



SUSTAINABLE FINANCE FRAMEWORK



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INTRODUCTION

Navarra, being a small region of Spain, has one of the most advanced economies in the country. It offers a stable economy, with moderate inflation, and fully integrated into the EU. It stands out for having its own tax system, it is a leader in innovation and has a highly qualified population with a high standard of living.

Navarra (Government of Navarre) has shown from the start its firm commitment to the implementation of the 2030 Agenda for Sustainable Development. Thus, in March 2017, it created an Interdepartmental Commission to prepare a report on the policies, programs and actions of the Government in order to face the future challenges of the Agenda and in April 2018, after a detailed diagnosis of the activity of each Department, Navarra presented an action plan to align public policies with social, territorial and environmental sustainability.

Taking this framework into account, Navarra has gone a step further and has decided to also link the financial policy with the sustainability strategy. The Autonomous Community enjoys the highest credit rating currently allowed to a CC.AA. which among other reasons is due, according to the rating agency Standard and Poor's, to a solid financial management, its high degree of fiscal autonomy and the trend to amortization as well as to the downward refinancing of public debt.

The Government of Navarre has shown its responsible management of public funds in terms of financial policy and in the same way has decided to move forward by opting for sustainable financing. It does so, in addition, being aware of the double commitment it implies: on the one hand with transparency and, on the other, with the own objectives mentioned in the 2030 Agenda.

RATIONALE

Navarra (Government of Navarre) has developed a Sustainable Finance Framework to define how Sustainable Finance instruments are set up within Navarra Government. This framework is valid for Sustainable Finance Instruments including Green, Social or Sustainability Bonds, Loans and any other financial instrument to which eligible projects are allocated. Proceeds of the Sustainable Finance Instruments of Navarra will be allocated to beneficial environmental and social projects. Navarra aims to play an important role in the development of the Sustainability Bond and Loan Market and to promote responsible and efficient finance to address the environmental, economic and social challenges in the region.

This Sustainable Finance Framework is inspired by, and intends to follow the Green Bond Principles (GBP), Social Bond Principles (SBP) and Sustainability Bond Guidelines 2018 and the LMA's Green Loan Principles 2018 in order to facilitate transparency, disclosure, integrity and quality in Navarra Government's Sustainable Finance. This Sustainable Finance Framework covers the four core components of the GBP, SBP and Sustainability Bond Guidelines and the Green Loan Principles:

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

The framework also covers:

5. External Review.

PROCEDURES

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 Navarra 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 Sustainable Finance proceeds, the projects have to fall under the following eligible categories while having one or more environmental and/or social objectives. Navarra will assess and where feasible quantified the environmental and social benefits of the projects.

- 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
- Terrestrial and Aquatic Biodiversity Conservation

Project Category	Eligible Projects	Targeted groups	Environmental and Social objectives	Sustainable Development Goals
Affordable Housing	<ul style="list-style-type: none"> • Construction of affordable housing • Renovation, maintenance and improvements of affordable housing projects; • Provide affordable housing with adjusted rents to disadvantaged targeted populations; • Increase the housing availability in the program VAIS (social integration rental housing) 	<p>Among others included in the regional law:</p> <ul style="list-style-type: none"> (i) Low-income population or families (ii) People with disabilities (iii) Elderly people (iv) Victims of domestic violence 	<p>Reduce the percentage of the population living in poverty</p>	<p>Goal 1 Goal 11</p>

<p>Access to Essential Services: education and healthcare</p>	<ul style="list-style-type: none"> • Construction, rehabilitation and maintenance of public education schools • Public education centers, financing the development and maintenance of public universities • Financial support to university student based on socioeconomic criteria, support the integration of students with special needs, etc... • Reinforcement of centers with students with educational needs • Social Mentoring programs for minors in disadvantaged environments • Development, maintenance and modernize facilities integrated in the public healthcare service system (hospitals, health-care centers, mental health facilities, etc.) • Provision of health care or social services in underdeveloped areas or vulnerable populations • Acquisition of medical equipment or provision of diagnostic services • Aids to facilitate funded medical treatments • Complementary benefits to facilitate access to treatments for families with economic difficulties • Financing of medicines for rare diseases 	<ul style="list-style-type: none"> • Young people • Disadvantage people • All the citizen of Navarra region (including vulnerable people) 	<p>(i) equal access to affordable and quality education, including university sustainable increase in the number of youth and adults who have relevant skills for employment, decent jobs and entrepreneurship</p> <p>(ii) build and upgrade education facilities that are child, disability and gender sensitive and provide safe, non-violent, inclusive and effective learning environments for all.</p> <p>(iii) Healthcare strives to achieve universal health coverage, including access to quality essential healthcare</p>	<p>Goal 3 Goal 4 Goal 10</p>
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<p>Socioeconomic advancement</p>	<p>Finance actions and measures for inclusion and social cohesion:</p> <ul style="list-style-type: none"> • Guaranteed income. • Tax deduction system for retirement pensions (contributory or not) and widowhood • Basic social services as established by the regional decree 32/2013 of May 22nd. <ul style="list-style-type: none"> ○ These programs are: <ul style="list-style-type: none"> a) Welcoming and Social Orientation Program b) Program for the Promotion of Personal Autonomy and Care for People in a Dependent Situation c) Program for Social Incorporation in Primary Care c) Program for Attention to Children and Family in Primary Care. 	<ul style="list-style-type: none"> • Elderly people • People with low income • Victims of gender violence • Risk population and minorities • Physically and/or disabled people 	<p>Promote social inclusion</p>	<p>Goal 1 Goal 5 Goal 10</p>
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<p>Employment generation including through the potential effect of SME financing and microfinance</p>	<ul style="list-style-type: none"> • Support SMEs in Navarra (among others: Advisory Bonds; Follow up of companies; Implement specific financial tools that allow sharing risks and facilitate access to financing under more favourable conditions, Awards for innovative projects etc ...) • Entrepreneurship development including Advice and accompaniment to entrepreneurs in the area: local development agents; Promotion of the establishment as a self-employed worker; Bonus of unemployment quotas for establishment as a self-employed worker • Social employment protected. • Aid to special employment centers (Social Work Insertion Companies, workshop schools and integrated training and employment programs). 	<p>Citizens of Navarra region including but not limited to</p> <ul style="list-style-type: none"> • Unemployed people • People with disabilities • People at risk of social exclusion 	<p>Economic inclusion strives to support productive activities, decent job creation, entrepreneurship and innovation, and encourage the formalization and growth of SMEs, including through access to financial services.</p>	<p>Goal 4 Goal 8</p>
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<p>Renewable Energy</p>	<ul style="list-style-type: none"> • Finance programmes that encourage the use of the following renewable energy: Solar, Wind, Small Hydro and Biomass (biomass generation feedstock is limited to sources such as agricultural materials (straw), forestry (firewood, sawdust, bark, etc.) that do not deplete existing terrestrial carbon pools nor compete with food production or biogas from livestock slurry • Studies of the real possibilities of geothermal exploitation in Navarra • Programs and initiatives that favour R&D, as for example AERO. Storage of renewable energies to optimize their use 	<p>Citizens of Navarra region</p>	<p>promoting the increase of renewable energy</p>	<p>Goal 7 Goal 13</p>
<p>Clean Transportation</p>	<ul style="list-style-type: none"> • Public transport: Promote the renewal of the fleets of public transportation to electric technology; Shared transport Public e-car-sharing, electric bikes for public workers • Alternative transport low carbon (Promote the purchase of electric vehicles in certain fleets, electric car-sharing, renew the vehicle fleet with electric vehicles, etc ...). • Programs and initiatives that favor R&D as for example VOLTA. Vehicles of 0 emissions, Long Range and Advanced Technology. • Installation of charging points for electric vehicles. 	<p>Citizens of Navarra region</p>	<p>financing the measures included in the Energetic Plan of Navarra 2030 Horizon (PEN 2030) and improve and promote low carbon mobility and accessibility to public transportation following the guidelines of the Master Plan for Sustainable Mobility of Navarra (2018-2030).</p>	<p>Goal 11 Goal 13</p>

<p>Pollution prevention and control</p>	<ul style="list-style-type: none"> • Programmes to ensure air quality and improve the management of contaminated soils • Support the Navarra's Office of Waste Prevention and Promotion of the Circular Economy • Treatment of urban solid resources; Expansion of organic, wood and demolition waste recycling • Waste management research and development, including eco-design • Value added products from waste and remanufacturing • Recovery of degraded areas caused by waste 	<p>Citizens of Navarra region</p>	<p>improve the quality of water, air and soil. The Master Plan of the Integral Urban Water Cycle 2019-2030 of Navarre will be taken into account.</p>	<p>Goal 3</p>
<p>Sustainable water and Waste Water management</p>	<ul style="list-style-type: none"> • Maintenance and restoration work of water channels to improve water quality. • Programmes to ensure the quality of the long-term water supply and to ensure the quality and deployment of instruments or measures of demand management 	<p>Citizens of Navarra region</p>	<p>Improve the quality of wastewater or reduce the use of water (resolve water scarcity, minimize consumption, use water or recycle to alleviate wastewater generation). The Master Plan of the Integral Urban Water Cycle 2019-2030 of Navarre will be taken into account.</p>	<p>Goal 6</p>

<p>Energy efficiency</p>	<ul style="list-style-type: none"> • 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 • 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). • Programs and initiatives that favour R&D. 	<p>Citizens of Navarra region</p>	<p>to build a low carbon energy model and anticipate the risks of climate change</p>	<p>Goal 7 Goal 13</p>
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<p>Environmentally Sustainable Management of Living Natural Resources and Land Use</p>	<ul style="list-style-type: none"> • Maintenance of natural areas, forestry actions and others. • Measures for the promotion of organic production • Agri-environmental measures. • Investments in natural parks and other protected areas. • Certified Forestry work in local entities. 	<p>Citizens of Navarra region</p>	<p>Promote healthy ecosystems and support the sustainable management of land, water and natural resources. Increase the productivity of lands through rehabilitation, conservation and sustainable use of land and water. Support the establishment and management of protected areas adjacent to the territories of sustainable rural development. Build a paradigmatic model of sustainability in the agricultural sector with a more respectful and compatible activity with the environment in line with the fight against climate change following the Plan for the Promotion of Ecological Production in Navarra 2018-2020</p>	<p>Goal 15</p>
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Climate Adaptation	<ul style="list-style-type: none"> Strengthen resilience and capacity to adapt to climate change. Improve environmental education Information support systems, warning systems, observation and early warning. 	Citizens of Navarra region	Reduce vulnerability to the effects of climate change	Goal 13
Terrestrial and Aquatic Biodiversity Conservation	<ul style="list-style-type: none"> Studies to improve knowledge on wild flora and fauna. Restoration of riverbanks and protection of ecosystems 	Citizens of Navarra region	promoting protection and restoration of ecosystems	Goal 6 Goal 15

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 Navarra Government's own expenditures (net of EU grants, EIB loans, state grants or other revenues earmarked for specific purposes) are eligible. Specific sections of the relevant budgetary programmes that will be excluded include:

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

Projects that support or promote the following activities will not be eligible under this Framework as Eligible Green Projects:

- Burning of fossil fuel for power generation and transportation
- Rail infrastructure dedicated for transportation of fossil fuels
- Nuclear power generation
- Large scale hydro projects – including technology and equipment (i.e. projects that generate greater than 20 MW of electricity)
- Transmission infrastructure and systems where 25% or more of electricity transmitted to the grid is fossil-fuel-generated
- Alcohol, weapons, tobacco, gaming, or palm oil industries

2. Process for Projects Evaluation and Selection

The process to select and to evaluate potential eligible projects and programmes from the General Budget is performed by an Interdepartmental Commission created by the Government of Navarra. This Committee is composed of a representative of each of the Government departments with the rank of General Director, a representative of the Commission created for the implementation of the 2030 Agenda, the Chief of Staff

of the Department of Finance and a technician of the Budget- Directorate-General. Besides, representatives from all the departments of the Government of Navarra may participate in the meetings when the committee requests it due to the need of additional expertise or specific knowledge.

The Interdepartmental Commission created by the Government of Navarra will select eligible projects or programmes from the sections of the General Budget that align with the eligibility criteria defined in this Sustainable Finance Framework.

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

Navarra applies core minimum environmental and social policies and requirements for most of its activities, including those financed with the proceeds of the Sustainable Finance instruments signed under this framework. These requirements are continuously developed and renewed and publicly accessed.

3. Management of Proceeds

The proceeds of any Sustainable Finance instrument signed under this framework will be allocated to eligible budgetary programmes in the General Budget of Navarra, corresponding to the fiscal year of the Sustainable Finance instrument signed. The total expenditures required for the eligible programmes will equal or exceed the net Sustainable Finance instrument proceeds. This will ensure compliance even when eligible programmes or budgets are impacted unexpectedly.

The proceeds from any Sustainable Finance instrument will be directly allocated to the eligible projects at settlement or value date. In the event the whole proceeds cannot be allocated at value date, Navarra will temporarily invest the unallocated funds in any form of cash or liquidity position or time deposits with banks, or other forms of available short-term liquid investment in safe that do not involve GHG intensive activities nor controversial activities. This event would be monitored by the Financial Department of Navarra.

Navarra has internal systems in place to track proceeds of its Sustainable Finance instruments, and to account for all eligible programmes. Thus, the Committee will monitor and prevent any such double counting in allocation of proceeds.

In the case of any selected eligible program becomes ineligible or has been cancelled, Navarra will re-allocate the proceeds of the Sustainability instrument to another eligible programme.

4. Reporting

4.1. Allocation Reporting

Allocation reporting will be available to investors within one year from the date of any Sustainable Finance instrument and annually until the proceeds of the Sustainable Finance instrument 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 Navarra's website¹.

4.2. Impact Reporting

Navarra will provide a dedicated Sustainable Finance impact report for investors within one year from the issuance date and annually until the proceeds have been fully allocated, with estimates of the main

¹ <http://www.navarra.es>

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.

Relevant social and environmental impact indicators could include:

Eligible Categories	Sample of impact indicators
<i>Affordable housing</i>	<ul style="list-style-type: none"> Number of users benefiting from the measures of action in the field of Housing Number of social housing built Number of homes taken for the rental bag Number of homes acquired (public purchase of used housing) Number of residential resources created for high exclusion population groups
<i>Education</i>	<ul style="list-style-type: none"> No. of beneficiaries by sex Number of university students participating in the social mentoring program by sex Number of student beneficiaries of the social mentoring program by sex Early dropout rate in schools (M/F) Gross school attendance rate Number of students benefited with exemptions or bonus in the registration. Number of educational or vocational programs aimed at young people at risk of exclusion funded Number of young people trained through training actions for employment. Number of unemployed who participate in training actions for employment. Number of students enrolled in Adult Permanent Education, by sex Number of special education centers supported
<i>Healthcare</i>	<ul style="list-style-type: none"> Number of people with mental illness or addictive disorders attended by sex No. of beneficiaries by sex to the health service and appropriate medication
<i>Socioeconomic advancement</i>	<ul style="list-style-type: none"> Evolution of the poverty rate Rate of perception of Guaranteed Income over total population Number of people benefiting from the different programs aimed at favoring social inclusion No. of projects developed Number of pensioners, disaggregated by sex, by type of NCP (non-contributory pension), monthly and per year Number of victims of gender violence favored in the different programs that favor social incorporation
Employment generation including through the potential effect of SME financing and microfinance	<ul style="list-style-type: none"> Long-term unemployment rate (M / F) Household rate without income Rate of unemployment according to origin (M / F) Number of contracts made% increased with respect to the year Previous contracts with social initiative entities No. of training actions developed Number of projects supported Number of SMEs that received support for equipment and facilities and technological modernization.

Eligible Categories	Sample of impact indicators
<i>Renewable Energy</i>	<p>Installed power (MW) and energy generated</p> <p>Share of RE in the final energy consumption (%)</p> <p>Production of renewable energies / Primary energy consumption</p> <p>Production of electricity from renewable sources / Total production electric power</p> <p>Estimation of annual Greenhouse Gas (GHG) emissions reduced or avoided (tCO₂e)</p>
<i>Clean Transportation</i>	<p>Evolution of the emissions associated with the sector (tCO₂).</p> <p>% RE in transport (goods + transport)</p> <p>No. of annual travelers on public transport</p> <p>No. of normal recharge points (Power <22 Kw) accessible to the public installed annually</p> <p>Number of high power recharge points (Power > 22 Kw) accessible to the public installed annually</p> <p>% of electric vehicles renewed annually in the administration fleet</p> <p>Evolution of greenhouse gas emissions GHG associated to the sector (tCO₂eq). Broken down by mode; passengers and goods; scope of activity (urban, interurban), and user / operator (private or public)</p> <p>% reduction in consumption in transportation</p>
<i>Pollution prevention and control</i>	<p>Urban population exposed to air pollution by particulate (air quality)</p> <p>Recycling rate of household and commercial waste</p> <p>Level of river phosphates</p> <p>Nitrates in groundwater</p>
<i>Sustainable Water and Waste Water management</i>	<p>Biochemical oxygen demand in rivers</p> <p>Population connected to wastewater treatment with at least the second degree of treatment</p>
<i>Energy Efficiency</i>	<p>Estimation of annual Greenhouse Gas (GHG) emissions reduced or avoided (tCO₂e)</p> <p>Annual energy saving compared to the previous year in the Administration of the Autonomous Community of Navarra (%)</p> <p>Design of new "zero emissions" annual buildings (No.)</p> <p>Construction of new buildings of "zero emissions" annually (No.)</p>
<i>Environmentally Sustainable Management of Living Natural Resources and Land Use</i>	<p>Percentage of forest area over total area</p> <p>Percentage of area dedicated to organic agriculture (ecological)</p>

Eligible Categories	Sample of impact indicators
<i>Climate Adaptation</i>	Greenhouse gas emissions
<i>Terrestrial and Aquatic Biodiversity Conservation</i>	Terrestrial areas designated under the European Habitat Directive

5. External Review

5.1. Second Party Opinion

Navarra has hired Sustainalytics to provide a Second Party Opinion on Navarra 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, the Sustainability Bond Guidelines 2018 and the 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 Navarra (http://www.navarra.es/home_es/Gobierno+de+Navarra/Presupuesto/Deuda+Publica/) and on the Resource Centre of the Green Bond Principles (<https://www.icmagroup.org/green-social-and-sustainability-bonds/resource-centre/>).