



Green Bond Framework



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01

The Kingdom of Spain's Environmental Ambition

1.1 The need for decisive climate action

There is a general consensus in the scientific community regarding the unprecedented impact on the climate from the burning of fossil fuels, the change in land use, urbanization, industrial processes, consumption patterns and, in short, our current development model, increasing the concentration of greenhouse gases far beyond any other known period in history.

In October 2018, the **Intergovernmental Panel on Climate Change (IPCC)** published its Special Report on the impacts of global warming scenarios of 1.5°C above pre-industrial levels. Its conclusions, based on the current state of knowledge, estimate that the Earth's average temperature is already 1°C above pre-industrial levels as a direct consequence of human action and the report underlines the urgent need to accelerate global efforts to combat climate change. The impact of this anthropogenic climate change is becoming increasingly marked and it is estimated that the **Earth's average temperature** is currently **rising at a rate of 0.2°C per decade**. Therefore, if global climate action is not stepped up, the increase in global average temperature could reach 2°C shortly after 2060 and continue to rise after that date.

This would have important consequences in terms of environmental impacts. Specifically, it is estimated that with **1°C warming above pre-industrial levels**, 4% of the world's land surface will undergo a transformation from one type of ecosystem to another. At **2°C warming**, this change would affect 13% of the global land surface. Additionally, these levels of global warming would lead to increases in the average sea level of several meters, which is especially disastrous for coastal areas, where a large portion of the world's population lives.

This will also have **serious consequences** for economic productivity, the state of infrastructure, food production capacity, public health, biodiversity and political stability, especially in less developed parts of the world, undermining both security and prosperity in the broadest sense and leading to new conflicts and migratory pressures.

Thus, without decisive climate action at a global level, it will be impossible to guarantee compliance with the United Nations **Sustainable Development Goals** or the **objectives of the Paris Agreement**, which all European Union countries, including Spain, have committed to fulfill.

1.2 Spain's environmental objectives

Spain is a country in the Mediterranean region and, as such, will be substantially affected by changes in the Earth's climate. These affects, directly or indirectly, a wide range of economic sectors and all Spanish ecological systems, accelerating the deterioration of resources that are essential for our well-being, such as water, fertile soil and biodiversity, putting the quality of life and health of Spain's residents at risk. **The Declaration of Climate and Environmental Emergency in Spain**, approved by the Council of Ministers in January 2020, emphasizes these factors and points out the need to cement the path towards climate neutrality, which in turn presents a great opportunity to modernize, facilitate innovation and improve the competitiveness of the Spanish economy, while generating quality employment.

In Spain, the climate action framework is part of the **EU's energy and climate policy**, which in turn responds to the requirements of the **Paris Agreement** of 2015, whose main objective is to provide a coordinated international response to the challenge of climate change.

In this context, the European Union is committed to achieving climate neutrality by 2050, and has very recently revised upwards its **greenhouse gas emissions reduction target to at least 55% by 2030 compared to 1990 levels**. In June 2021, the European Commission presented the "Fit for 55" package, which seeks to review the entire current regulatory framework for energy and climate to bring it into line with this new emissions reduction target.

All this is framed in the context of the **European Green Deal**, announced in December 2019, which has become the Union's new growth strategy, and puts sustainability and the digital agenda at the center of the European growth project and, therefore, also of Spain's.

The Green Deal brings with it major investment opportunities and the associated Investment Plan foresees the mobilization of more than €1 trillion of sustainable investments over the next decade. This unprecedented volume of public spending from the EU budget will mobilize private investment and open up opportunities in most sectors, but especially in energy, sustainable mobility, digital transformation, construction and many other industrial sectors, with solutions aimed at improving biodiversity protection and reducing vulnerability to climate change.

In this context, Spain presented in early 2020 **the Strategic Energy and Climate Framework**, which encompasses the various existing climate policy instruments, setting out a clear roadmap towards a more resilient and climate-neutral economy and reflecting Spain's commitment to climate action, with two key elements. On the one hand an ambitious **National Integrated Energy and Climate Plan** for the 2021-2030 period that sets out a decarbonization roadmap for the next decade and identifies opportunities in terms of employment, investment and generation of economic activity linked to the ecological transition. On the other hand, it also includes a Long-Term Decarbonization Strategy that goes past the 2021-2030 period.

As a sign of its support for the ecological transition process and increased ambition at the EU level, Spain has committed to very ambitious targets in terms of emission reductions, renewables and energy efficiency. Specifically:

- The **greenhouse gas emissions** reduction target is set at 23% compared to 1990 levels. This reduction target goes beyond Spain's commitments at a European level and implies eliminating a third of greenhouse gases currently emitted, measured in tons. In particular, it translates into an emissions reduction of 39% compared to 2005, in sectors not subject to the EU ETS (Emission Trading Scheme), 13 percentage points higher than the 26% target assigned to Spain by the European Union's Effort Sharing Regulation¹, approved in 2018.
- The **renewable energy** target is set at a 42% share of final energy consumption, which is 10 percentage points higher than it would be using the European Commission's methodology². This share will increase to 74% in the case of electricity generation.
- The **energy efficiency** target is set at 39.5%, which is 7 percentage points higher than it would be using the European Commission's methodology.

In addition, this Strategic Framework includes a variety of laws and strategies which contribute to its objectives. The Spanish **Climate Change and Energy Transition Law** aims to provide the necessary legal basis for a successful transformation of the productive and social fabric and involves economic agents, with a view to protecting the country's economy from the risks of climate change. The **National Climate Change Adaptation Plan** is another key instrument for building a more resilient economy and society. The **Just Transition Strategy** will reinforce this social aspect. Lastly, the **Circular Economy Strategy** will contribute to mobilize the necessary efforts to ensure a process of ecological transition aligned with a more sustainable and fair growth, that leaves no one behind.

Not only does the **Climate Change and Energy Transition Law** respond to the commitments assumed by Spain at the international and European level, but it also represents an opportunity from an economic point of view. The energy transition promoted by this law will make it possible to mobilize more than 200 billion euros of investment over the next decade. In this way, the law places the fight against climate change and the energy transition at the center of political action, as a key force for generating socioeconomic opportunities in Spain. Therefore, it is the institutional framework that will have to help Spain meet the requirements that regulate climate action in a progressive and predictable manner. The institutional framework will also have to guarantee that all the different sector policies are coordinated in a coherent fashion, to take advantage of any possible synergies when trying to achieve the objective of climate neutrality. All actions will require a financial system that is aligned with the needs of this transition towards a decarbonized economy with a neutral impact on the environment, so that the objectives and tools set out in the law seek to attract investors and generate confidence in the country project that it reflects.

Moreover, all this is now reinforced by the need to address the impacts of the pandemic. If something has been revealed by the COVID19 health crisis, it is the **close relationship between the health of ecosystems and human health**, which is why it is now more necessary than ever to focus on greater protection of the environment around us in order to preserve this fragile balance.

¹Regulation (EU) 2018/842 of the European Parliament and of the Council of 30 May 2018

²COM (2019) 285 final.

Scientific evidence shows that the **risk of emergence and spread of infectious diseases increases as the environment deteriorates**. The existence of healthy, resilient and well-preserved ecosystems can play an important role in buffering and diluting the effects of zoonoses, helping to mitigate the risks of spreading to human populations. Furthermore, it should not be forgotten that nature is the main source for the development of medicines and treatments for diseases, including traditional knowledge and the use of biodiversity genetic resources.

Thus, Spain's response to this unprecedented situation is based on an ambitious commitment to the ecological and digital transition as drivers for future recovery and growth. This is reflected in the investments and reforms envisaged in the **Recovery, Transformation and Resilience Plan**, submitted by the Government to the European Commission in April 2021 and approved in July 2021. This plan seeks to articulate a true "country project" which, through economic and social recovery, will drive the transformation and modernization of the Spanish economy and its productive fabric, ensuring greater resilience in the face of future adverse scenarios.

The development of the **Recovery, Transformation and Resilience Plan** leaves a clear and unquestionable message: **Spain's economic recovery will be decidedly green and blue**. This action guideline is complemented by a clear commitment to **biodiversity and natural environment conservation**. More than **40% of the funds** will go to investment projects aligned with climate action. Furthermore, the ecological transition is one of the **backbones of Spain's response to the crisis caused by COVID19**, and will therefore act as an indispensable reference and transversal guide for all measures and actions that may benefit from EU funds.

The **battery of measures and reforms contemplated in environmental matters** seeks to contribute to **relaunching our economy**, prioritizing the ecological transition of the productive system, improving its resilience to present and future environmental risks. It also aims at creating employment opportunities, with a special emphasis on employment for the younger generation, the long-term unemployed and women, as well as providing high added value to the national productive economy.

As it is stated in the framework of the European Union's long-term decarbonization strategy, *"this represents a huge opportunity to channel the response to the challenges of the 21st century in a strategic way, rather than submitting and adapting to the inevitable coming change. For the transition to be politically viable, it is crucial to make it socially just. This will be problematic, but no more so than facing the economic and social consequences of doing nothing."*

1.3 Transformation of financial markets

Spain has also committed, under the **Paris Agreement**, to "bring financial flows to a level compatible with a path towards climate-resilient development and low greenhouse gas emissions". In this regard, Spain is working intensively on the development of the sustainable finance market, as already stated in the **Declaration of Climate and Environmental Emergency in Spain**, agreed by the Council of Ministers in January 2020. This includes the development of a framework to facilitate sustainable investments, in line with the initiatives adopted within the European Union, which will enable capital flows to be redirected to achieve sustainable and inclusive growth, as set out in the Climate Change and Energy Transition Law.

The financial sector, far from being neutral in the face of the environmental and climate challenge, is a major agent of change for economic transformation, and it is essential that it aligns its activity with the objectives of the Paris Agreement. It is clear that sustainability criteria will become an integral part of the financial decisions of all agents, both public and private. For this reason, the **Climate Change and Energy Transition Law** seeks to promote a learning process, based on information obligations, which will enable the identification and anticipation of potentially risky situations for the Spanish economy and its companies, which will be involved in climate action. Thus, it proposes that all actors progressively apply environmental responsibility criteria, as well as the obligation for credit institutions to publish, by 2023, specific decarbonization targets for their lending and investment portfolios. Mobilizing the necessary investment volumes to successfully address the transformation of the productive fabric towards these objectives will require decisive action on the part of the Government, starting with its own participation in the capital markets.

Thus, the **Spanish Treasury Funding Strategy for 2021** envisages the issuance of the **Kingdom of Spain's first green sovereign bond**, with the aim of establishing a green bond issuance program as a structural element of the Treasury's financing policy that will be aimed at financing sustainable items of the Central Government Budget as well as boosting sustainable finance markets in Spain. This will be carried out through the implementation of a sovereign green bond program that will be based on a framework developed in coherence with the country's strategic priorities, which will contribute to the commitments assumed in terms of climate change and sustainable development. The implementation of this program will be in line with the issuance policy that the Treasury has been executing in previous years, contributing to a predictable and stable framework for investors, providing a range of liquid securities and endowing the Treasury with sufficient flexibility, while seeking to lengthen the average life of the Treasury's pool of liabilities.

In any case, it should be noted that the public sector, on its own, will not be able to mobilize the levels of investment required to bring the decarbonization of the economy to a successful conclusion, so this means that **decisive participation by the private sector** is essential. The incorporation of sovereign green bonds as a structural element of the Public Treasury's financing policy is intended as a guide to encourage other agents, both public and private, to join this market. However, the issuance of sovereign green bonds can only be one piece within the set of mechanisms that will seek to favor the channeling of public and private savings towards sustainable projects.

Thus, it is necessary to promote the comprehensive and in-depth development of the concept of sustainable finance in Spain, in order to contribute to the competitive positioning of the Spanish financial sector in the face of multiple advancements. The implementation of a green bond program is only one of the first steps in this new strategic axis of Spanish economic policy, whose ultimate goal is the deployment of both public and private investments that will transform the Spanish productive system to **achieve a more sustainable and inclusive growth**.

Thus, in parallel to the work for the implementation of a sovereign green bond program, a **National Sustainable Finance Plan** is being drawn up to promote the development of this market in Spain. This will have a threefold objective:

- Facilitate the **transformation** of the public and private financial sector, ensuring its adaptation to the new climate-neutral model, while preserving its viability and financial stability as a public good.
- Improve the **competitiveness** of the Spanish financial sector, taking advantage of the opportunities that sustainable finance offers for the creation of value in the medium and long term.
- Promote the **reorientation** of capital flows towards a low-carbon and more sustainable economy and investments, also encouraging, at the public sector level, the consistency of investments with the objectives of the Paris Agreement.

This Plan will include actions such as the regulatory development of the Climate Change and Energy Transition Law on sustainable finance, the creation of a joint investment fund (public and private) for the financing of sustainable projects or the adaptation of the financial sector to the use of the European Union's Sustainable Finance Taxonomy for the identification of sustainable activities, among other subjects. In the short term, a public-private communication forum will be created to take advantage of synergies, maximize the opportunities that sustainable finance can offer and implement the plan in the most consensual possible way.

02

The Green Bond program

2.1 Interministerial coordination framework

Within the framework of the Spanish legal system, **the First Vice-President of the Government and Minister of Economic Affairs and Digital Transformation**, through the **General Secretariat of the Treasury and International Finance**, is responsible for managing the issuance of Government Debt.

Given the horizontal nature of environmental policy and the relevance of the green bond program, for both economic and financial policy and environmental and climate policy, it was deemed necessary to establish a group to coordinate and facilitate the supply of information and support to the Spanish Treasury by the Administration's management centers and its **sectoral experts**, who manage the execution of the specific programs.

For these reasons, on March 5th, 2021, the **Government's Delegated Commission for Economic Affairs** (CDGAE), the forum in which the strategies of the ministries in the economic area of the Government are coordinated, agreed to create the **Working Group for the Structuring of Sovereign Green Bonds of the Kingdom of Spain and the Promotion of Sustainable Finance**. This Working Group brings together representatives on a Director General level from ministries with spending programs that can be associated to potential green bonds issued by the Kingdom of Spain.

This group, chaired and vice-chaired by the **Director General of the Treasury and Financial Policy** and the **Director General of the Spanish Climate Change Office**, respectively, was charged with the following objectives:

- Promote the necessary work for the **issuance of sovereign green bonds** and develop a stable coordination framework that ensures the achievement of the objectives and the correct performance of the sovereign green bonds of the Kingdom of Spain, as part of the strategy to mobilize sustainable investments adopted at a national and supranational level.
- Coordinate the development of the **National Sustainable Finance Plan** that includes, among others, the regulatory development derived from the draft of the Climate Change and Energy Transition Law, as well as the adaptation of all economic agents to the new regulatory framework for sustainable finance of the European Union.

Thus, regarding the green bond program, this group will be in charge of implementing the **coordination system** that will ensure compliance with the obligations associated with the issuance of green bonds throughout the life of the program, providing the Treasury with the necessary information to achieve this. It will also assist the Treasury in the selection of the most appropriate spending programs to be included in the program, as well as assessment on the associated metrics and indicators.

In this sense, each representative of the **sectoral ministries** involved will be in charge of coordinating this task within his or her ministry, in coordination with the **Directorate General of the Treasury and Financial Policy**. The development of this **green bond framework** is a concrete example of the result of this joint work.

The composition of this working group will be adapted to the needs of the program, in such a way that the ministries involved may vary according to the needs detected and the changes that may occur in the structure of the government. Additionally, public and private sectoral experts from different organizations might be invited, in order to have at all times the best expertise and advice available.

Finally, this working group will meet whenever necessary and at least once a year and will report regularly to the Government's Delegated Commission for Economic Affairs on the performance of its tasks. This body, chaired by the First Vice-President of the Government and Minister of Economic Affairs and Digital Transformation, will be able to establish the main strategic lines of the program based on the technical information provided.

2.2 Program objectives

Through the budget items associated with the green bonds issued, the Kingdom of Spain expects to finance those public expenditure programs that contribute to achieving the following environmental objectives:

1. Climate change **mitigation**.
2. **Adaptation** to climate change.
3. Sustainable use and protection of **water and maritime resources**.
4. Transition to a **circular economy**.
5. **Pollution** prevention and control.
6. Protection and recovery of **biodiversity and ecosystems**.

In addition, it is considered that these expenditures will also contribute substantially to the achievement of the following United Nations **Sustainable Development Goals**:

- **SDG 6:** Clean water and sanitation.
- **SDG 7:** Affordable and clean energy.
- **SDG 9:** Industry, innovation and infrastructure
- **SDG 11:** Sustainable cities and communities.
- **SDG 12:** Responsible production and consumption.
- **SDG 13:** Climate action.
- **SDG 14:** Underwater life.
- **SDG 15:** Life of terrestrial ecosystems.



2.3 Reasons for implementation

The implementation of a green bond program responds to the identification of a series of opportunities. Among the most important are the following:

- **Transparency in Spanish environmental objectives and policy.**

The implementation of a green bond program will allow the country's environmental agenda to be promoted and made visible, having a relevant effect on attracting investment, over and above the purchase of Spanish sovereign green bonds. This is important in a context in which the participation of the private sector will be indispensable to achieve the levels of investment required to decarbonize the economy.

- **Promoting the development of the sustainable financing market in Spain.**

The implementation of this program aims to play an important role in the development of the green bond market and to promote responsible and efficient financing in order to meet the country's environmental challenges. Thus, this framework has been developed in coherence with the strategic priorities of the Kingdom of Spain, contributing to the commitments undertaken in terms of climate change and sustainable development.

In addition, the development of the sustainable finance market requires liquid, high quality bonds to establish pricing benchmarks against which credit risk can be compared. In this way, the issuance of a sovereign green bond can provide an important liquidity service to the market, acting as a benchmark for other issuers. Moreover, a Spanish benchmark may be better suited to the specificities of domestic issuers, encouraging other domestic market participants to join this segment.

- **Respond to the demands of the investment community.**

In the face of changing investor preferences, entities with specific mandates to invest all or part of their investment portfolio in sustainable assets are becoming increasingly common. Therefore, the green nature of a bond can become a decisive factor for the participation of these agents and, consequently, the broadening and diversification of the Treasury's investor base.

03

The Green Bond Framework of the Kingdom of Spain

The Kingdom of Spain has developed this framework for the issuance of sovereign green bonds in order to define the main elements of these instruments, based on international best practices. In this way, the Green Bond Framework of the Kingdom of Spain is aligned with the **Green Bond Principles** of the International Capital Markets Association (ICMA), published in June 2021³, as well as with the United Nations **Sustainable Development Goals**.

On the other hand, alignment is also sought with the main sustainability objectives defined at the EU level, in particular the objectives of the **European Union's Taxonomy of Sustainable Finances**. In addition, the thresholds and selection criteria reflected in this framework take into consideration what is known of the content of its implementing acts, which currently refers only to climate change mitigation and adaptation objectives.

Once the elements of the **European Union Green Bond Standard** have been published and developed, including the implementation acts of the **Taxonomy of Sustainable Finance**, their contents will be incorporated into this framework in the best way possible. Similarly, efforts will be made to ensure that it is always adapted to the best market practices.

Thus, this Framework may be updated and modified periodically to adapt to market developments. Any updated version of this Framework will be published on the **Treasury's website**⁴ and will replace the previous version. Any changes will be communicated through the usual channels between the Treasury and market participants. Updated versions of the framework will only apply to the issuance after its publication, unless the update itself specifies otherwise.

3.1 Use of proceeds

An amount equivalent to the net proceeds obtained through the issuance of green bonds of the Kingdom of Spain will be allocated to expenditures aligned with the aforementioned environmental objectives, following the **eligibility criteria** specified below. Thus, the eligible items will have to be included in the **Central Government Budget** laws, including tax benefits, capital expenditure, current expenditure, transfers and subsidies. In particular, support for research and development and innovation will be included.

Eligible expenditures will exclude those financed at **other public sector levels**, such as European Union funds, as well as by **revenues specifically earmarked** for that purpose. For each issuance, only those expenditures planned for the **current fiscal year or executed in the previous two years**, or in the three previous years when this refers to the issue of a new benchmark, will be taken into account. This period shall also apply, exceptionally, when necessary to ensure the liquidity of the bond or the full allocation of funds. In this case, expenditures associated with future years may also be included.

The budget items associated with the sovereign green bonds of the Kingdom of Spain will fall under the **eligible expenditure categories** included below. The eligibility criteria and examples of eligible expenditures associated with these categories are included, as well as the environmental objectives and Sustainable Development Goals that correspond. The examples are included for illustrative purposes only and are not exhaustive, so they shall not be limited to those specified. Any project included in the categories that complies with the associated eligibility criteria will be eligible.

³ <https://www.icmagroup.org/green-social-and-sustainability-bonds/> ⁴ <https://www.tesoro.es/>

Green category of eligible expenditures	Subcategory of eligible expenditures	Examples of eligible expenditures	EU environmental objective	SDG
<p>Renewable Energy</p>	<p>Eligible expenditures to accelerate the development of renewable energies, such as solar, wind, hydro, geothermal, hydrogen and bioenergy.</p> <ul style="list-style-type: none"> Facilities operating with life cycle emissions below 100gCO₂e/kWh are eligible. Hydroelectric power shall include installations with a power density greater than 5 W/m². Bioenergy can include high-efficiency biomass cogeneration, for which feedstocks are limited to sources that do not deplete existing terrestrial carbon stocks or compete with food production. <p>Example of impact indicators: Greenhouse gas emissions avoided (tons/year), expected installed capacity of renewable energy (MW), planned production of distributed renewable energy in (MWh), R&D&I expenditures⁵.</p>	<ul style="list-style-type: none"> Eligible expenditures dedicated to the development of renewable energy production. Eligible expenditures dedicated to the construction and operation of transmission and distribution of electricity generated with renewable and clean energies. Eligible expenditures to strengthen R&D&I and technological developments. 	<p>Climate change mitigation</p>	<p>Goal 7 Goal 13</p>
<p>Clean Transportation</p>	<p>Eligible expenditures aimed at reducing dependence on fossil fuel transport, such as aid for the development and maintenance of the rail system for freight and passenger transport, the development of low-carbon vehicles, aid for sustainable public transport and the promotion of modal shift to more environmentally friendly modes.</p> <ul style="list-style-type: none"> Land transportation activities with zero direct emissions. Until the end of 2025, emissions of less than 50gCo₂/km for light-duty vehicles. From 2026, zero specific CO₂ emissions for such vehicles. 	<ul style="list-style-type: none"> Eligible expenditures dedicated to the improvement, maintenance, renovation or development of the railway infrastructure. Eligible expenditures dedicated to promoting low-carbon mobility. Eligible expenditures dedicated to the renewal, adaptation and replacement of the vehicle fleet in favor of low-carbon vehicles. Incentives for the purchase of hybrid and electric cars by individuals and companies are included. Eligible expenditures on public infrastructure for electric vehicles. 	<p>Climate change mitigation</p>	<p>Goal 9 Goal 11 Goal 13</p>

⁵ Research, Development and Innovation expenditures

Green category of eligible expenditures	Subcategory of eligible expenditures	Examples of eligible expenditures	EU environmental objective	SDG
<p>Clean Transportation (cont.)</p>	<p>Example of impact indicators: avoided greenhouse gas emissions, number of public transport passengers, kilometers of track electrified, kilometers of track built or renewed, train-km benefiting from the application of reduced fares to encourage the use of rail transport, R&D&I expenditures.</p>	<ul style="list-style-type: none"> Eligible expenditures aimed at financing sustainable public transport to encourage the use of more environmentally friendly means of transport. This will include contributions to metropolitan area transport consortia, compensation to railway managers for tariff reductions, contributions to ensure the sustainability of railway infrastructure managers and railway operators (e.g. to cover the network administration deficit, to cover the operating deficit, to repay long-term debt) compensation to railway operators for the operating deficit for the provision of railway services declared public service obligation. 	<p>Climate change mitigation</p>	<p>Goal 9 Goal 11 Goal 13</p>
<p>Sustainable water and wastewater management</p>	<p>Eligible expenditures to improve the water network and equipment for efficient water supply, distribution and storage.</p> <p>Starting in 2021, expenditures related to water treatment and water reuse with low emissions and energy consumption, in line with the thresholds defined in the EU Taxonomy for Sustainable Finance.</p> <p>Eligible expenditures aimed at achieving the good condition of water bodies and preventing their deterioration, improving the water network and equipment to ensure the guarantee of supply, its storage and efficient distribution, as well as the efficient management and treatment of wastewater.</p>	<ul style="list-style-type: none"> Eligible expenditures aimed at infrastructure and management to ensure the guarantee of supply and the efficiency of demand management. Eligible expenditures dedicated to water management infrastructure including wastewater treatment, purification and reuse. Eligible expenditures dedicated to the management of risk due to extreme events, and to the reduction of their impact through actions to mitigate the effects of droughts and floods. Eligible expenditures dedicated to the management of water resources and the control of the public water domain. Eligible expenditures dedicated to water quality monitoring and improvement of the status of water bodies. 	<p>Sustainable use and protection of water and marine resources</p> <p>Pollution prevention and control</p>	<p>Goal 6</p>

Green category of eligible expenditures	Subcategory of eligible expenditures	Examples of eligible expenditures	EU environmental objective	SDG
<p>Sustainable water and wastewater management (Cont.)</p>	<ul style="list-style-type: none"> • Improve control of the public water domain, water quality and water bodies. • Helps reduce the impact of droughts/floods. • Improved energy efficiency in water catching systems, storage and distribution. • Recovery of the natural conditions of watercourses. • Eligible expenditures to improve irrigation efficiency through modernization to ensure the sustainability of irrigation systems. <p>Example of impact indicators: avoided greenhouse gas emissions, equivalent inhabitants in compliance with regulations, km of watercourse with flood mapping, number of water bodies assessed, R&D&I expenditures.</p>	<ul style="list-style-type: none"> • Eligible expenditures to improve the energy efficiency of irrigation. • Eligible expenditures for investment in irrigation to ensure water resources for irrigation for adaptation to climate change, prevention and control of diffuse pollution by reducing returns and better application of fertilizers, sustainable use and protection of water and the transition to a circular economy. 	<p>Sustainable use and protection of water and marine resources</p> <p>Pollution prevention and control</p>	<p>Goal 6</p>
<p>Energy efficiency (including energy efficiency of buildings)</p>	<p>Eligible expenditures to promote the development of projects that increase energy savings and energy efficiency in line with the best available techniques, such as district heating, smart grids, and efficient renovation measures.</p> <ul style="list-style-type: none"> • Improve by at least two letters in the energy efficiency certificate. • Or, alternatively, achieve a reduction in primary energy demand of at least 30%. <p>Example of impact indicators: avoided greenhouse gas emissions and expected energy savings (MWh/year), R&D&I expenditures.</p>	<ul style="list-style-type: none"> • Eligible expenditures that support energy efficiency improvements in commercial and residential buildings. • Eligible expenditures dedicated to incentivize programs that promote energy saving and energy management in industry, including grant programs to incentivize energy saving and efficiency projects in industry. • Programs to promote energy efficiency in public administration buildings and public housing. • Eligible expenditures aimed at strengthening R&D&I and technological developments. 	<p>Climate change mitigation</p>	<p>Goal 7</p> <p>Goal 13</p>

Green category of eligible expenditures	Subcategory of eligible expenditures	Examples of eligible expenditures	EU environmental objective	SDG
<p>Protection and restoration of biodiversity and ecosystems and environmentally sustainable management of natural resources.</p>	<p>Eligible expenditures for sustainable land use and protection, as well as for the protection and restoration of biodiversity and terrestrial and marine ecosystems.</p> <p>Eligible expenditures to promote agroforestry and marine sinks.</p> <p>Eligible expenditures for the conservation, sustainable use and promotion of biological diversity, including forest products, forest genetic resources, as well as other genetic resources of flora and fauna.</p> <p>Eligible expenditures for the conservation and improvement of animal genetic resources.</p> <p>Eligible expenditures that have an impact on the transformation of the agricultural sector towards a green and sustainable model in accordance with the Sustainable Development Strategy of Spain's Agenda 2030.</p> <p>Example of impact indicators:</p> <p>Hectares of sustainable agriculture restored / maintained, hectares of protected areas restored / maintained, hectares affected by forest fires restored, and hectares of forest fire prevention actions, R&D&I expenditures.</p>	<ul style="list-style-type: none"> • Eligible expenditures dedicated to reforestation or forest protection, as well as erosion and desertification control. • Eligible expenses for interventions for the protection of environmental heritage, biodiversity and protected natural areas, against climatic risks such as fires, droughts or floods. Specifically, actions for the protection of endangered species and protected natural areas included in the Natura 2000 Network. Particularly those Natura 2000 Network sites in the marine area, whose management is the responsibility of the Ministry for Ecological Transition and the Demographic Challenge. • Increase in certified organic agricultural production. • Eligible expenditures for environmental restoration and reconversion of areas degraded by urban, mining and industrial activities. • Expenditures on activities that increase organic carbon in soils. • Expenditures in the promotion of carbon sinks. • Eligible expenditures for the management of herd books and breeding programs, including yield controls, for pure breeds. • Eligible expenditures for the sustainable management of fish stocks, through objectives such as improving the selectivity of fishing gear and establishing catch ceilings based on the best available assessments. • Eligible expenditures for the establishment of periods of temporary cessation of fishing activity. 	<p>Protection and restoration of biodiversity and ecosystems</p> <p>Climate change mitigation</p> <p>Adaptation to climate change</p>	<p>Goal 15</p>
<p>Pollution prevention and control and circular economy</p>	<p>Eligible expenditures for the development of waste management activities such as waste prevention, waste reduction and recycling.</p>	<ul style="list-style-type: none"> • Eligible expenditures to support the construction and maintenance of waste management activities dedicated to preparation for reuse and recycling. 	<p>Transition to a circular economy</p> <p>Pollution prevention and control</p>	<p>Goal 11</p> <p>Goal 12</p>

Green category of eligible expenditures	Subcategory of eligible expenditures	Examples of eligible expenditures	EU environmental objective	SDG
<p>Pollution prevention and control and circular economy (Cont.)</p>	<p>Specifically:</p> <ul style="list-style-type: none"> Separate collection for reuse and recycling operations. Preparation for reuse. Anaerobic digestion of biowaste or other biodegradable waste. Composting of biowaste Conversion of at least 50 %, in terms of weight, of the collected waste into secondary raw materials. <p>Expenditures to improve air, water and soil quality, prevent environmental hazards and damage.</p> <p>Example of impact indicators: Volume of waste treated and waste reduction.</p>	<ul style="list-style-type: none"> Eligible expenditures to support the development, and manufacture of products with a longer useful life, reusable, repairable or with materials from waste. Eligible expenditures that support the reduction of packaging or increased recycling of goods and raw materials. Eligible expenditures for air quality assurance. Eligible expenditures aimed at strengthening R&D&I and technological developments. Eligible expenditures for the training of the different stages of the agrifood chain. 	<p>Transition to a circular economy</p> <p>Pollution prevention and control</p>	<p>Goal 11</p> <p>Goal 12</p>
<p>Adaptation to Climate Change</p>	<p>Eligible expenditures for projects to prepare and protect the territory and economic sectors against the effects of climate change.</p>	<ul style="list-style-type: none"> Eligible climate change adaptation expenditures include, among others, measures that improve and ensure resilience against the negative effects of climate change (adaptation to extreme and slow-onset weather events), in order to avoid or reduce present and future damages derived from phenomena such as floods, droughts or sea level rise, systems for territorial configuration under climate resilience criteria, promotion of nature-based solutions, information support systems such as climate observation and early warning systems, remote monitoring of the coastal strip... Eligible climate change adaptation expenditures include, among others, measures that strengthen and increase the resilience of the coastline to the impacts of erosion, flooding and the effects of climate change on the coastal strip. 	<p>Adaptation to climate change</p> <p>Protection and restoration of biodiversity and ecosystems</p>	<p>Goal 13</p> <p>Goal 14</p>

Green category of eligible expenditures	Subcategory of eligible expenditures	Examples of eligible expenditures	EU environmental objective	SDG
<p>Adaptation to Climate Change (Cont.)</p>	<p>Example of impact indicators: km. of coastline with regional planning of actions to combat erosion and flooding and to adapt to climate change (annual and cumulative or %), total length of protected coastline (km/period of time), hectares of territory with recovery and maintenance actions, population protected against extreme weather and climate risks.</p>	<ul style="list-style-type: none"> • Eligible expenditures for the recovery of degraded areas, protection and recovery of coastal ecosystems. • Eligible expenses for the improvement of the management of the maritime-terrestrial public domain (DPMT): delimitation and recovery of the occupied DPMT, improvement of accessibility, promotion of intelligent networks for the management of the coast. 	<p>Adaptation to climate change</p> <p>Protection and restoration of biodiversity and ecosystems</p>	<p>Goal 13</p> <p>Goal 14</p>

On the other hand, all expenses that support or promote the following activities **will be excluded**:

- Exploration, research and exploitation of fossil fuels.
- Nuclear energy generation by fission.
- Energy generation with emissions above 100 gCO₂/kWh.
- Intensive livestock farming.
- Alcohol and tobacco industries.
- Gambling.
- Arms production and contracts.
- Mining.

3.2 Process for evaluation and selection of eligible items

One of the main functions of the **Working Group for the Structuring of the Sovereign Green Bonds of the Kingdom of Spain and the Promotion of Sustainable Finance** is to assist the Treasury in the process of evaluating and selecting the programs that will constitute eligible expenditure. This process will be based on the ongoing cooperation between the ministerial departments involved in the project, coordinated by the **Directorate General of the Treasury and Financial Policy**, and will consist on the following phases:

- **Preliminary analysis of the Central Government Budget**

On a yearly basis, an initial screening of the Central Government Budgets of those fiscal years that, according to the content of this framework, can be taken as a reference for the current year's issuance. The outcome of this process will be presented for analysis to the Working Group. The budget items that are aligned with the environmental objectives of the Kingdom of Spain will be selected, in order to determine their eligibility through an in-depth analysis of each one.

- **Analysis of potentially eligible expenditure items for the issuance of green bonds**

Based on this analysis, those budget items that meet the eligibility criteria established in the previous section will be identified. To this end, each member of the Working Group will coordinate the supply of information on the programs and pre-selected items within its ministry, communicating the results of the analysis to the Working Group as a whole.

The composition of the Working Group will be adapted overtime. If needed, representatives from other ministerial departments will be consulted and invited to participate, in order to identify new eligible expenditures covering all government environmental action. This will also be done in the event that the Working Group requires additional information or specific expertise, particularly in the identification of environmental and social risks associated with specific eligible expenditures.

- **Determination of eligible programs and expenditure for annual green bond issuance**

The Treasury, based on the information provided by the members of the Working Group, will select those eligible items that will become part of the portfolio of expenditure associated with the current year's issuance. To determine this total eligible expenditure, the new programs identified for the current year will be added to the unused carryover from previous years, in accordance with the previous section. Green bond issuance for each year will be planned based on this figure.

In planning green sovereign bond issuance for the current year, necessary precautions will be taken to ensure the availability of eligible spending in the event of changes in the eligibility of budget items associated with specific green sovereign bond issues.

- **Continuous review and updating of program eligibility changes**

The Working Group will put in place a system for monitoring eligible items to ensure that they comply at all times with the eligibility criteria prevailing at the time of issuance. In the event that, for any reason, such items cease to contribute to the objectives reflected in this framework or to meet the established eligibility criteria, new items will be selected, in accordance with the eligibility criteria prevailing at the time of issuance of the green bond to which these items were associated. These will replace the previous ones to ensure the quality of the associated expenditure at all times.

The Working Group will also consider possible disputes related to environmental, social or governance aspects that could call into question the quality of the associated expenditure, such as, for example, in the case of legal proceedings brought about due to non-compliance with public procurement regulations. In the event that such controversies are detected, the same procedure described in the previous paragraph will be followed, selecting new eligible items, which will be applicable to the part of the expenditure that was the object of the controversy.

- **Allocation and impact reports**

The Working Group will also assist the Treasury in the preparation of the periodic reports detailed in the following paragraphs, providing all the necessary information for this purpose, in accordance with the provisions of this green bond framework. Thus, a monitoring system will be put in place to assess the allocation of eligible expenditure to each green bond issuance and the impact of the associated programs.

A record will be kept showing how each year's issues have been allocated to the eligible expenditure identified, specifying the remainder that would be available for issuance corresponding to subsequent years, in accordance with the eligibility criteria established in this framework. The Spanish Treasury will be the body in charge of creating and managing the **registry of sovereign green bonds**, ensuring at all times the **traceability of the decisions adopted** on the evaluation, selection and monitoring of the programs.

On the other hand, **the ordinary environmental assessment of plans, programs and expenditures projects**, in all cases provided for in the regulations in force, guarantees the incorporation of sustainability criteria in strategic decision-making and ensures adequate prevention of the specific environmental impacts that the projects may generate; at the same time, it establishes **effective mechanisms for correcting or compensating** the effects of such projects on the environment.

Thus, projects involving agriculture, livestock, forestry, aquaculture, fishing, energy, mining, industry, transportation, waste management, water resource management, occupation of the public maritime land domain, use of the marine environment, telecommunications, tourism, urban and rural land use planning, or land use must be subject to analysis to determine their possible significant impacts on the environment, including in such analysis the effects on the following factors: population, human health, flora, fauna, biodiversity, geodiversity, land, soil, subsoil, air, water, climate, climate change, landscape, material assets, including cultural heritage, and the interaction between all of the above factors.

3.3 Management of proceeds

The proceeds derived from sovereign green bond issuance under the present green bond framework will be part of the **Kingdom of Spain's funding program**, just like the rest of its conventional “Bonos and Obligaciones del Estado” (Treasury’s Bonds). Therefore, the funds will be managed by the Spanish Treasury in accordance with its **fund management policy**.

On the other hand, the Treasury will seek to ensure the allocation of an amount of eligible expenditure that is equivalent to the nominal amount of sovereign green bonds issued, following the **process for evaluation and selection of eligible items** described in this green bond framework.

In addition, care will be taken to ensure that eligible expenditures are identified for a **total face value that is greater than the amount of green bonds intended to be issued**. This larger eligible portfolio will facilitate the allocation of bond proceeds to eligible expenditures, as well as any reallocation that may be necessary.

The payment of principal and interest on the green bonds issued by the Kingdom of Spain will not be conditional upon the selection or execution of eligible expenditures.

3.4 Investor information

The Working Group will coordinate and review the information associated with the bonds issued under the present green bond framework, with the aim of publishing, starting within one year after the inaugural issuance and on a yearly basis, a **report on the allocation and impact of the sovereign green bonds** issued by the Kingdom of Spain. These reports will refer to the green bond program as a whole, providing the information associated with each of the bonds issued, and will be published annually on the **Treasury's website**, where they will be available until the maturity of the outstanding bonds.

Regarding the **allocation of funds**, information will be reported on the allocation of funds obtained through the issuance of sovereign green bonds issued in previous fiscal years, specifying both the budget items associated with each issuance and their amount. For each reference, this shall be done until the full allocation of the proceeds. The document may include, among other things, information on the volume issued, the volume allocated to eligible programs, their distribution by fiscal years, the department responsible for the implementation of the different programs, the percentage of funds not used or the distribution of eligible expenditure by categories of green expenditure and type of expenditure, as indicated in this framework. These reports may also include information related to the implementation of the initiatives considered and, if applicable, information on the co-financing of the items by other agencies.

In the event of **reallocations with respect to the initial allocation**, as established in section 3.2 of this framework, this report shall include a section dedicated to report on this fact, explaining the reason for the changes, the items to be eliminated and those to be added, the impact of this reallocation on the distribution of proceeds by eligible categories and type of expenditure, as well as any other relevant information.

Information on the **impact of the programs** associated with these bonds will be progressively incorporated into the reports, subject to the availability of relevant information, so that by the maturity date of the bonds, the impact of the funds associated with each issue will have been reported. This may include specific indicators, in accordance with the indicative examples given in section 3.1 of this framework, or qualitative assessments to improve understanding of the impact of the items associated with each bond. The report shall include, where applicable, information on the **methodology and assumptions used** to assess the impacts of programs associated with bonds issued under this framework.

These reports will be prepared on the basis of the **information provided by the public administrations** involved in the design, execution and control of the programs associated with the green bonds issued by the Kingdom of Spain. The Working Group will ensure **that they provide the best information available at the time of their publication**.

On the other hand, prior to the first issuance of each fiscal year, the amount of eligible expenditures for the current year's issuance will be published, specifying, at least, the breakdown by fiscal year.

A **new section** will be created **on the Treasury's website**, dedicated exclusively to the sovereign green bond program, where all the information related to these bonds will be published, including the above information, the present green bond framework, its second opinion report and any other relevant information.

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Independent third party verification

Following the best market practices, the documents published on the Treasury's website that report on the green bond program will be **verified by independent third parties**, who will attest to their content. Specifically, the following will be carried out:

- **Green bond framework second party opinion**

Prior to the issuance, **Vigeo Eiris** conducted an external review and evaluation of this green bond framework, issuing a second party opinion that will assess the consistency of this document and its alignment with the ICMA Green Bond Principles, taking into consideration the best practices in the market.

This second party opinion will be published on the Treasury's website along with this green bond framework, as well as on ICMA's Green Bond Principles Resource Center⁶. In the event that the content of the framework is modified, the associated second opinion report will also be updated

- **Verification of annual reports**

The Treasury will also appoint an independent third party to prepare an annual verification report of the information on the allocation of the proceeds to eligible expenditures contained in the published annual reports. If deemed necessary, this will also be done when circumstances require confirmation of the effectiveness of such allocation, in accordance with the criteria set forth in this green bond framework.

⁶<https://www.icmagroup.org/green-social-and-sustainability-bonds/resource-centre/>

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Legal Notice

This Green Bond Framework is provided for information purposes only and does not constitute or form part of, and should not be construed as, an offer or invitation to sell bonds issued by the Kingdom of Spain, or the solicitation of an offer to underwrite, subscribe for or otherwise acquire any debt or bonds of the Kingdom of Spain, and nothing contained herein shall form the basis of or be relied upon in connection with any contract or commitment whatsoever. Any decision to purchase any bonds issued by the Kingdom of Spain should be made solely on the basis of the information to be contained in the Offering Circular, produced in connection with the offering of such bonds. Prospective investors are required to make their own independent investment decisions.

It is the Issuer's intention to apply the proceeds of those bonds for projects that contribute to the fulfillment of the environmental objectives described in the Green Bond Framework. Nevertheless, no representation is made as to the suitability of any Spanish sovereign green bonds to fulfil environmental and sustainability criteria required by prospective investors. Each potential purchaser of Spanish sovereign green bonds should determine for itself the relevance of the information contained or referred to in this Framework or the relevant bond documentation for such Spanish sovereign green bonds and its purchase of Spanish sovereign green bonds should be based upon such investigation as it deems necessary. The Kingdom of Spain has set out its intended policy and actions in this Framework in respect of use of proceeds, project evaluation and selection, management of proceeds and investor reporting, in connection with Spanish sovereign green bonds. In addition, each environmentally focused potential purchaser of the Spanish sovereign green bonds should be aware that Eligible Green Projects may not deliver the environmental or sustainability benefits anticipated.

Furthermore, no assurance can be given that the use of proceeds from the Spanish sovereign green bonds for any Eligible Green Expenditures will satisfy, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required or intended to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates, in particular with regard to any direct or indirect environmental impact of any projects or uses, the subject of or related to, any Eligible Green Expenditures.

While it is the intention of the Kingdom of Spain to apply the proceeds of any bonds issued as Spanish sovereign green bonds for Eligible Projects, there can be no assurance that such Eligible Projects will be available or capable of being implemented in the manner anticipated and, accordingly, that the Issuer will be able to use the proceeds for such Eligible Project as intended. In addition, there can be no assurance that Eligible Projects will be completed as expected or achieve the impacts or outcomes (environmental, social or otherwise) originally expected or anticipated. Any such failure will not constitute an Event of Default under the Spanish sovereign green bonds.

No representation or assurance is given as to the suitability or reliability of any opinion or certification of any third party made available in connection with an issue of Spanish sovereign green bonds. For the avoidance of doubt, any such opinion or certification is not incorporated in this Offering Circular. Any such opinion or certification is not a recommendation by the Issuer, any Manager or any other person to buy, sell or hold any such securities and is current only as of the date it was issued. As at the date hereof, the providers of such opinions and certifications are not subject to any specific regulatory or other regime or oversight. Prospective investors must determine for themselves the relevance of any such opinion or certification and/or the information contained therein.

A failure of the bonds issued as Spanish sovereign green bonds to meet investor expectations or requirements as to their "green", "sustainable" or equivalent characteristics including the failure to apply proceeds for Eligible Projects, the withdrawal of a third party opinion, the Spanish sovereign green bonds ceasing to be listed or admitted to trading on any stock exchange or securities market as aforesaid or the failure by the Issuer to report on the use of proceeds or Eligible Projects as anticipated, may have a material adverse effect on the value of such bonds and/or may have consequences for certain investors with portfolio mandates to invest in green assets (which consequences may include the need to sell the bonds as a result of the bonds not falling within the investor's investment criteria or mandate).