

Second-Party Opinion
Navarra Sustainable Finance
 Government of Navarra

Evaluation Summary

Sustainalytics is of the opinion that the Navarra Sustainable Finance Framework is credible and impactful, and aligns with the Sustainability Bond Guidelines 2018. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds are aligned with those recognized by both the Green Bond Principles and Social Bond Principles. Sustainalytics considers that projects within the four specified social areas and the eight specified environmental areas to have positive environmental or social impacts and to advance the UN Sustainable Development Goals.



PROJECT EVALUATION / SELECTION Navarra has established an Interdepartmental Commission, consisting of representatives from all government departments, to select eligible sections of the General Budget for financing under the Framework. Sustainalytics considers this to be in line with market practice.



MANAGEMENT OF PROCEEDS Navarra will use its internal systems to track the proceeds, and intends to allocate funds from each sustainable finance instrument to budgetary programmes within the same fiscal year. Pending allocation, funds will be temporarily invested in any form of cash, liquidity position or time deposits within banks or other forms of available short-term liquid investments. Sustainalytics is of the opinion that this process is in accordance with market practice.



REPORTING The government of Navarra commits to providing allocation and impact reporting to investors within one year from the date of any Sustainable Finance instrument and, afterwards, annually until the net proceeds have been fully allocated. Allocation reporting will be provided at the category level, while impact reporting will include quantitative and qualitative outcomes of financed projects. Sustainalytics is of the opinion that this process is in accordance with market practice.

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Report Sections

Introduction.....	2
Sustainalytics' Opinion	3
Appendices	11

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Introduction

Navarra is an autonomous community in northern Spain with a population of approximately 650 thousand people. Navarra is one of the wealthiest and most well-developed regions in the country, ranking in the top three in median income, gross regional product per capita, and human development index, and is committed to continuing to advance the development and environmental sustainability of the region.

The Government of Navarra (“the Issuer”, “the Government” or “Navarra”) has developed the Navarra Sustainable Finance Framework (the “Framework”) under which it is planning to issue sustainable finance instruments, including but not limited to green, social and sustainability bonds, loans, and other instruments, and use the proceeds to finance, in whole or in part, projects that address environmental, social, and economic challenges. The Framework defines eligibility criteria in 12 areas:

1. Affordable Housing
2. Access to Essential Services: education and healthcare
3. Socioeconomic advancement
4. Employment generation including through the potential effect of SME financing and microfinance
5. Renewable Energy
6. Clean Transportation
7. Pollution prevention and control
8. Sustainable Water and Waste Water Management
9. Energy Efficiency
10. Environmentally Sustainable Management of Living Natural Resources and Land Use
11. Climate Adaptation
12. Terrestrial and Aquatic Biodiversity Conservation

The Region of Navarra engaged Sustainalytics to review the Navarra Sustainable Finance Framework, dated April 2019 and provide a second-party opinion on the Framework’s environmental credentials and its alignment with the Green Bond Principles 2018 (GBP).¹ This Framework has been published in a separate document.²

As part of this engagement, Sustainalytics held conversations with various members of the Region of Navarra’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 Region of Navarra’s Sustainable Finance instruments. Sustainalytics also reviewed relevant public documents and non-public information.

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

¹ The Green Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>

² The Navarra Sustainable Finance Framework is available on Navarra’s website at: https://www.navarra.es/home_es/Gobierno+de+Navarra/Presupuesto/Deuda+Publica/

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Navarra Sustainable Finance Framework

Summary

Sustainalytics is of the opinion that the Navarra Sustainable Finance Framework is credible and impactful, and aligns with the four core components of the Green Bond Principles 2018 (GBP) and Social Bond Principles 2018 (SBP). Sustainalytics highlights the following elements the Framework:

- Use of Proceeds:
 - The twelve use of proceeds categories of the Framework are recognized as impactful by the GBP and/or SBP.
 - Sustainalytics recognizes that the GBP, SBP and SBG prefer project-based lending and financing, and that there is, in general, less transparency with non-project-based lending. For projects related to SME support, R&D, social services, and capacity-building in the areas of climate adaptation and sustainable land use, the Framework allows for the inclusion of non-project-based financing. Nevertheless, Sustainalytics considers that the financing contemplated by the Framework will have environmental and/or social benefits, and encourages Navarra to provide granular reporting on these initiatives to provide additional transparency to investors.
 - Within the category of employment generation including SME lending,³ the Framework specifies numerous programmes and the targeted groups which will benefit; Sustainalytics views positively this clarity.
 - The Framework provides for the financing of education and healthcare services. While some initiatives eligible in the category are specifically targeted to vulnerable populations, others support the existing public health and education systems. Sustainalytics recognizes that by advancing the widely accessible public systems offered in the Region, that social benefits will accrue to both disadvantaged groups as well as the population as a whole.
 - Navarra's investments in affordable housing, including the construction and maintenance of housing projects as well as specific programmes promoting affordable housing and rental supports, are targeted to vulnerable groups, and are conducted in line with established regulations such as the *Ley foral de derecho a la Vivienda en Navarra*⁴ and the *Social Integration Rental Housing Program (VAIS)*.⁵ Sustainalytics considers that investments in line with these policies will provide social benefits.
 - Navarra's programmes for socioeconomic advancement include guaranteed income, pensions, and other basic social services. In the Region, the gateway to basic social services is administered at the local level, as defined by the *Decreto foral 33/2010, de 17 de mayo, por el que se establece la zonificación de servicios sociales de la Comunidad Foral de Navarra*.⁶ Sustainalytics views positively the use of proceeds which provides these local units with appropriate funding to supply basic social services such as social orientation, promotion of care for people in dependent situations, and support for families with children undergoing medical care.
 - The Framework includes investments in renewable energy, namely solar, wind, hydro <20MW, and biomass. Eligible biomass projects include certified forestry products and agricultural residue that do not deplete carbon pools or compete with food sources, which Sustainalytics views as mitigating environmental and social risks, however, Sustainalytics also notes that Navarra has not set emissions intensity thresholds for its biomass related expenditures. As such Sustainalytics highlights limitations with regards to the Region's approach to biomass

³ Navarra relies upon the European Union's definition of micro, small and medium-sized enterprises, namely a company with a turnover of less than 50 million euros per year or whose annual balance sheet does not exceed 43 million euros and which employs less than 250 people. See <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2003:124:0036:0041:en:PDF>.

⁴ <http://www.lexnavarra.navarra.es/detalle.asp?r=29980>

⁵ http://www.navarra.es/home_es/Servicios/ficha/7424/Convocatoria-de-subsenciones-para-el-desarrollo-del-programa-de-Vivienda-de-Integracion-Social

⁶ <http://www.lexnavarra.navarra.es/detalle.asp?r=29985>

energy, and encourages Navarra to set emissions intensity thresholds that are aligned with a 2-degree global warming scenario.

- Navarra has disclosed that, within the area of clean transportation, they intend to target electric vehicles, specifically in the context of public transportation, vehicle fleets, and car sharing. Sustainalytics views positively this focus on low-emissions electric technologies.
- Within the area of energy efficiency, investments will be focused on programs that promote industrial efficiency as well as those that support energy efficient buildings. Sustainalytics views positively that the Region's support to industry is always accompanied by an audit to verify that the projects are effective and that fossil fuel-related projects are excluded from investment, however, notes that no quantitative threshold for impact is mandated. Sustainalytics also views positively that the initiatives focused on buildings are being carried out under regulations which require upgrade of the building envelope which will increase the energy efficiency rating by at least two grades or achieve qualifications equivalent to the Passive House standard.⁷
- Navarra has disclosed that all forestry projects are certified by FSC or PEFC, which Sustainalytics consider to be robust schemes in line with market practice.
- Navarra has disclosed that climate change adaptation, resilience, and educational initiatives funded under the Framework will be carried out in accordance with the Region's Climate Change Roadmap,⁸ as well as the Climate Change and Energy Transition Law⁹. This plan lays out region-wide and sector-by-sector mitigation goals and adaptation strategies. Sustainalytics has reviewed documents related to the Plan, and considers it to be generally robust and credible.
- Navarra's Framework may include various investments in pollution prevention and control, including air quality, restoration of degraded areas, solid waste management, and research in and deployment of processes for value-added re-use. The Region has committed that the proceeds of the Sustainable Finance transactions will not support conventional landfilling or incineration without energy capture.
- Navarra has specified that various Agri-environmental measures are eligible to receive proceeds from Sustainable Finance transaction. These include programmes that promote organic agriculture, climate resiliency in the agriculture, innovative pest- and weed-management solutions, sustainable water use, and the protection of vulnerable ecosystems; many of these initiatives are being carried out in cooperation with EU authorities. Sustainalytics generally views positively the intent of these programmes, however, does acknowledge that there exist no prohibitions on the use of chemicals or GMOs beyond those that exist in Spanish or EU regulations and encourages detailed reporting on investments within this category in order to provide transparency to investors. Navarra notes that it does not currently support any initiative that makes use of GMOs or explicitly promote the use of chemicals.
- The Framework specifies the inclusion of riverbank restoration and ecosystem conservation. Sustainalytics notes that such projects should be carried out with comprehensive due diligence assessments to mitigate any negative environmental impacts. Navarra has provided an example of the types of project it is considering for Sustainalytics to review.
- Navarra has included programmes for R&D in various categories of the Framework, in line with the government's commitment to invest in R&D programmes to promote economic development and a sustainable economy;¹⁰ examples of various programmes are provided within the Framework. Sustainalytics notes that R&D investments may be viewed by investors as less directly-linked to positive environmental and social outcomes, and encourages Navarra to report on the specific projects funded and the resulting impacts.

⁷ Passive House (or Passivhaus) is a green building certification that focuses on minimizing the energy demand of a building, in particular for heating and cooling. Sustainalytics considers this standard to be robust and credible. Navarra has written into local regulation the technical qualifications that are equivalent to Passive House certification.

⁸ http://www.gobiernoabierto.navarra.es/sites/default/files/borrador_junio_resumen_ejecutivo_hoja_de_ruta_hccn_res_1.pdf

⁹ <https://gobiernoabierto.navarra.es/es/participacion/procesos/anteproyecto-ley-foral-cambio-climatico-transicion-modelo-energetico>

¹⁰ In 2018, 1.15% of Navarra's budgetary spending was directed to the promotion of R&D, and the government has established target of 1.35% by 2020 and 2% by 2030. It should be noted that not all R&D spending will be included within the Sustainable Finance use of proceeds.

- Sustainalytics views positively that Navarra has included specific environmental and social exclusionary criteria, and notes that this is of particular relevance as the Framework includes general-purpose SME lending as well as a variety of R&D initiatives.
- Project Evaluation and Selection:
 - Navarra has established an Interdepartmental Commission which is responsible for project selection, consisting of representatives from all government departments.
 - Selected projects will be chosen from sections of the General Budget; Navarra will track what percentage of each budget section consists of eligible activities. The Government’s minimum environmental and social standards apply to most financing activities, including those under the Framework.
 - Based on the clear delegation of authority and the identified use of the General Budget to track expenditures, Sustainalytics considers this process to be in line with market practice.
- Management of Proceeds:
 - Navarra will keep track of the net proceeds through its internal systems. Navarra will also allocate funds from each sustainable finance instrument to budgetary programmes within the same fiscal year. The net proceeds from the Sustainable Finance instruments will be directly allocated to the eligible projects, while the unallocated funds will be temporarily invested in any form of cash, liquidity position or time deposits within banks or other forms of available short-term liquid investments. Sustainalytics is of the opinion that this process is in accordance with market practice.
- Reporting:
 - The government of Navarra commits to providing the allocation report to investors within one year from the date of any Sustainable Finance instrument and, afterwards, annually until the net proceeds will be fully allocated on its website. The reporting will contain information on the total amount of proceeds that went into the various eligible projects and the total for each eligibility category. This process is in line with market practice.
 - Navarra also commits to providing a Sustainable Finance impact report for its investors within one year from the issuance date and, afterwards, annually until the net proceeds will be fully allocated. This impact report will contain information and data regarding the main environmental and social outputs of the eligible projects. Sustainalytics considers this process to be in accordance with market standard.

Alignment with Sustainability Bond Guidelines 2018

Sustainalytics has determined that Navarra’s sustainable finance transactions align to the Sustainability Bond Guidelines, as well as the four core components of the Green Bond Principles 2018 and Social Bond Principles 2018. For detailed information please refer to Appendix 1: Sustainability Bond/ Sustainability Bond Programme External Review Form.

Section 2: Sustainability Strategy of the Issuer

Contribution of framework to issuer’s sustainability strategy and targets

Regarding its social strategy, Navarra has one of the lowest at-risk-of-poverty rates in the European Union¹¹ and has the third lowest unemployment rate of all autonomous communities in Spain (10.52%).¹² In order to maintain its position, Navarra has committed to fulfilling the 2030 Agenda for Sustainable Development,¹³ which contains policies and programmes meant to support the UN Sustainable Development Goals in the regional context. Moreover, the Navarrese Government also published its Plan Estrategico de Inclusion de

¹¹ Eurostat, “At-risk-of-poverty rate by NUTS regions”, <http://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do>

¹² EURES, “Labour market information: Spain – Comunidad Foral de Navarra”,

<https://ec.europa.eu/eures/main.jsp?countryId=ES&acro=Imi&showRegion=true&lang=en&mode=text®ionId=ES0&nuts2Code=%20&nuts3Code=null&catId=445>

¹³ Gobierno de Navarra, “Agenda 2030 de Desarrollo Sostenible”, <http://www.navarra.es/NR/rdonlyres/304ABA6A-2F67-4428-95D2-BD23285BA6C4/413737/InformeODSGNresumenejecutivoyplandeacci%C3%B3n.pdf>

Navarra (2018-2021),¹⁴ which represents a strategic tool that contemplates actions and measures for social inclusion and cohesion with a focus on citizens who are at risk of social exclusion through coordinated actions on health, housing, education, income, and other resources, and the Plan de Emprendimiento,¹⁵ which provides tax incentives and technical support for new entrepreneurial projects with the aim of boosting employment and economic productivity in the region.

As a cornerstone of its environmental strategy, Navarra has taken significant steps in order to promote the development of renewable energy production and increase energy efficiency in the region.¹⁶ As part of the Plan Energetico Horizonte 2030,¹⁷ the Government of Navarra commits to several climate change goals, including:

- Reducing total GHG emissions 20% by 2020, 40% by 2030 and 83-87% by 2050 (compared to a 1990 baseline)
- Achieving 28% renewable energy consumption in 2020, 50% in 2030 and 100% in 2050
- Reducing its primary energy consumption by 30% with respect to the figures projected for 2020
- Increasing the use of renewables in transportation by 15% by 2030

Among the wide range of policies and actions that will be undertaken to achieve these targets, Navarra plans to finance programmes and R&D that encourage the use of renewable energy, low carbon transportation and energy savings and management. As a result of its energy policies, Navarra had by 2009 already met its 2020 target of achieving a share of 20% of renewable in its total energy mix.¹⁸

Sustainalytics is of the opinion that the projects specified by Navarra's Sustainable Finance Framework will provide social and environmental benefits in the region and contribute to the region's sustainability objectives. Overall, given the Region of Navarra's strong social and environmental performance and sustainability targets, Sustainalytics believes that the Navarra is well positioned to issue sustainable finance instruments.

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

While the eligible projects that will be funded by Navarra's sustainable finance transactions are recognized as having overall positive social and environmental impacts, Sustainalytics recognizes that all projects, in particular those involving large infrastructure, have potential social and environmental risks related to biodiversity and workers' health and safety during the construction of infrastructure, in particular in relation to projects in the categories of renewable energy, health & education, climate change adaptation, and water management. In addition, social projects may increase inequality if not appropriately targeted at a specific population.

- All projects undertaken by Navarra must comply with Spanish environmental regulations that require companies to ensure environmental protection and responsibility, through environmental impact assessments and environmental permits, in accordance with the Spanish Environmental Law.¹⁹ Sustainalytics considers this law and the ensuring processes to be robust, and sufficient to mitigate many environmental risks.
- Regarding worker's health and safety at construction sites, the Spanish Law 31/95²⁰ provides prevention and safety regulations for contractors. Sustainalytics considers this law and the ensuring processes to be robust, and sufficient to mitigate many occupational health and safety risks.
- The Navarra Sustainable Finance Framework defines target populations for most eligible categories for social projects; this targeting will support in addressing the risk that initiatives financed may exacerbate existing inequities. For example, the *Ley foral de derecho a la Vivienda en Navarra* (Affordable Housing Law) specifies that there are maximum income and wealth thresholds for various classes of social

¹⁴ Gobierno de Navarra, "Plan Estrategico de Inclusion de Navarra (2018-2021)"; https://gobiernoabierto.navarra.es/sites/default/files/4221_plan_de_inclusion_social_de_navarra.pdf

¹⁵ Gobierno de Navarra, "Plan de emprendimiento en Navarra", http://www.gobiernoabierto.navarra.es/sites/default/files/ii_plan_emprendimiento.pdf

¹⁶ European Commission, "Navarra, A Region Supporting the Sustainable Energy", <https://cordis.europa.eu/project/rcn/213569/factsheet/en>

¹⁷ Gobierno de Navarra, "Plan Energetico Horizonte 2030", <https://gobiernoabierto.navarra.es/sites/default/files/pen2030definitivo20171226comprimido.pdf>

¹⁸ Invest in Navarra, "Renewable Energies", <http://investinnavarra.com/en/key-sectors/renewable-energies/>

¹⁹ Lavilla J. J., "Environmental law and practice in Spain: overview", [https://uk.practicallaw.thomsonreuters.com/0-521-6274?transitionType=Default&contextData=\(sc.Default\)&firstPage=true&comp=pluk&bhcp=1](https://uk.practicallaw.thomsonreuters.com/0-521-6274?transitionType=Default&contextData=(sc.Default)&firstPage=true&comp=pluk&bhcp=1).

²⁰ Instituto Nacional de Seguridad e Higiene en el Trabajo, "LEY 31/1995, de 8 de noviembre, de Prevención de Riesgos Laborales. BOE n° 269 10- 11- 1995", <http://www.insht.es/InshtWeb/Contenidos/Normativa/TextosLegales/LeyPrevencion/PDFs/leydeprevencionderiesgoslaboralesTxtAnt.pdf>.

housing.²¹ Furthermore, the existing public healthcare and education systems provide a safety net of minimum care.

- The Equator Principles consider Spain to be a Designated Country, indicating that it is deemed to have “robust environmental and social governance, legislation systems and institutional capacity designed to protect their people and the natural environment”.²²

Given the regulatory context in which Navarra operates, and the definition of target populations provided in the Framework, Sustainalytics is of the opinion that Navarra is well positioned to mitigate social and environmental risks related to the use of proceeds.

Section 3: Impact of Use of Proceeds

All twelve use of proceeds categories are recognized as impactful by the GBP and/or the SBP. Sustainalytics has focused on four below where the impact is specifically relevant in local context.

The Climate Impacts of Renewable Energy, Clean Transportation and Energy Efficiency

In 2013, Navarra launched its Hoja de Ruta 2050 (Roadmap) towards a low carbon economy, committing to the European Commission’s plan to avoid global temperature increases above 2 degrees Celsius, in line with the Paris Agreement.²³ As part of these goals, Navarra has set ambitious targets related to the adoption of renewable energy as part of the Plan Energetico Horizonte 2030,²⁴ decarbonisation of the transportation sector,²⁵ and the overall reduction of energy use and greenhouse gas emissions.²⁶

Navarra has had great success to date in making progress on these goals, and currently produces over 81.1% of electricity from renewable sources.²⁷ Furthermore, Navarra’s transportation policies gave rise to a rapid growth of electric vehicles, achieving an 82% increase in electric vehicles in 2018 as a result of a 30% tax deduction for purchases.²⁸ The construction of over 500 near-zero-energy homes for social housing has also started in 2018.²⁹

Considering the plans and targets in place, as well as the demonstrated effectiveness of the initiatives that the Government has undertaken, Sustainalytics considers that Navarra’s financing of programmes that promote the production of renewable energy, clean transportation, and energy efficiency in the industrial, commercial and residential sectors will support the region’s ambitious climate change goals and its transition towards a low carbon economy.

Climate Adaptation

In addition to projects that strive to mitigate the impacts of climate change, Navarra’s Sustainable Finance Framework states that projects that strengthen climate resilience, improve environmental education, and provide information support (such as early warning systems and climate observation) shall be considered eligible. According to Spain’s National Climate Change Adaptation Plan (*Plan Nacional de Adaptación al Cambio Climático*), Spain as a whole is very vulnerable to the effects of climate change; the Plan goes on to further state that effective adaptation actions must be implemented at the sub-regional level.³⁰ Considering the ongoing risks of a changing climate and the crucial role the regional governments will play in addressing

²¹ Navarra, “LEY FORAL 10/2010, DE 10 DE MAYO, DEL DERECHO A LA VIVIENDA EN NAVARRA”, accessed March 2019; <http://www.lexnavarra.navarra.es/detalle.asp?r=29980>

²² Equator Principles, “Designated Countries”, <https://equator-principles.com/designated-countries/>.

²³ Plan Energetico Horizonte 2030; accessed March 2019;

<https://gobiernoabierto.navarra.es/sites/default/files/pen2030definitivo20171226comprimido.pdf>

²⁴ Plan Energetico Horizonte 2030; accessed March 2019;

<https://gobiernoabierto.navarra.es/sites/default/files/pen2030definitivo20171226comprimido.pdf>

²⁵ Plan Energetico Horizonte 2030; accessed March 2019;

<https://gobiernoabierto.navarra.es/sites/default/files/pen2030definitivo20171226comprimido.pdf>

²⁶ Blame the weather: why Spain is failing to meet EU climate change targets; published July 2018;

https://elpais.com/elpais/2018/07/10/inenglish/1531208963_491007.html

²⁷ Renewable Energies; accessed March 2019; <http://investinnavarra.com/en/key-sectors/renewable-energies/>

²⁸ Navarra; accessed March 2019; <https://www.stepupnow.eu/postcards/navarra>

²⁹ Navarra constructs over 500 energy efficient homes for social housing; published May 2018; <https://www.theclimategroup.org/news/navarra-constructs-over-500-energy-efficient-homes-social-housing>

³⁰ Oficina Española De Cambio Climático, Plan Nacional De Adaptación Al Cambio Climático, https://www.miteco.gob.es/es/cambio-climatico/temas/impactos-vulnerabilidad-y-adaptacion/pna_v3_tcm7-12445_tcm30-70393.pdf

the challenges arising from these circumstances, Sustainalytics views favourably this use of proceeds category. In particular, Sustainalytics highlights the necessity of investing in resilient infrastructure to address climactic shifts likely to affect Northern Spain, including droughts and heavy precipitation events.³¹

Socioeconomic Advancement and SME Financing in Navarra

The Government of Navarra has recognized the importance of promoting socioeconomic advancement through economic development focused on small and medium-sized firms. As part of the II Plan de Empredimiento en Navarra 2017-2019³² the Government of Navarra is providing advice to entrepreneurs and project developers, simplifying the procedures for creating a company, supporting the training of entrepreneurs and offering tax incentives for new projects.³² In particular, the average tax rate in Navarra has been set to favour SMEs compared to larger firms, taxing 19% for micro SMEs and 23% for SMEs, compared to 28% in the case of large enterprises.³³ In light of these actions, entrepreneurial activity in Navarra improved by 25% from 3.9% to 5% since the inauguration of the Plan. Despite this progress, the Government recognizes that many small firms continue to face challenges related to scaling operations and hiring; at the beginning of 2017, 56.11% of the companies operating in Navarra had no employees, 34.84% had between one and five workers and the rest of 2.7% had over 20 people.³⁴ Given this context, Sustainalytics has a positive opinion on the government of Navarra's financial and technical support offered towards SMEs, which would advance the economic integration of underserved populations, in particular by providing opportunities to unemployed individuals.

Additionally, the Framework notes that the Government may use the proceeds to finance solutions for inclusion and social cohesion such as guaranteed income and non-contributory pensions as well as to provide basic social services. This is in line with Navarra's Plan Integral de Economía Social de Navarra,³⁵ which aims at providing socioeconomic empowerment for vulnerable groups in Navarra, such as people with low income, elderly people and risk populations and minorities. The statistics showed that, in 2017, out of the total unemployed job seekers, 10.4% were young people, 23.4% were people over 55, 38.8% were long-term unemployed and 4.7% were people with disabilities.³⁴ Sustainalytics, views favourably Navarra's investments in social inclusion, and considers that the financing of pensions and other basic services, when appropriately targeted to vulnerable groups as specified in the Framework, will have a positive outcome.

Affordable Housing

In 2018, around 7.9% of households in Navarra suffered "severe" poverty due to housing costs, 330 people were homeless, while over 1,359 were identified as itinerant.³⁶ The government of Navarra intends to use part of the net proceeds to finance programmes that provide renovation, maintenance and improvements of affordable housing projects, and offer affordable housing with adjusted rents to disadvantaged targeted populations. These actions are in line with the government's Plan Estratégico de Inclusión de Navarra (2018–2021)³⁶ and Plan Integral de Economía Social de Navarra,³⁷ which take actions and measures for social inclusion, among which social housing is included. Taking into account the aforementioned context, Sustainalytics views positively the government of Navarra's intentions to support social housing and socioeconomic advancement as it would improve the situation of vulnerable groups. The targeted population consists out of young and elderly people on low income, families with limited means and people in dire need of accommodation.³⁸ Sustainalytics also notes the interrelation between the social aspects of housing and the environmental impacts of the built environment. Under the Navarra Social Housing programme, the

³¹ IPCC, "Impacts of 1.5°C of Global Warming on Natural and Human Systems", https://www.ipcc.ch/site/assets/uploads/sites/2/2019/02/SR15_Chapter3_Low_Res.pdf.

³² Government of Navarra, "II Plan de Empredimiento en Navarra 2017-2019", at: http://www.gobiernoabierto.navarra.es/sites/default/files/ii_plan_empredimiento.pdf.

³³ Invest in Navarra, "Own Taxation System", at: <http://investinnavarra.com/en/why-navarra/own-taxation-system/>.

³⁴ EURES. The European Job Mobility Portal, European Commission, "Spain – Comunidad Foral de Navarra", at: <https://ec.europa.eu/eures/main.jsp?countryId=ES&acro=Imi&showRegion=true&lang=en&mode=text®ionId=ES0&nuts2Code=%20&nuts3Code=null&catId=445>.

³⁵ Government of Navarra, "Plan Integral de Economía Social de Navarra", at: https://gobiernoabierto.navarra.es/sites/default/files/plan_integral_de_economia_social_v6.pdf.

³⁶ Government of Navarra, "Plan Estratégico de Inclusión de Navarra", at: https://gobiernoabierto.navarra.es/sites/default/files/4221_plan_de_inclusion_social_de_navarra.pdf.

³⁷ Government of Navarra, "Plan Integral de Economía Social de Navarra", at: https://gobiernoabierto.navarra.es/sites/default/files/plan_integral_de_economia_social_v6.pdf.

³⁸ Navarre builds energy-efficient homes for people in need; access March 2019; https://europa.eu/investeu/projects/sustainable-social-housing_en.

government of Navarra has prioritized construction of energy-efficient homes, as discussed in the context of climate impacts, above.³⁹

Alignment with and contribution to the Sustainable Development Goals

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. This sustainability bond advances the following SDG goals and targets:

Use of Proceeds Category	SDG	SDG target
Affordable Housing	1. No Poverty	1.4 By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance
	11. Sustainable Cities and Communities	11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums
Access to Essential Services: education and healthcare	3. Good Health and Well-Being	3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all
	4. Quality Education	4.5 By 2030, eliminate gender disparities in education and ensure equal access to all levels of education and vocational training for the vulnerable, including persons with disabilities, indigenous peoples and children in vulnerable situations
Socioeconomic advancement	1. No Poverty	1.3 Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable
	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
Employment generation	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
Renewable energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Clean transportation	11. Sustainable Cities and Communities	11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons

³⁹ Navarra constructs over 500 energy efficient homes for social housing; published May 2018; <https://www.theclimategroup.org/news/navarra-constructs-over-500-energy-efficient-homes-social-housing>.

Pollution prevention and control	12. Responsible Consumption and Production	12.4 By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment
Sustainable water and wastewater management	6. Clean Water and Sanitation	6.4 By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity
Energy efficiency	7. Affordable and Clean Energy	7.3 By 2030, double the global rate of improvement in energy efficiency
Environmentally sustainable management of living natural resources and land use Terrestrial and aquatic biodiversity conservation	15. Life on Land	15.1 By 2020, ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and drylands, in line with obligations under international agreements 15.5 Take urgent and significant action to reduce the degradation of natural habitats, halt the loss of biodiversity and, by 2020, protect and prevent the extinction of threatened species
Climate Adaptation	13. Climate Action	13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries

Conclusion

The Region of Navarra has developed the Navarra Sustainable Finance Framework, under which it intends to issue sustainable finance instruments, including but not limited to green, social and sustainability bonds, loans, and other instruments, and use the proceeds to fund investments in a range of environmentally and socially impactful projects and programmes. Specifically, Navarra will identify budget areas that are aligned with the Framework's definition of affordable housing, access to essential services (education and healthcare), socioeconomic advancement, employment generation (including through the potential effect of SME financing and microfinance), renewable energy, clean transportation, pollution prevention and control, sustainable water and waste water management, energy efficiency, environmentally sustainable management of living natural resources and land use, climate adaptation, and terrestrial and aquatic biodiversity conservation.

The use of proceeds categories specified in the Framework are aligned with those of the Green Bond Principles 2018 and/or the Social Bond Principles 2018. Navarra has described 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 investments funded by the sustainable finance transactions will contribute to the advancement of many of the UN Sustainable Development Goals.

Based on the above, Sustainalytics is confident that Navarra is well-positioned to issue Green, Social or Sustainability Bonds and other Sustainable Finance Instruments, and that the Navarra Sustainable Finance Framework is robust, transparent, and in alignment with the Sustainability Bond Guidelines 2018.

Appendices

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

Section 1. Basic Information

Issuer name:	The Government of Navarra
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Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable: <i>[specify as appropriate]</i>	Navarra Sustainable Finance Framework
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Review provider's name:	Sustainalytics
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Completion date of this form:	April 11, 2019
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Publication date of review publication: <i>[where appropriate, specify if it is an update and add reference to earlier relevant review]</i>	
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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 GBPs and SBPs:

- | | |
|--|--|
| <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 nd 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 are aligned with those recognized by both the Green Bond Principles and Social Bond Principles. Sustainalytics considers that projects within the four specified social areas and the eight specified environmental areas to have positive environmental or social impacts and to advance the UN Sustainable Development Goals.

Use of proceeds categories as per GBP:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Renewable energy | <input checked="" type="checkbox"/> Energy efficiency |
| <input checked="" type="checkbox"/> Pollution prevention and control | <input checked="" type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input checked="" type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input checked="" type="checkbox"/> Clean transportation |
| <input checked="" type="checkbox"/> Sustainable water and wastewater management | <input checked="" 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 (<i>please specify</i>): |

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 checked="" type="checkbox"/> Access to essential services |
| <input checked="" type="checkbox"/> Affordable housing | <input checked="" type="checkbox"/> Employment generation (through SME financing and microfinance) |
| <input type="checkbox"/> Food security | <input checked="" type="checkbox"/> Socioeconomic advancement and empowerment |

- Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBPs
 Other (please specify):

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

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

Navarra has established an Interdepartmental Commission, consisting of representatives from all government departments, to select eligible sections of the General Budget for financing under the Framework. Sustainalytics considers this to be 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 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 checked="" type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other (please specify): | |

3. MANAGEMENT OF PROCEEDS

Overall comment on section (if applicable):

Navarra will use its internal systems to track the proceeds, and intends to allocate funds from each sustainable finance instrument to budgetary programmes within the same fiscal year. Pending allocation, funds will be temporarily invested in any form of cash, liquidity position or time deposits within banks or other forms of available short-term liquid investments. Sustainalytics is of the opinion that this process is in accordance with market practice.

Tracking of proceeds:

- Sustainability Bond proceeds segregated or tracked by the issuer in an appropriate manner

- Disclosure of intended types of temporary investment instruments for unallocated proceeds
- 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 |
| <input checked="" type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input checked="" type="checkbox"/> Other (<i>please specify</i>): Allocation within matching budget year |

4. REPORTING

Overall comment on section (if applicable):

The government of Navarra commits to providing allocation and impact reporting to investors within one year from the date of any Sustainable Finance instrument and, afterwards, annually until the net proceeds have been fully allocated. Allocation reporting will be provided at the category level, while impact reporting will include quantitative and qualitative outcomes of financed projects. Sustainalytics is of the opinion that this process is in accordance with market practice.

Use of proceeds reporting:

- | | |
|--|--|
| <input type="checkbox"/> Project-by-project | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (<i>please specify</i>): |

Information reported:

- | | |
|---|---|
| <input checked="" type="checkbox"/> Allocated amounts | <input type="checkbox"/> Sustainability Bond financed share of total investment |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

Frequency:

- | | |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (please specify): | |

Impact reporting:

- | | |
|--|--|
| <input type="checkbox"/> Project-by-project | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (please specify): |

Frequency:

- Annual Semi-annual
 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): Various, refer to Framework

Means of Disclosure

- Information published in financial report Information published in sustainability report
 Information published in ad hoc documents Other (please specify):
 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. 2nd 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. Consultant Review: An issuer can seek advice from consultants and/or institutions with recognized expertise in environmental and social sustainability or other aspects of the issuance of a Sustainability Bond, such as the establishment/review of an issuer's Sustainability Bond framework. "Second Party Opinions" may fall into this category.

-
- ii. Verification: An issuer can have its Sustainability Bond, associated Sustainability Bond framework, or underlying assets independently verified by qualified parties, such as auditors. In contrast to certification, verification may focus on alignment with internal standards or claims made by the issuer. Evaluation of the environmentally and socially sustainable features of underlying assets may be termed verification and may reference external criteria.
 - iii. Certification: An issuer can have its Sustainability Bond or associated Sustainability Bond framework or Use of Proceeds certified against an external green and social assessment standard. An assessment standard defines criteria, and alignment with such criteria is tested by qualified third parties / certifiers.
 - iv. Rating: An issuer can have its Sustainability Bond or associated Sustainability Bond framework rated by qualified third parties, such as specialised research providers or rating agencies. Sustainability Bond ratings are separate from an issuer's ESG rating as they typically apply to individual securities or Sustainability Bond frameworks / programmes.

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Sustainalytics

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For more information, visit www.sustainalytics.com

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