



SUSTAINABLE FINANCING FRAMEWORK

RATIONALE

The Basque Government has its own roadmap for the implementation of the 2030 Agenda in Euskadi. The Euskadi Basque Country 2030 Agenda reflects the alignment and contribution of the Basque Government's Program to the 17 Objectives and the 169 goals of the UN 2030 Agenda for Sustainable Development.

This Agenda represents a decisive step which underscores the determination of the Basque Executive to focus its public policies on the challenges identified in the 2030 Agenda, being one of the distinguishing characteristics, the commitment to promoting the territorial dimension and its adaptation at the local level. To do so, the Basque Government includes in its Program 93 of the 175 acquired commitments, 80 Planning Instruments, 19 Legislative Initiatives and 50 Indicators. An effort that will make it possible to effectively align public policies in Euskadi with this universal 2030 Agenda, and make visible, the contribution of Euskadi to the implementation of the 2030 Agenda and the achievement of the Sustainable Development Goals.

In this context, the Basque Government has prepared a four-year program to respond to the new reality marked by all kind of challenges, needs, objectives, obstacles and questions. For this reason, the General Secretariat of Social Transition and Agenda 2030 has been created; a new structure under the direct dependency of the Lehendakari (Prime Minister) designed to energize and coordinate, in and from the Basque Government, the strategies and the performance of three processed which are intertwined: the update of the Bizi Berri Plan for the adaptation of the social habits to the evolution of the Pandemic of the Covid-19 and to its consequences; the attention and the impulse to the main social conversions; the interdepartmental coordination of the Agenda 2030 in Euskadi.

In the previous Legislature, the impulse and the coordination of the Agenda 2030, developed from the General Secretariat of External Action, enabled the pioneer elaboration of the Agenda 2030 which represented a solid and referential base internationally. Based on the legacy, two opportunities spaces surged the social commitment in the Agenda 2030 and proactive management of the SDGs, which draft 4 axis for future performance:

1. **Divulgation:** Improving the communication mechanisms for higher social knowledge, education, training and raising awareness on the Agenda 2030 as a basis for preparing the citizens' accession, mobilization and implication channels on the fulfilment of the SDGs.
2. **Governance:** Update and improve the coordination mechanisms among different departments and institutions and seeking public, private and social participation, according to the challenges of the new phase of higher proactivity.
3. **Prioritization:** main commitments and emblematic projects which reflect the Basque implication with the transformational vocation of the Agenda.
4. **Evaluation:** optimization of the tracing processes, indicators and evaluation.

The definition of these 4 axis represents the basis for the acting strategy of this Legislature ¹and represent the main priorities for the Social Transition and Agenda 2030 Secretary.

¹ Basque Government program of the XII Legislature (2020-2024): <https://www.euskadi.eus/planificacion-de-la-xii-legislatura/web01-s1leheko/es/>.

In the Governing Council on December 15, 2020, [the Government's Strategic Plans for the XII Legislature 2020-2024](#) were approved.

"Berpiztu": Reactivate, Reborn. It is the Basque institutions' program for the reconstruction efforts to mitigate the economic and employment crisis generated by the Covid 19 health pandemic. The goal is to replace the jobs lost in the crisis and bring the unemployment rate below 10%.

The commitments made in this program are as follow;

- 1) Public investment 13,250 million for economic recovery and employment revitalization
- 2) Employment to bring the unemployment rate below 10%
- 3) Youth: a first work experience for more than 25,000 young people in transition programs from the educational world to the labour world, training with a commitment to recruitment, dual training for employment, youth entrepreneurship, and international specialization
- 4) Improving the quality of employment and gender equality: programs to reduce the pay gap between men and women, develop new models of co-responsible care, reconcile work and family life, and prosecute recruitment fraud.
- 5) R & D & i: commitment to increase public investment by 6% (annual average) to make the Basque Country a European pole in innovation and tackle global transitions in terms of opportunity.
- 6) European strategy: this program is aligned with the European Fund "Next Generation EU", which represents a global reference framework to align and direct public and private resources towards the construction of an ecological, digital and resilient Europe, through a sustainable and inclusive growth that reinforces social and territorial cohesion.
- 7) Sustainable development goals: respond to the sustainable development goals directly related to equality between women and men, technological challenges and social challenges, environmental challenges also play a fundamental role in accelerating the transition to renewable energy, urban energy rehabilitation criteria of energy efficiency and sustainable mobility with rail as a priority.
- 8) Industry: recognizes industry as the driving force behind the transformation and economic renaissance of the Basque Country. An advanced, digitized and internationalized industry. A new, more inclusive and participatory industry
- 9) Public employment: stability and renewal of the public administration, incorporating new information technologies and digitization to improve the quality of services to citizens.
- 10) Improving public services: physical and digital transformation of health and education systems. Health, aging and care are configured as revitalizing elements of new niches of economic and job opportunities.

On December 29, 2020, the Euskadi Next 21-16 program was approved by the Governing Council. This program is the investment program for the recovery, transformation and resilience of Euskadi that the Basque Government presented to qualify for the Next Generation EU Funds. Specifically, those from the Recovery and Resilience Facility -RRF-. This first version of the Basque program includes 188 investments in 8 strategic areas (components) -among which stand out the 16 Strategic Projects for the Recovery and Economic Transformation of the Basque Country -PERTE-

This program is a "living document" as until April 30 it can be completed. Therefore, the objective is to continue building a green, digital and inclusive Euskadi. It is built around supporting projects that involve

structural change and have a lasting impact on economic and social resilience, sustainability, long-term competitiveness and employment. Euskadi Next's goals in relation to the energy-ecological transition reach 63% of the RRF - they exceed the 37% defined by Europe - while those aimed at the digital transition reach 21% - a point higher than the threshold set by the EU.

In this context, the Basque Government has developed a Sustainable Financing Framework for defining financing instruments ("Sustainable Financing instruments") linked to both green and/or social projects. Proceeds of the Sustainable Financing instruments of the Basque Government will be allocated to a mix of beneficial environmental and/or social projects.

Sustainable Financing instruments, as defined in this Sustainable Financing Framework, can take different structures such as bonds, private placements, loans or Schuldscheins:

- Green Bonds, private placements, loans or Schuldscheins issued by the Basque Government. An amount equal to the net proceeds of the Green bond, private placement, loan or Schuldschein will be directed towards Eligible Green projects.
- Social Bonds, private placements, loans or Schuldscheins issued by the Basque Government. An amount equal to the net proceeds of the Social bond, private placement, loan or Schuldschein will be directed towards Eligible Social projects.
- Sustainability Bonds, private placements, loans or Schuldscheins issued by the Basque Government. An amount equal to net proceeds of the Sustainability bond, private placement, loan or Schuldschein will be directed towards a combination of Eligible Green and Eligible Social projects.

The Basque Government aims to play an important role in the development of the Sustainable Finance and impact investment while promoting responsible and efficient finance to address the environmental, economic and social challenges in the region.

This Sustainable Finance Framework is aligned with the Green Bond Principles (GBP), Social Bond Principles (SBP) and Sustainability Bond Guidelines 2018 and LMA's Green Loan Principles 2018 ("GLP"), in order to facilitate transparency, disclosure and integrity of Basque Government Sustainable Finance instruments.

This Sustainable Finance Framework covers the four core components of the GBP, SBP and Sustainability Bond Guidelines

1. Use of Proceeds
2. Project Evaluation and Selection
3. Management of Proceeds
4. Reporting

The framework also covers:

5. External Review.

1. Use of Proceeds

An amount equal to the net proceeds of the Sustainable Finance instrument will be directed towards projects that meet the eligibility criteria specified below.

1.1 Eligibility Criteria

Eligible categories and projects are included in the General Budget and corresponding budgetary programmes of the Basque Government and will always be part of the current budget of the fiscal year of issuance date of each Sustainable Finance instrument.

To be eligible for the proceeds of the Sustainable Finance instruments, the projects must have one or more environmental and / or social objectives under the eligible categories that are detailed below.

Social objectives

a) Affordable housing

Use of proceeds: The proceeds will be used to promote and increase the availability and access to social housing in the Basque country.

Eligible projects include, but are not limited to:

- (i) Construction of new social housing in a rental regime and new rental accommodations (ADA). The latter are different from the first because they are very basic small apartments, between 25 and 60 square meters, with common facilities and services in the ground floor of the building and aimed preferably at young people to accelerate their emancipation. Their availability is of a mandatory rotating nature, since, at the most, a person can be five years in this type of accommodation;
- (ii) Financing of the Bizigune Program to ensure that privately owned homes, which are uninhabited within the Autonomous Community of Euskadi, are placed on the rental housing market, giving advantages to the owners of these dwellings, as to the current and future tenants. The owners benefit from the guarantee of rent collection (maximum of 650 euros), and the tenants benefit from a rent subsidy, so that it does not exceed 30% of their income;
- (iii) Financing of the Complementary Housing Benefit (PCV) aimed at beneficiaries of the Guaranteed Income "Renta Garantía de Ingresos" (RGI), and the Social Emergency Aid (AES) aimed at vulnerable people to meet the expenses derived from the rental of housing
- (iv) Financing of the Economic Housing Benefit (ENP) for people who do not have the economic resources or means necessary to obtain a home and whose annual income is less than 9,000, 12,000 and 15,000 euros depending on the units of coexistence are 1, 2 or 3 or more members, respectively;
- (v) Financing of the Gaztelagun Program that provides assistance paying rent to young people between 23 and 34 years old, covers up to 50% of the monthly rent for up to three years, for maximum rents of 650 euros and 750 euros in towns and cities, respectively. The beneficiaries must have a regular source of income that gives them annual gross income above €3,000 and equal to or less than € 18,000, € 24,000 and € 28,000, depending on whether the residents are depending on whether the beneficiaries are individually, in a coexistence unit or in the special case of large families, respectively.

- (vi) Comprehensive rehabilitation and / or renovation of homes and buildings, for the comprehensive improvement of energy efficiency, accessibility and mobility of people, the conservation and maintenance of buildings, intelligent monitoring and fire safety, including materials, facilities and labor costs of the protectable rehabilitation works.

Context

In 20218, the Basque Government has approved the Housing Master Plan 2021-2023² with the purpose of promoting a housing policy that facilitates access to affordable housing for disadvantaged people and middle class, responding to the subjective right to housing³ and favouring access to housing on a rental basis. Likewise, it will sign a new Social Pact for Housing 2021-2036 with the economic and social agents that will guide Basque housing policy for the next 15 years. To increase access to housing, the Basque Government provides aid through the following benefit programmes: Complementary Housing Benefit (PCV) and the Social Emergency Aid (AES) for people with income below the Guaranteed Income (RGI) and the Economic Housing Benefit (PEV) for groups with a subjective right to housing granted that do not have access to social rent. These rental benefits will be unified into one foreseeably in this same 2021. Minimum income is not required to access the PCV, the AES or the ENP. On the other hand, the PCV requires beneficiaries to be more than 23 years and in the AES and the PEV requires only the age of majority. The single benefit for the rental of housing will unify PCV and PEV requirements to establish a single and unified access format.

b) Access to essential services: Education and Healthcare

a. Education

Use of proceeds: Proceeds of the sustainable finance instrument will be allocated to support public educational programmes for young people between 14 and 25 years old and to support the successful integration of disadvantaged groups in the education system. Disadvantaged group refers to young people in a situation of greater vulnerability because they have not finished Compulsory Secondary Education (ESO).

Eligible projects include, but are not limited to:

- (i) Development of haurreskolak (day-care centers);
- (ii) Financing of programmes to improve the performance of students with language barriers or who perform below average (e.g. Bidelaguna Programs, Hamaika Esku), specific educational reinforcement Programmes, Complementary Education Programs (e.g. Osatuz / Bideratuz), as well as the territorial programs for the eradication of absenteeism and de-schooling;
- (iii) Programs that guarantee an adequate education for migrant students within inclusive and intercultural schools, such as incorporating the needs of linguistic reinforcement centers that teach to migrant students who do not speak the languages of the schools, specific intervention programs, etc.;
- (iv) Programmes that improve access of young people in a situation of greater vulnerability to vocational training and boost their transition to employment;
- (v) Construction, renovation and maintenance of schools and public education centers for professional training;
- (vi) Financing the development and maintenance of public universities;

² http://www.garraioak.ejgv.euskadi.eus/contenidos/informacion/ovv_pdv_2018_2020/es_def/adjuntos/GPH_2018_2020_Summary.pdf

³ The subjective right to housing refers to the right of citizens to demand housing from the authorities, including through court proceedings.

- (vii) Acquisition of equipment to ensure quality education in public education schools;
- (viii) Attraction of research talent to integrate it into the Basque University System through the hiring of research teaching staff;
- (ix) Financing of educational programmes and professional training for young people at risk of exclusion (for example, functional dysfunction and other minorities) or unemployment;
- (x) Programmes that support the integration of students with special educational needs derived from motor, cognitive disabilities, etc., and improve the quality of their education;
- (xi) Financial support to university students and non-university students (exclusive to relevant target groups, such as students who require this support based on socioeconomic criteria, such as income and equity level, or students with disabilities);
- (xii) Construction and development of educational infrastructures;
- (xiii) Financing the RENOVE plan for educational centers (renovation of buildings and centers);

Context

It is considered an essential element to promote equal opportunities and the construction of a democratic, supportive and responsible coexistence, as well as to generate economic progress and well-being. The strategic planning in education has three strategic plans.

First, the Heziberri 2020 Plan aimed at improving our educational system, aims to collect the strategic lines outlined in the European sphere with respect to education and training for 2020, with the challenges of the Basque educational system, in order to advance towards the excellence of the system with firm steps and achieve a fair, cohesive and active society.

Secondly, the III University Plan 2019-2022; The Basque University System Plan is a framework of reference for the development and transformation of Basque society through higher education, research of excellence and the transfer of knowledge.

It is a plan that seeks to strengthen the Basque University System, through a university and research policy, relying on specialized strategies and plans that are developed based on five axes: research of excellence, university-company relations, training based on methodologies and innovative methods, internationalization and the university community.

In third place, the [IV Basque Vocational Training Plan](#). It aims to promote the vocational training, adapting to the opportunities it offers and the needs demanded by the fourth industrial revolution. The advance towards environment 4.0, digitization and connectivity, intelligent systems and artificial intelligence, forces the transformation of Vocational Training. Intelligence, sustainability, inclusion and solidarity are some of the fundamental elements in the development of the Plan. Therefore, it is necessary to equip students with new necessary tools that allow them to be masters of their own future in a new Society 4.0 model..

b. Healthcare

Use of proceeds: Proceeds of the sustainable finance instrument will be allocated to projects aimed to guarantee universal access to quality public health care system for the citizens of the Basque country (including, but not limited to, vulnerable groups).

Eligible projects include, but are not limited to:

- (i) Development, maintenance, adaptation and renovation of equipment, technology and health facilities as well as construction and refurbish of primary and mental health facilities and centers as well as hospitals (infrastructure) integrated in the public health service system .; Providing health care in areas with special needs or aimed at vulnerable populations and groups, guaranteeing universal access to health services by eliminating physical and transport barriers due to the functional diversity

of people, gender barriers, stigma barriers produced by certain diseases and disorders, and social, cultural and economic barriers.

- (ii) Financing of sanitary equipment or provision of diagnostic services for primary care and mental health centers and hospitals in the public system.
- (iii) Personalization of care through precision medicine and the use of digital therapies through personal devices
- (iv) Research and innovation in health to improve interrelation and collaboration among the scientific-technological systems, environmental protection or business system
- (v) Strengthening of public health systems and, specifically, of its alert systems, information, epidemiology and rapid response to risks that pose a threat to health
- (vi) Programs, initiatives and financing plans for health promotion, to prevent and treat specific diseases and for the prevention and treatment of addictions

Context:

In the Basque Country, health is conceived as a priority for the Basque Government as a whole, from a transversal, interdepartmental, inter institutional and inter sectorial operations. This integral nature of health is reflected in the multiplicity of government and interdepartmental plans that, based on the “Health in All Policies” paradigm, contribute from different sectors to improve the health, well-being and quality of life of people, as well as guaranteeing equal access to public services, particularly in the field of health. Among all government plans, the Health Plan is one of the main tools to design, organize and materialize health policies, through lines and actions to promote, prevent, treat and rehabilitate public health, based on the principles of universality, equity, solidarity, quality of services, efficiency, sustainability and citizen participation.

The Basque Government's health policies focus on ensuring people's well-being and achieving health without inequalities, closer to and at the service of people, also taking into account new challenges, such as the following:

- face the covid-19 pandemic and its consequences and prepare the system to deal with new emerging diseases
- continue to improve the public health system in the Basque Country, focusing on integrated care and continuity of care and on strengthening public health
- continue to develop a sustainable and healthy environment, and to incorporate an active commitment with the environment into the health management.

c) Socioeconomic advancement

Use of proceeds: Proceeds of the sustainable finance instrument will be allocated to projects that maintain and foster the Basque income guarantee model and promote social inclusion in the Basque country.

Eligible projects include, but are not limited to:

- (i) Financing the Guaranteed Income “Renta Garantía de Ingresos” (RGI), which provides financial aid to cover the basic needs of the beneficiaries. The following table shows the amounts of the RGI according to the configuration of the family cohabitation unit;

Nº PEOPLE	GENERAL- MAXIMUM €/MONTH	PENSIONER - MAXIMUM €/MONTH
1	706,22 €	810,28 €
2	906,84 €	1.012,85 €
3 or more	1.003,14 €	1.093,88 €

- (ii) Financing of the Social Emergency Aid programmes;
- (iii) Financing support services for families with children;
- (iv) Financing programs to guarantee equal opportunities after childbirth and guarantee their well-being;
- (v) Financing of expenses related to the provision of goods and services to support victims of gender violence;

Context

The IV Basque Inclusion Plan 2017-2021 includes a triple objective:

- Prevent and address the root causes of job insecurity, boost the labour insertion of young people and / or with greater employability difficulties and advance in the improvement of the Basque Employment System
- Preserve and improve the Basque income guarantee model, guaranteeing its social legitimacy and its economic sustainability in the coming years
- Promote new programs of social inclusion in terms of active citizenship and social participation

In addition, there are other relevant strategic plans in the field of social policies, such as the IV Inter-Institutional Plan to support families in the Basque Country 2018-2022.

d) Employment generation

Use of proceeds: Proceeds of the sustainable finance instrument will be used to support employment generation in the different economic sectors and to finance programs that support unemployed people in education and training, in order to reduce the unemployment rate below 10% by the end of the term.

Eligible projects include, but are not limited to:

- (i) Support programmes for employment in local commerce, the local primary sector and the tourism sector, including training courses;
- (ii) Support programmes that foster the social economy, entrepreneurship, self-employment and micro-entrepreneurship;
- (iii) Support for the development of District Employment Plans in areas of the Basque Country that exceed 12.4% of unemployment (current average of the Basque Country, 11.1%);
- (iv) Financing of the Lehen Aukera Program (programme to foster the employability of young or unemployed people through a labour contract for the purpose of obtaining a first work experience);
- (v) Financing programmes of dual training that support educational-labour transition, including programmes to develop employment plans for young people;
- (vi) Renovation programs;
- (vii) Financing programmes for employment, including but not limited to programmes for youth return to education/ working market and training for employment;

Context:

To reduce unemployment below 10%, the Basque Government encourages public and economic policies with the objective to create more employment and improve employment in the framework of sustainable growth. Addressing employment-growth binomial requires integrating both specific employment policies and policies that affect economic development. Employment and economic reactivation are inextricably linked. Thus, the Basque response to this commitment on employment and economic reactivation is the "Basque Employment Strategy 2030", "[Framework Program for Employment and Economic Reactivation: Euskadi 2020](#)". This Framework Program has an agglutinating character and is constituted as a Country strategy, which is subsequently developed and specified in five strategic Plans: [2021-2024 Strategic Employment Plan](#), [2017-2020 Industrialization Plan](#), [2020 Science-Technology and Innovation Plan \(PCTI 2020\)](#), "[Basque Country](#)" [2020 Internationalization Strategy and Tourism, Trade and Consumption Plan 2017-2020](#). The use of proceeds categories fall within the focus areas of these strategic plans.

Environmental objectives**e) Renewable Energy**

Use of proceeds: Proceeds of the sustainable finance instrument will be allocated to projects and programmes aimed at promoting the increase of renewable energy in the Basque Country. Proceeds will be used to finance the renewable energy priorities included in the [Euskadi Energy Strategy 2030](#); Wind, Biomass (waste to energy), Solar Photovoltaic, Geothermal and Marine renewable energy.

Eligible projects include, but are not limited to:

- (i) Support programmes that increase the use of biomass (Energy from waste and residuals of agroforestry) for public services;
- (ii) Finance programmes that encourage the use of renewable energy in households, public and private buildings and the industry (solar, wind and geothermal);
- (iii) Financing measures and implementation programs that increase the availability of renewable energy, including investments in biomass energy (waste to energy) utilization facilities, investments in geothermal utilization facilities and investments for the demonstration and validation of emerging marine renewable energy technologies;
- (iv) Financing of new low-power installations, including the installation and renovation of onshore and offshore wind farms and biomass (waste energy) plants;

f) Clean transportation

Use of proceeds: Proceeds of the sustainable finance instrument will be used to reduce the dependence on fossil fuel transport in accordance with the lines of action included in the [Master Plan for Sustainable Transport of Euskadi 2030](#).

Eligible projects include, but are not limited to:

- (i) Programmes that promote the progressive decarbonisation of transport (Financing measures and implementation programs that support hydrogen, fuel cell and electric vehicles, e.g. electric taxis in cities, electric vehicles for public buses, RKARGA program, which offered free reloads of electric vehicles for taxi drivers, companies and self-employed individuals to promote electric vehicles.);
- (ii) Finance the development and implementation of the Comprehensive Electric Mobility Plan,

- (iii) Programmes that promote sustainable mobility and the use of more efficient modes of transport, such as electric buses, trams, trains, etc.;
- (iv) Programmes that promote the renewal of the fleet of vehicles, both light and heavy, with hybrid until 2025 with direct emissions below 50 gCO₂e/km and electric vehicles; This program falls within the Green Public Purchase Program that favours the renewal of the fleet. The former programme ended in December 2020 is being replaced by a new program with a 2030 time horizon.
- (v) Financing of grants programs to encourage energy savings and energy efficiency projects in transport, boosting the deployment of electric vehicles;

g) Pollution prevention and control

Use of proceeds: Proceeds of the sustainable finance instrument will be used to improve the quality of water, air and soil, managing environmental risks and reducing human diseases related to environmental determinants, in accordance with the lines of action set out in the [Environmental Framework Programme 2030](#). The Biodiversity Strategy of the Basque Country 2030 and the Circular Economy Strategy 2030 that was approved in January 2020 as well as the new Waste Prevention and Management Plan 2030 that is already being drawn up.

Eligible projects include, but are not limited to:

- (i) Ensure air quality and improve the management of contaminated soils;
- (ii) Programmes to enhance ecosystem services through the restoration of degraded areas, such as recovery of industrial land for new uses;

h) Sustainable water and wastewater management

Use of proceeds: Proceeds of the sustainable finance instrument will be allocated to projects and programmes that will support the protection and improvement of the ecological state of water masses; projects and programmes that will support not only the improvements of water quality and its supply, but also the sanitation and urban sewage treatment. Additionally, proceeds of the sustainable finance instrument will be allocated to resolve water scarcity, waste minimization of water consumption, or recycling to alleviate sewage water generating.

Eligible projects include, but are not limited to:

- (i) Maintenance and restoration work of water channels to improve water quality;
- (ii) To obtain a good state of surface and underground water bodies by controlling, for example, landfills ;
- (iii) Monitoring the status of water masses to ensure water quality;
- (iv) Collaborations with water services bodies related to supply, sanitation and purification;
- (v) Programmes to ensure quality long-term water supply and quality and deploy demand management instruments;
- (vi) Development, construction and maintenance of wastewater management infrastructure, including sewage treatment plants, etc.;

i) Terrestrial and aquatic biodiversity conservation

Use of proceeds: Proceeds of the sustainable finance instrument will be allocated to projects and programmes aimed at promoting protection and restoration of ecosystems in the Basque Country as it is included in the [Biodiversity Strategy of the Basque Country 2030](#) and [2050 Climate Change Strategy Basque Country \(Klima 2050\)](#).

Eligible projects include, but are not limited to:

- (i) Studies to improve knowledge on wild flora and fauna, updating the Basque Catalogue of Endangered Species and improvement of its conservation;
- (ii) Programmes that aim to protect and restore ecosystems;
- (iii) Monitoring and Evaluation of the Natural Heritage of the Basque Country (including the “Red Natura 2000”);
- (iv) Financing of actions and educational activities to enhance and to promote the involvement of the community, public awareness and knowledge of biodiversity and its protection;

j) Energy efficiency

Use of proceeds: Proceeds of the sustainable finance instrument will be used to build a low carbon energy model and anticipate the risks of climate change following the guidelines and lines of action foreseen in the [2030 Euskadi Energy Strategy](#) and [2050 Climate Change Strategy Basque Country \(Klima 2050\)](#).

Eligible projects include, but are not limited to:

- (i) Programmes that promote energy savings and management in the industry, including financing of grants programs to encourage energy savings and energy efficiency projects, through e.g. upgraded equipment, smart meters, etc.;
- (ii) Finance the improvement of energy efficiency and demand management, development of smart grids and promotion of cogeneration;
- (iii) Programmes to promote energy improvements in commercial and residential buildings and homes (Promotion of the improved insulation in buildings, upgrading of energy-consuming equipment and promotion of the implementation of renewable energies in buildings);
- (iv) Programmes to promote energy efficiency in public administration buildings and public housing, e.g. financing of upgrades in equipment and renovation that increases the energy efficiency of the building;
 - specific refurbishments to dedicated energy efficiency works such as HVAC systems renovation and improvement (excluding fossil-fuel based heating systems); Geothermal energy systems roll-out; Insulation retrofitting; LED roll-out; Solar panels installation; Heat Recovery Systems; Motion detectors roll-out...
 - Major Refurbishments of existing buildings meeting at least one of the following eligibility criteria:
 - Buildings meet the Near Zero-Energy Buildings (NZEB) low consumption building standards post-refurbishment;

- Buildings will have at least 30% of expected energy-efficiency gains post-refurbishment;
- Buildings will be part of the top 15% most energy efficient buildings of the national stock post-refurbishment;
- Buildings will achieve a level of energy performance equivalent to the Energy Performance Certificate grade of B or above post-refurbishment

k) Climate Change adaptation

Eligible projects include, but are not limited to:

- (i) Financing of plans of action and activities to reduce the impacts of extreme climatic events in vulnerable areas, such as flood prevention, landslide, impact in coastal areas, etc .

1.2 Exclusionary Criteria

The use of proceeds may include capital and operating expenditures of eligible project categories and programmes, as well as indirect lending to projects such as grants for private and public organizations and consortiums for special purposes. Only Basque Government's own expenditures (net of EU grants, EIB loans or other revenues earmarked for specific purposes) are eligible. Specific sections of the relevant budgetary programmes that will be excluded include:

- Personnel expenditures (Chapter 1 of the budgetary programmes),
- Financing costs (Chapter 3 of the budgetary programmes),
- Contingency Funds (Chapter 5 of the budgetary programmes),
- Financial assets (Chapter 8 of the budgetary programmes)
- Financial liabilities (Chapter 9 of the budgetary programmes)

2. Process for Project Evaluation and Selection

The process to select and to evaluate potential eligible projects and programmes from the General Budget is performed by the Basque Government Sustainable Financing Committee. Each Department carries out an ex - ante evaluation of the impact indicators of the projects, in addition to the environmental impact assessment, and other actions foreseen in the regulation. This Committee comprises four representatives of the Department of Finance and Economy, and a representative of each of the following departments: Economic Development, Sustainability and Environment, Labor and Employment, Territorial Planning, Housing and Transportation, Education and Health Economic Development and Infrastructure. In addition, the Sustainable Financing Committee will request the participation of other representatives from other departments of the Basque Government or those previously mentioned when it appreciates the need for additional knowledge or specific expertise.

The Basque Government Sustainable Financing Committee will select eligible projects or programmes from the sections of the General Budget that align with the eligibility criteria defined in this Sustainable Financing Framework.

As not all activities in the selected budget programmes might be eligible according to the Sustainable Financing Framework, the Basque Government will provide investors with information regarding the percentage of each eligible budget programme that was eligible for each Sustainable Financing instrument.

3. Management of Proceeds

The proceeds of the Sustainable Financing instruments will be allocated to eligible budgetary programmes in the General Budget of the Basque Government, corresponding to the fiscal year of the Sustainable financing. The total expenditures required for the eligible programmes will equal or exceed the net Sustainable financing proceeds. This will ensure compliance even when eligible programmes or budgets are impacted unexpectedly.

The proceeds from the Sustainable Financing instruments will be directly allocated to the eligible projects at settlement. In the event the whole proceeds cannot be allocated, the Basque Government will temporarily keep the unallocated funds in any form of cash or liquidity position or time deposits with banks. This event would be monitored by the Financial Department of the Basque Government's Financial Policy Department and reviewed by the Sustainable Financing Committee.

The Basque Government has internal systems in place to track proceeds of its financings, and to account for all eligible programmes. Thus, the Committee will monitor and prevent any such double allocation of proceeds.

In the case of any selected eligible program becomes ineligible or has been cancelled, the Basque Government will re-allocate the proceeds of the Sustainable Financing instruments to another eligible programme.

4. Reporting

4.1 Allocation Reporting

Allocation reporting will be available to investors within one year from the date of the Sustainable financing and annually until the proceeds have been fully allocated. The reporting will produce insights into the total amount provided to the various eligible budgetary programmes and the total of each eligibility category. The allocation reporting will be made available on [the Basque Government's website](http://www.euskadi.eus/gobierno-vasco/finanzas-segueros/inicio/)⁴.

4.2 Impact Reporting

The Basque Government will provide a dedicated Sustainable Financing impact report for investors within one year from the financing date and annually until the proceeds have been fully allocated, with estimates of the main environmental or social impacts or outputs of the eligible programmes, where feasible. Some case studies of projects may be provided to illustrate the positive impact.

⁴ <http://www.euskadi.eus/gobierno-vasco/finanzas-segueros/inicio/>

Relevant social and environmental impact indicators could include:

Social Eligible Categories	Sample of impact indicators
<i>Affordable housing</i>	Households benefiting Families with public renting
<i>Education</i>	Scholarship recipients
<i>Healthcare</i>	Life expectancy Disability-free life expectancy Quality of life (EQ-5D-5L) Per capita health expenditure in the Basque Country Medical staff per 1000 inhabitants Nursing staff per 1000 inhabitants
<i>Socioeconomic advancement</i>	Number of people receiving emergency subsidy Number of people receiving family subsidy People receiving Guarantee Income
<i>Economic inclusion</i>	Number of jobs created

Environmental Eligible Categories	Sample of impact indicators
<i>Renewable Energy</i>	Projects subsidized CO2 emissions saved (tons/year) Expected renewable energy capacity installed (MW) Expected renewable energy production distributed in MWh Ex-ante estimation of annual renewable energy recovered (MWh)
<i>Clean Transportation</i>	CO2 emissions saved (tons/year) Estimated annual GHG emissions reduced/avoided (in tCO2e/year) Passenger kilometers (i.e. cumulated distance travelled by passengers, in km)
<i>Pollution prevention and control</i>	Measuring campaigns Number of person with daily information New accredited stations Business queries resolved Reports on soil contamination Number of enterprises subsidized Emissions of the main atmospheric pollutants Air quality index Urban concentration of Particulate Matter (PM10) and / or ozone

⁵ The issuer has started to monitor the KPI “Green Employment generation” together with Eustat (based on the European methodology). Since this KPI is grouped in activities much broader than those included in the eligible projects, the issuer might inform about its performance in future bond reporting to give more context to the impact of some of the projects. ⁵

https://www.eustat.eus/elementos/ele0017700/empleo-equivalente-a-tiempo-completo-del-sector-de-bienes-y-servicios-ambientales-de-la-ca-de-euskadi-por-grupos-de-actividad-y-ambitos-ambientales-p/tbl0017793_c.html

<i>Sustainable Water and wastewater management</i>	Number of actions Hectares preserved or restored Rivers assessed Annual reduction in water consumption (m3/year) Expected volume of water treated (m3/year) / Project specific targets and results
<i>Terrestrial and aquatic biodiversity conservation</i>	Number of visitors Technical studies financed Hectares with executed actions Km of routes improved
<i>Energy Efficiency</i>	Saved materials (tons/year) Number of young taught Ex-ante estimation of annual energy savings (MWh) Ex-ante estimation of annual Greenhouse Gas (GHG) emissions reduced or avoided (tCO ₂ e)
<i>Climate Change Adaptation</i>	Total Emissions of Greenhouse Gases measured in CO ₂ equivalent, per inhabitant Consumption of CO ₂ equivalent per kw / hour Tons of CO ₂ per year reduced Kilograms of particles avoided in the atmosphere Kilograms of nitrous oxide avoided per year Total New surface of green areas opened to the public (m ²) Total surface of new green areas on buildings : green roofs, facades and green walls, etc. (m ²) Total number of planted trees

5. External Review

5.1 Second Party Opinion

The Basque Government has hired Sustainalytics to provide a Second Party Opinion on the Basque Government Sustainable Finance Framework. Sustainalytics has reviewed the Sustainable Finance Framework and its alignment with the four pillars of the Green Bond Principles, Social Bond Principles, Sustainability Bond Guidelines 2018 and LMA's Green Loan Principles.

The Second Party Opinion, as well as the Sustainable Finance Framework hereof, will be published and will make available for market information on the website of the Basque Government (<http://www.euskadi.eus/gobierno-vasco>) and on the Resource Centre of the Green Bond Principles (<https://www.icmagroup.org/green-social-and-sustainability-bonds/resource-centre/>).