second-Party Opinion is an update to the VEF Social Bond Framework Second-Party Opinion dated October 28, 2021. This Framework has been published in a separate document.<sup>5</sup>

### Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent<sup>6</sup> opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, and Social Bond Principles 2021, as administered by ICMA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.11.2, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of VEF’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. VEF representatives have confirmed (1) they understand it is the sole responsibility of VEF to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics’ opinion of the Framework and should be read in conjunction with that Framework.

<sup>2</sup> VEF follows MSCI’s market classification to define emerging and frontier markets. At: <https://www.msci.com/market-classification>

<sup>3</sup> Information was provided to Sustainalytics by VEF.

<sup>4</sup> The Sustainability Bond Guidelines, Green Bond Principles, and Social Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>

<sup>5</sup> The VEF Sustainability Bond Framework is available on VEF’s website at: <https://vef.vc/investors>

<sup>6</sup> When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and VEF.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner. The Second-Party Opinion is valid for issuances aligned with the respective Framework for which the Second-Party Opinion was written for a period of twenty-four (24) months from the evaluation date stated herein.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realized allocation of the bond proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that VEF has made available to Sustainalytics for the purpose of this Second-Party Opinion.

## Sustainalytics' Opinion

### Section 1: Sustainalytics' Opinion on the VEF Sustainability Bond Framework

Sustainalytics is of the opinion that the VEF Sustainability Bond Framework is credible, impactful and aligns with the four core components of the GBP and SBP. Sustainalytics highlights the following elements of VEF's Sustainability Bond Framework:

- Use of Proceeds:
  - The eligible categories Financial Inclusion, Financial Fairness and Wellness, Financial Infrastructure / Enablement, Renewable Energy, are aligned with those recognized by the GBP and SBP. Sustainalytics views the expenditures as having the potential to expand access to financial services and foster financial inclusion and socioeconomic advancement in low-income communities across developing countries and contribute towards promoting renewable energy in emerging markets.
  - VEF may finance and or refinance equity in a portfolio of fintech companies based in emerging and frontier markets.<sup>7</sup> Sustainalytics notes that the definition of emerging and frontier markets includes certain developed countries, as defined by the UN,<sup>8</sup> and encourages VEF to specifically target equity investments in companies based in developing countries. VEF has confirmed that its investment decision process includes a robust due diligence process to guarantee that funds are fully allocated to eligible pure-play companies. VEF defines pure-play companies as companies that derive more than 90% of their revenues from activities that comply with the eligibility criteria set in the Framework. Sustainalytics has assessed this due diligence process and confirms that it is adequate to ensure that financing will adhere to the criteria. For more information regarding VEF's due diligence, please refer to Section 2. Sustainalytics notes that the SBP favour project financing and that there is, in general, less transparency associated with reporting on non-project-based financing. While Sustainalytics recognizes the Issuer's commitment to carry out due diligence, it is encouraged for VEF to report on recipient companies and the beneficiary target populations of the activities carried about by these companies.
  - Under Financial Inclusion, VEF may finance and refinance investments in pure-play companies whose business model is designed to increase access to financial products and services, including savings, insurance, secured credit, and payments, to "underserved"<sup>9</sup> consumers and

<sup>7</sup> VEF will use MSCI's classification of emerging and frontier market. For more information, please see: <https://www.msci.com/market-classification>

<sup>8</sup> UN, "World Economic Situation and Prospects", (2020), at: [https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/WESP2020\\_Annex.pdf](https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/WESP2020_Annex.pdf)

<sup>9</sup> The Framework defines "underserved" as "those who have not previously used formal financial services or those lacking access because financial products are either unaffordable or to a large extent unavailable to them."

- MSMEs<sup>10</sup> in emerging and frontier markets. Examples of eligible companies include those offering below market rate secured loans to low-income individuals and SMEs that previously lacked access to such services.
- Within Financial Fairness and Wellness, VEF may finance companies whose business model targets MSMEs and underserved populations to deliver financial products with lower prices when compared to market alternatives, improve access and transparency of financial products. Sustainalytics notes that VEF may hold equity in companies engaged in earned-wage access, which consists in providing access to employees to some of their accrued wages before the end of their payroll cycle. Sustainalytics notes that earned-wage access may provide a credible alternative to payday lending when companies disclose fees that are affordable and prevent from offering credit lending. However, Sustainalytics has assessed the portfolio of existing companies in which VEF holds equity and is unable to determine that they are offering affordable and accessible fees.
  - Regarding Financial Infrastructure/Enablement, VEF may finance investments in pure-play companies which develop financial infrastructure services for underserved consumers and MSMEs in emerging and frontier markets which lack access to financial services. Examples of eligible companies include those focused on offering international money transfer, including remittances<sup>11</sup> from migrant workers, and online payment applications. While recognizing the importance of enabling financial services for underserved consumers and MSMEs, Sustainalytics notes that the Framework is not sufficiently detailed to demonstrate that investments in this category will support activities that go beyond business-as-usual financial services.
  - Sustainalytics regards this, together with the above-noted lack of assurance regarding earned-wage access, to be a limitation of the Framework and encourages VEF to provide detailed reporting on investee companies and the expected benefits of their activities.
  - Under Renewable Energy, VEF may invest in pure-play companies which provide financing to private individuals to install solar photovoltaic cells or wind energy systems.
- Project Evaluation and Selection:
    - VEF's Board of Directors and its Sustainability Bond Committee (SBC), which is comprised of the Company's CEO, CFO, Head of Sustainability and Chief Investment Officer, manage the internal process for reviewing eligible investments. The SBC will make investment recommendation to the Board of Directors for final approval.
    - VEF has a due diligence process to ensure that private equity companies will use the funds to carry out activities aligned with the Framework's eligibility and targeting criteria, and to assess environmental and social risks relevant to companies such as over-indebtedness, predatory lending activities and fair consumer practices/transparency.
    - Based on the clear delegation of responsibility and appropriate oversight, Sustainalytics considers this process to be in line with market practice.
  - Management of Proceeds:
    - VEF's process for management of proceeds is overseen by the SBC and Board of Directors. VEF will use existing internal systems to track allocation of bond proceeds. Should any proceeds remain unallocated, they will be temporarily held in cash or short-term money market instruments. VEF intends to fully allocate net proceeds within 36 months of issuance.
    - Based on the use of an internal tracking system and the disclosure on temporary allocation, Sustainalytics considers this process to be in line with market practice.
  - Reporting:
    - VEF is committed to reporting on the allocation and impact of proceeds via a Sustainability Bond Report published on its website on an annual basis until allocation has been fully completed. The allocation reporting will include details such as nominal amounts of sustainability bonds outstanding, amount invested per category, share of financing vs. refinancing, and balance of

<sup>10</sup> MSMEs are defined as enterprises with maximum 300 employees, or total assets below USD 15 million or annual sales below USD 15 million. For further information please visit:

[https://www.ifc.org/wps/wcm/connect/industry\\_ext\\_content/ifc\\_external\\_corporate\\_site/financial+institutions/priorities/ifcs+definitions+of+targeted+sectors](https://www.ifc.org/wps/wcm/connect/industry_ext_content/ifc_external_corporate_site/financial+institutions/priorities/ifcs+definitions+of+targeted+sectors)

<sup>11</sup> A remittance is a non-commercial transfer of money by a foreign worker, a member of a diaspora community, or a citizen with familial ties abroad, for household income in their home country or homeland.

- unallocated proceeds with information regarding temporary placements. The impact reporting will include examples of investee companies and details of their impact and target population.
- Based on these elements, Sustainalytics considers this process to be in line with market practice.

### **Alignment with Sustainability Bond Guidelines 2021**

Sustainalytics has determined that the VEF Sustainability Bond Framework aligns with the four core components of the GBP and SBP. For detailed information please refer to Appendix 1: Sustainability Bond/ Sustainability Bond Programme External Review Form.

## **Section 2: Sustainability Strategy of VEF**

### **Contribution of Framework to VEF's sustainability strategy**

VEF's Sustainability Policy,<sup>12</sup> aims to make sustainability a fundamental part of VEF's business with a focus on three key areas: (i) Business Ethics, (ii) Responsible Financing, (iii) Financial Inclusion.<sup>13</sup> VEF is committed to promoting fair and transparent consumer practices, responsible lending, and prevention of over-indebtedness.<sup>14</sup> The Company operates to positively impact the financial inclusion of consumers and SMEs through its investments in fintech companies in emerging markets.<sup>13</sup>

VEF's investment portfolio of USD 750 million holds stake in 15 fintech companies in Brazil, Pakistan, Africa, Mexico, India, Russia and emerging markets in Europe. VEF's equity investments have helped serve 18 million unbanked and under-banked customers in the markets of Africa and Pakistan, including 60% first-time users of formal financial services and originated over USD 2.5 billion in loans to consumers and MSMEs since 2015.<sup>13</sup> The Company's investments have also resulted in disbursement of more than 35,000 loans which includes 3000 unique majorly underserved MSME customers, in Pakistan since 2015.<sup>13</sup> Furthermore, VEF's investments have helped boost growth of SMEs and sole traders in Mexico including 30% female-owned businesses and 50% first-time users of formal financial services since 2019.<sup>13</sup> In Brazil, the Company's investments have contributed to reducing consumer debt burden by cutting interest rates compared to alternative sources such as unsecured lenders and credit card providers, among others.<sup>13</sup>

As an investment company VEF adheres to industry responsible practices. For example, VEF is a signatory member of the Responsible Finance Forum, which promotes responsible financing practices, such as fair and transparent pricing and terms, data privacy and security as well as works for prevention of over-indebtedness.<sup>14</sup> VEF is also a member of Sweden's Sustainable Investment Forum aimed at spreading, driving and raising knowledge about investments for sustainable development.<sup>13,15</sup>

Sustainalytics is of the opinion that the VEF Sustainability Bond Framework is aligned with the Company's overall sustainability strategy and initiatives and will further the Company's action on its key social priorities. Sustainalytics notes that VEF has not made public its goals regarding renewable energy and encourages VEF to define quantitative time-bound targets for its key sustainability priorities.

### **Well-positioned to address common social and environmental risks associated with the projects**

While Sustainalytics recognizes that the net proceeds from the bond(s) issued under the Framework will be directed towards eligible projects that are expected to have positive social impact, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Some key environmental and social risks associated with the eligible projects, could include risks regarding over-indebtedness, predatory lending and MSME and stakeholder engagement.

Sustainalytics is of the opinion that VEF is able to manage and/or mitigate potential risks through implementation of the following:

VEF's Responsible Investment and Shareholding Policy (RISP) outlines and incorporates its sustainability principles in investment processes, including risk identification and management processes.<sup>14</sup> RISP has set out ESG standards for portfolio companies, especially its "Social" standards, which ensure fair and transparent pricing and terms for consumers, including conduction of lending activities responsibly and prevention of over-distribution of debt.<sup>14</sup>

<sup>12</sup> VEF, "Sustainability Policy," at: [https://vef.vc/app/uploads/vef\\_sust\\_policy.pdf](https://vef.vc/app/uploads/vef_sust_policy.pdf)

<sup>13</sup> VEF, "Sustainability Report 2020", at: [https://vef.vc/app/uploads/VEF\\_2020\\_sustainability\\_report.pdf](https://vef.vc/app/uploads/VEF_2020_sustainability_report.pdf)

<sup>14</sup> VEF, "Responsible Investment and Shareholding Policy," at: [https://vef.vc/app/uploads/VEF\\_RISP.pdf](https://vef.vc/app/uploads/VEF_RISP.pdf)

<sup>15</sup> SWESIF, "About SWESIF", at: <https://swesif.org/om-swesif/>

VEF's Internal Guideline for Impact Due Diligence ("DD Process") is the due diligence framework of the Company before investing in new companies. The DD Process aims to ensure that investments align with VEF's sustainability policies and principles and preventing harmful social consequences. Consisting in different stages, the DD Process assesses the potential impact on financial inclusion and the SDGs, undertakes an ESD due diligence, and assesses responsible financing activities. VEF has established a due diligence checklist to understand who is benefiting from the services provided by the target companies and what social impacts they seek to generate. The checklist also touches on the portion of the business of the company that reaches relevant target groups. In relation to the social risks of the present Framework, the DD Process additionally addresses pricing transparency and responsible lending. To do so, VEF seeks to ensure that companies disclose key pricing data and prevent over-indebtedness and other harmful lending activities.

RISP also ensures portfolio companies follow international standards and best practice on business ethics, data privacy, human rights, labour rights and environmental issues.<sup>14</sup>

As a signatory member of the Responsible Finance Forum, VEF is committed to implement the Investor Guidelines of the Forum which includes working towards prevention of risks related to over-indebtedness through consumer protection initiatives such as digital and financial literacy awareness, strengthening financial capability and informed decision-making among consumers.<sup>16</sup>

The Company has set out two-step process guided by its Compliance Toolbox to identify, manage and mitigate risks, including ESG risks and risks relating to corruption, money-laundering, compliance with laws, labour laws and human rights prior to investing and during the lifetime of the Company's investments.<sup>13,14</sup> The pre-assessment analysis step involves screening for unethical businesses.

Based on these policies, standards and assessments, Sustainalytics is of the opinion that VEF has implemented adequate measures and is well-positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

### Section 3: Impact of Use of Proceeds

All four use of proceeds categories are aligned with those recognized by GBP or SBP. Sustainalytics has focused on two below where the impact is specifically relevant in the local context.

#### Increasing access to financial services in developing countries

In 2017, there were 1.7 billion unbanked<sup>16</sup> adults globally, according to the World Bank.<sup>17</sup> Virtually all these unbanked adults live in the developing world. Moreover, nearly 50% of unbanked individuals live in just seven developing economies: Bangladesh, China, India, Indonesia, Mexico, Nigeria, and Pakistan. 56% of unbanked adults are women showing the persisting account ownership inequality. Financial inclusion has been identified as one of the growth-enhancing factors for developing countries,<sup>18</sup> and an enabler for reducing poverty. The benefits of financial inclusion are wide-ranging, as it can allow individuals to accumulate savings for education, retirement, better manage financial risk, and overall allow people to take advantage of financial opportunities.<sup>17</sup> In particular, Small and Medium Enterprises ("SMEs") financial inclusion is important because SMEs contribute to 40% of GDP in emerging economies.<sup>19</sup> As the global workforce grows, 600 million jobs will be needed to absorb the growing workforce by 2030, making SME development a key priority for all economies.

Despite their economic importance, SMEs face significant challenges and barriers in accessing finance. MSMEs in Brazil account for 98.5% of all legally constituted companies and 27% of the nation's GDP.<sup>20</sup> Nonetheless, these businesses face a number of challenges including unfavourable credit market conditions, high interest rates, short loan maturities. A lack of credit history or property collateral, preventing many MSMEs from receiving the public and private sector-credit needed to ensure long term viability.<sup>21</sup> Similarly, in Mexico, SMEs are a key component of the nation's economy, representing 12.4% of total gross production

<sup>16</sup> Responsible Finance Forum, "Investor Guidelines", at: <https://responsiblefinanceforum.org/investor-guidelines/>

<sup>17</sup> World Bank, "The Global Index Database 2017", (2017), at: <https://globalindex.worldbank.org/>

<sup>18</sup> Abubakar, A. M., Daneji, B. A., Muhammed, A. I., & Chekene, I. A. B., "Driving faster financial inclusion in developing nations", Technology audit and production reserves, (2020), 2/4(52), 35–40, at: <http://journals.uran.ua/tarp/article/view/201120>

<sup>19</sup> World Bank, "SMEs Finance", at: <https://www.worldbank.org/en/topic/sme/finance>

<sup>20</sup> The Organization of Economic Cooperation and Development (OECD), "Financing SMEs and Entrepreneurs 2020: An OECD Scoreboard", at: <https://www.oecd-ilibrary.org/sites/8153da8d-en/index.html?itemId=/content/component/8153da8d-en>

<sup>21</sup> IDB, Brazil promotes productivity of micro, small and medium-sized enterprises with IDB support: <https://www.iadb.org/en/news/brazil-promotes-productivity-micro-small-and-medium-size-enterprises-idb-support>

and employing approximately 47.3% of the workforce.<sup>22</sup> While SMEs in Mexico account for 9 out of 10 businesses, only one-third of them have access to financing.<sup>23</sup> The result of limited access to financing constrains growth and subsequently lowers contributions to the economic development of Mexico as a whole. According to the International Finance Corporation, the financing gap for Mexico's SMEs is the second-highest among Latin American countries at an estimated USD 163 billion.<sup>24</sup> The lack of access to finance is further compounded by higher interest charged to SMEs. The OECD reports that on average, there is a 5.9% interest rate spread between SMEs and larger firms leading to even more prohibitive impacts on SMEs' growth prospects.<sup>25</sup> As a result, Mexico has the widest productivity gap between SMEs and large firms as well as the lowest labour productivity levels of SMEs among all OECD countries.<sup>26</sup>

Increasing access to financial services for SMEs and emerging economies has a positive impact on poverty reduction, reduction of inequalities, employment generation and overall economic development. Sustainalytics is of the opinion that the loans provided through the Framework can increase financial inclusion for SMEs and emerging economies, and therefore have positive social impact.

### Importance of financing renewable energy in emerging markets

Due to population and development increases, the IEA estimates that annual global energy demand will increase by 9% between 2019 and 2030, despite the recent decrease in demand from COVID-19 related economic contractions.<sup>27</sup> According to the IEA, the energy sector accounts for 75% of global greenhouse gas emissions.<sup>28</sup> Although, renewable energy experienced strong growth worldwide in 2019, accounting for almost 25% of global electricity generation, the rate of deployment must be ramped up to meet Paris climate goals,<sup>29</sup> which would require the share of low-carbon energy sources to increase to 65-70% of worldwide primary energy demand by 2050.<sup>30</sup>

Emerging economies are set to account for the bulk of emissions growth in the coming decades unless much stronger action is taken to transform their energy systems. In a scenario reflecting the existing policies, emissions from emerging economies are projected to grow by 5 gigatonnes over the next two decades.<sup>31</sup> However there is still huge gap between investment demands and investments in emerging markets. Emerging economies account for two-thirds of the world's population, but only one-third of total energy investment and 20% of global investment in clean energy technologies were mobilized in these markets in 2021.<sup>32</sup> Further, annual investments across all parts of the energy sector in emerging markets have fallen by around 20% in 2021 compared to 2016.<sup>33</sup>

Sustainalytics is of the opinion that investments towards pure-play fintechs dedicated in financing solar panel installations are impactful and are expected to bridge the current gap between investment demands and flows in emerging markets, help increase the share of renewables in their energy mix and contribute to their progress towards achieving its climate ambitions.

<sup>22</sup> Organization of Economic Cooperation And Development (OECD), "Financing SMEs and Entrepreneurs 2020", (2020) at: <https://www.oecdilibrary.org/docserver/061fe03den.pdf?expires=1591799913&id=id&accname=guest&checksum=C16E2D403439F007FE4307E9EC4F1FFC>.

<sup>23</sup> Euromoney, "Mexican banks struggling to plug SME funding gap", (2018) at: <https://www.euromoney.com/article/b1b2y2zrpdhmn9f/mexican-banksstruggle-to-plug-sme-funding-gap#:~:text=While%20small%20and%20medium%20sized,of%20GDP%2C%20according%20to%20Moody's>.

<sup>24</sup> IFC, "MSME Finance Gap- Assessment of the Shortfalls and Opportunities in Financing Micro, Small and Medium Enterprises in Emerging Markets", (2017) at: <https://www.smefinanceforum.org/sites/default/files/Data%20Sites%20downloads/MSME%20Report.pdf>.

<sup>25</sup> Organization of Economic Cooperation And Development (OECD), "Financing SMEs and Entrepreneurs 2020", (2020) at: <https://www.oecdilibrary.org/docserver/061fe03den.pdf?expires=1591799913&id=id&accname=guest&checksum=C16E2D403439F007FE4307E9EC4F1FFC>.

<sup>26</sup> Organization of Economic Cooperation And Development (OECD), "Mexico Policy Brief", (2017), at: <https://www.oecd.org/policy-briefs/mexico-raisingproductivity-in-small-traditional-enterprises.pdf>

<sup>27</sup> International Energy Agency (IEA), "World Energy Outlook 2020", at: <https://www.iea.org/reports/world-energy-outlook-2020>

<sup>28</sup> International Energy Agency (IEA), "Net Zero by 2050 - A Roadmap for the Global Energy Sector", at:

[https://iea.blob.core.windows.net/assets/deebef5d-0c34-4539-9d0c-10b13d840027/NetZeroBy2050-ARoadmapfortheGlobalEnergySector\\_CORR.pdf](https://iea.blob.core.windows.net/assets/deebef5d-0c34-4539-9d0c-10b13d840027/NetZeroBy2050-ARoadmapfortheGlobalEnergySector_CORR.pdf)

<sup>29</sup> International Energy Agency (IEA), "Global Energy Supply 2020", at: <https://www.iea.org/reports/global-energy-review-2020/renewables>

<sup>30</sup> IRENA, Global Renewables Outlook, 2020, at: [https://www.irena.org/-/media/Files/IRENA/Agency/Publication/2020/Apr/IRENA\\_Global\\_Renewables\\_Outlook\\_2020.pdf](https://www.irena.org/-/media/Files/IRENA/Agency/Publication/2020/Apr/IRENA_Global_Renewables_Outlook_2020.pdf)

<sup>31</sup> International Energy Agency (IEA), "Financing Clean Energy Transitions in Emerging and Developing Economies", at:

[https://iea.blob.core.windows.net/assets/6756ccd2-0772-4ffd-85e4-b73428ff9c72/FinancingCleanEnergyTransitionsinEMDEs\\_WorldEnergyInvestment2021SpecialReport.pdf](https://iea.blob.core.windows.net/assets/6756ccd2-0772-4ffd-85e4-b73428ff9c72/FinancingCleanEnergyTransitionsinEMDEs_WorldEnergyInvestment2021SpecialReport.pdf)

<sup>32</sup> Ibid.

<sup>33</sup> Ibid.

### Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 by the United Nations General Assembly and form an agenda for achieving sustainable development by the year 2030. The bonds issued under the VEF Sustainability Bond Framework advances the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Financial inclusion	8. Decent work and economic growth	8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium sized enterprises, including through access to financial services.
Financial fairness and wellness		8.10 Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all.
Financial infrastructure and enablement	10. Reduced inequalities	10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status. 10.c By 2030, reduce to less than 3 per cent the transaction costs of migrant remittances and eliminate remittance corridors with costs higher than 5 per cent.
Renewable Energy	7. Affordable and clean energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix

### Conclusion

VEF has developed the VEF Sustainability Bond Framework under which it intends to issue sustainability bonds and use the proceeds to finance equity investments made by the Company in fintech companies working to improve access to essential financial services in developing countries and finance pureplay companies to promote renewable energy. The VEF Sustainability Bond Framework outlines a process by which proceeds will be tracked, allocated, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the VEF Sustainability Bond Framework is aligned with the overall sustainability strategy of the Company and that the use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goals 7, 8 and 10. Additionally, Sustainalytics is of the opinion that VEF has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the proceeds.

Based on the above, Sustainalytics is confident that VEF is well-positioned to issue sustainability bonds and that the VEF Sustainability Bond Framework is robust, transparent, and in alignment with the four core components of the Green Bond Principles (2021) and Social Bond Principles (2021).

## Appendix

### Appendix 1: Sustainability Bond / Sustainability Bond Programme - External Review Form

#### Section 1. Basic Information

Issuer name:	VEF
Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable:	VEF Sustainability Bond Framework
Review provider's name:	Sustainalytics
Completion date of this form:	March 1, 2022
Publication date of review publication:	October 28, 2021

#### Section 2. Review overview

##### SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBP and SBP:

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds        | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting                                    |

##### ROLE(S) OF REVIEW PROVIDER

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification   | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other ( <i>please specify</i> ):                       |  |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

##### EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (*if applicable*)

Please refer to Evaluation Summary above.

#### Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

## 1. USE OF PROCEEDS

Overall comment on section (if applicable):

The eligible categories for the use of proceeds Financial Inclusion, Financial Fairness and Wellness, Financial Infrastructure / Enablement, Renewable Energy are aligned with those recognized by both the Green Bond Principles and Social Bond Principles. Sustainalytics considers that investments in the eligible categories will lead to positive environmental or social impacts and advance the UN Sustainable Development Goals, specifically SDG 7, 8, and 10.

### Use of proceeds categories as per GBP:

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Renewable energy   | <input type="checkbox"/> Energy efficiency   |
| <input type="checkbox"/> Pollution prevention and control  | <input type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation   | <input type="checkbox"/> Clean transportation  |
| <input type="checkbox"/> Sustainable water and wastewater management   | <input type="checkbox"/> Climate change adaptation   |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes                             | <input type="checkbox"/> Green buildings   |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input type="checkbox"/> Other (please specify):   |

If applicable please specify the environmental taxonomy, if other than GBPs:

### Use of proceeds categories as per SBP:

- |   |  |
|---|--|
| <input type="checkbox"/> Affordable basic infrastructure  | <input type="checkbox"/> Access to essential services  |
| <input type="checkbox"/> Affordable housing   | <input type="checkbox"/> Employment generation (through SME financing and microfinance)  |
| <input type="checkbox"/> Food security  | <input type="checkbox"/> Socioeconomic advancement and empowerment   |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBP | <input checked="" type="checkbox"/> Other (please specify): Financial Inclusion, Financial Fairness and Wellness, and Financial Infrastructure / Enablement. |

If applicable please specify the social taxonomy, if other than SBP:

## 2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

VEF's Board of Directors and Sustainability Bond Committee (SBC) are responsible for reviewing eligible investments and making investment recommendations based on the Framework's eligibility criteria. The SBC

will make investment recommendation to the Board of Directors for final approval. VEF has a due diligence process to ensure that private equity companies will use the funds to carry out activities aligned with the Framework's eligibility and targeting criteria, and to assess social and environmental risks relevant to companies. Sustainalytics considers the project selection process in line with market practice.

#### Evaluation and selection

- |   |   |
|---|---|
| <input checked="" type="checkbox"/> Credentials on the issuer's social and green objectives                                 | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories               |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Sustainability Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input checked="" type="checkbox"/> Summary criteria for project evaluation and selection publicly available                | <input type="checkbox"/> Other (please specify):  |

#### Information on Responsibilities and Accountability

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other (please specify):   |  |

### 3. MANAGEMENT OF PROCEEDS

Overall comment on section (*if applicable*):

VEF's processes for management of proceeds are overseen by the SBC and the Company's Board of Directors. VEF will use existing internal systems to track allocation of bond proceeds. Should any proceeds remain unallocated, they will be temporarily held in cash or short-term money market instruments. VEF intends to fully allocate net proceeds within 36 months of issuance. This is in line with market practice.

#### Tracking of proceeds:

- |   |
|---|
| <input checked="" type="checkbox"/> Sustainability Bond proceeds segregated or tracked by the issuer in an appropriate manner |
| <input checked="" type="checkbox"/> Disclosure of intended types of temporary investment instruments for unallocated proceeds |
| <input type="checkbox"/> Other (please specify):  |

#### Additional disclosure:

- |   |   |
|---|---|
| <input type="checkbox"/> Allocations to future investments only | <input checked="" type="checkbox"/> Allocations to both existing and future investments |
| <input type="checkbox"/> Allocation to individual disbursements | <input type="checkbox"/> Allocation to a portfolio of disbursements                     |

- Disclosure of portfolio balance of unallocated proceeds
- Other (please specify):

**4. REPORTING**

Overall comment on section (if applicable):

VEF intends to report on allocation of proceeds on its website on an annual basis until full allocation. Allocation reporting will include details such as amount invested per category, share of financing vs. refinancing, and balance of unallocated proceeds. In addition, VEF is committed to reporting on examples of investee companies and details of their impact, target population. Sustainalytics views VEF's allocation and impact reporting as aligned with market practice.

**Use of proceeds reporting:**

- Project-by-project
- On a project portfolio basis
- Linkage to individual bond(s)
- Other (please specify):

**Information reported:**

- Allocated amounts
- Sustainability Bond financed share of total investment
- Other (please specify): amount invested per category, share of financing vs. refinancing, and balance of unallocated proceeds

**Frequency:**

- Annual
- Semi-annual
- Other (please specify):

**Impact reporting:**

- Project-by-project
- On a project portfolio basis
- Linkage to individual bond(s)
- Other (please specify):

**Information reported (expected or ex-post):**

- GHG Emissions / Savings
- Energy Savings
- Decrease in water use
- Number of beneficiaries
- Target populations
- Other ESG indicators (please specify): examples of investments financed by means of Sustainability Bonds, including details of their impact for the target group - Number of

beneficiaries, i.e. loans granted

**Frequency:**

- Annual
  Semi-annual  
 Other (please specify):

**Means of Disclosure**

- Information published in financial report
  Information published in sustainability report  
 Information published in ad hoc documents
  Other (please specify): Sustainability Bond Report  
 Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

Where appropriate, please specify name and date of publication in the useful links section.

**USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer’s documentation, etc.)**

**SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE**

**Type(s) of Review provided:**

- Consultancy (incl. 2<sup>nd</sup> opinion)
  Certification  
 Verification / Audit
  Rating  
 Other (please specify):

**Review provider(s):**

**Date of publication:**

**ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP AND THE SBP**

- i. Second-Party Opinion: An institution with sustainability expertise that is independent from the issuer may provide a Second-Party Opinion. The institution should be independent from the issuer’s adviser for its Sustainability Bond framework, or appropriate procedures such as information barriers will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Principles. In particular, it can include an assessment of the issuer’s overarching objectives, strategy, policy, and/or processes relating to sustainability and an evaluation of the environmental and social features of the type of Projects intended for the Use of Proceeds.
- ii. Verification: An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or sustainability criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally or socially sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer’s internal tracking method for use of proceeds, allocation of

funds from Sustainability Bond proceeds, statement of environmental or social impact or alignment of reporting with the Principles may also be termed verification.

- iii. **Certification:** An issuer can have its Sustainability Bond or associated Sustainability Bond framework or Use of Proceeds certified against a recognised external sustainability standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. **Green, Social and Sustainability Bond Scoring/Rating:** An issuer can have its Sustainability Bond, associated Sustainability Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental and/or social performance data, process relative to the Principles, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material sustainability risks.

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