

Chapter 9

The Basque Sustainable Bonds

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1. Introduction

1.1. Background

The debt market may play an essential role in the funding of projects that contribute towards social and environmental sustainability. The development of the market for green bonds, social bonds and sustainable bonds is vital for this.

The first green bond emerged on the market in 2008 as a result of a joint initiative between the World Bank and the Swedish financial group, Skandinaviska Enskilda Banken (SEB)¹. Since then, there are more and more investors who devote part of their portfolios to supporting environmental, social and good governance projects. Green bonds guarantee that the money associated to their purchase will be used to fund projects with a positive environmental impact.

Over the years, the concept of green bond has been extended to other themed bonds, such as social bonds (to support social causes), blue bonds (to support fisheries and sustainable marine projects) or sustainable bonds (to support social and environmental projects). Sustainable bonds are any type of debt issued by public and private institutions whose revenue will be used exclusively to fully or partially finance or refinance new and/or existing green and sustainable projects that contribute towards the fulfilment of the Sustainable Development Goals.

In June 2018, the Basque Government issued sustainable bonds for a total value of 500 million Euros on the Bilbao Stock Exchange. These bonds are valid for 10 years and will accrue annual interest of 1.45%. The funds will be used to finance projects aligned with the Agenda Basque Country 2030, which reflects the degree of alignment and contribution of the Government Programme to the goals and objectives related to the 17 Sustainable Development Goals (SDGs). Issues of green bonds, social bonds and sustainable bonds follow the Green Bond Principles (GBP) and the Social Bond Principles (SBP) established by the International Capital Market Association. The principles that this type of bonds must fulfil include the drafting of annual reports on the allocation of funds and impact.

1.2. Project Goals

The aim of this project is to draw up the 2018 Report on the allocation of resources and the economic, environmental and social impact of the Basque Country sustainable bond. The impact has been assessed using a dual approach. First of all, the individual impact of each project financed has been assessed using economic, social and environmental impact indicators (common practice within the context of the assessment of this type of bonds). Secondly, the total impact of the bond on production (economic dimension), income and employment (social dimension) in the Basque Country has been assessed using input-output tables (IOT).

2. Context

2.1. Global Situation

In its eleven years of history, the market for this kind of bonds has moved from being dominated by **multilateral bodies**, such as the World Bank, to become a market in which **governments** and **public companies** and **private organisations** participate. In the whole of Europe, there are more than 50 agents who have issued green bonds. A total of 15 agents have opted for social bonds and 24 have issued sustainable bonds. Table 2.1 shows the agents that issue this type of bonds in Spain.

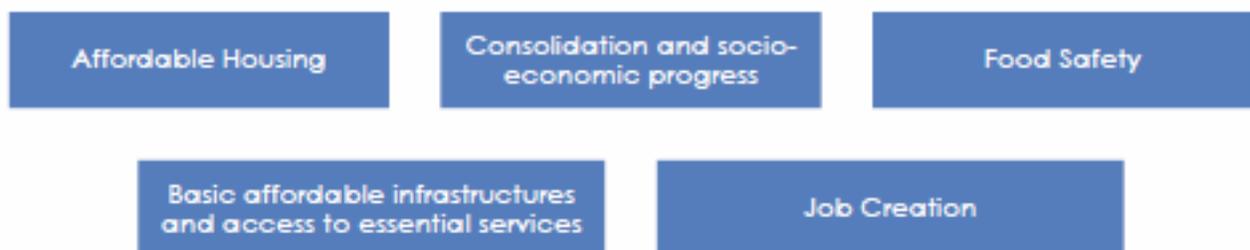
Table 2.1 Agents issuing bonds in Spain

Type of Bond	Agent
Green Bonds	ACS SCE
	ADIF - High Speed
	Banco Bilbao Bizkaia Argentaria (BBVA)
	Gas Natural Fenosa
	Iberdrola
	Repsol
Social Bonds	Community of Madrid
	Official Credit Institute
	Kutxabank
Sustainable Bonds	North Rhine
	Banco Bilbao Bizkaia Argentaria (BBVA)
	Basque Government
	Caja Rural de Navarra
	City of Barcelona
	Community of Madrid
	Telefónica

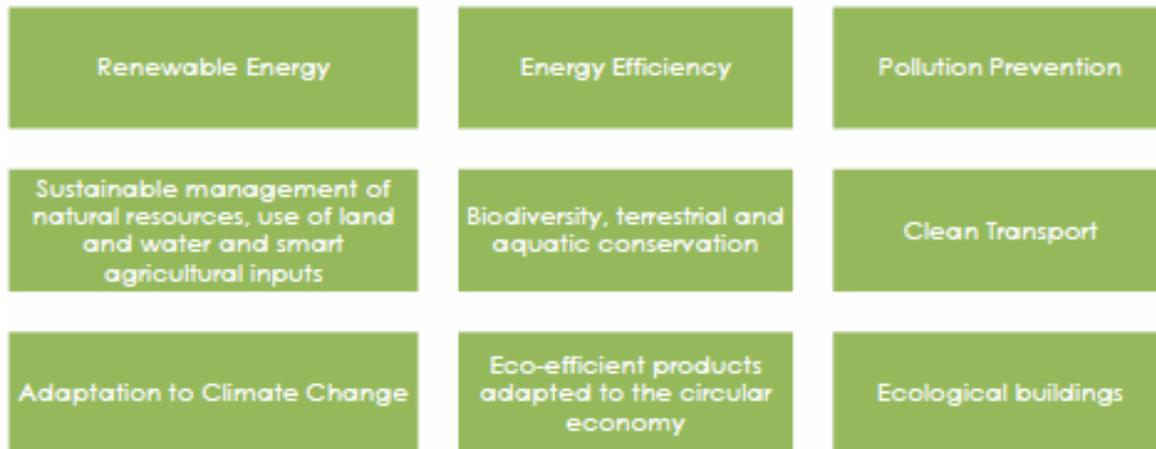
Source: International Capital Market Association (consulted on 2nd May 2019)

Issues of green bonds, social bonds and sustainable bonds follow the **Green Bond Principles** (GBP) and the **Social Bond Principles** (SBP) established by the International Capital Market Association.

Principle 1: User of funds. The funds should be allocated to projects with clear sustainability benefits. These projects should be evaluated and, when feasible, quantified by the issuer. In the event that all or a proportion of the funds is used for refinancing, it is recommended that the issuers provide an estimate of the financing percentage over that of re-financing. The type of projects most commonly funded by social bonds are:



As for green bonds, the most commonly funded projects are:



Principle 2: Assessment process and project selection The issuer of the bonds must notify investors of the sustainability objectives, the process which determines the way in which the projects fit into the previous categories and the eligibility criteria, including, where appropriate, the exclusion criteria and any other process that serves to manage risks and costs associated with projects. Therefore, they must be transparent and allow external evaluation.

Principle 3: Management of funds. The funds must be controlled by the issuer in an appropriate and transparent way and formally confirmed by the issuer. The issuer will allow the complementary review by an auditor or a third party in order to verify the monitoring method.

Principle 4: Reports. The issuer must annually update information on the use of funds and the sustainability benefits obtained. It must include a list of projects to which the funds have been allocated as well as a brief description of the projects and the amount allocated. The **use of qualitative indicators** (and quantitative indicators where possible) regarding the performance of the bonds is recommended.

Table 2.2 includes the typical indicators used in the impact report of some governments, private companies and multilateral bodies. In all cases, the **indicators are static**, or in other words, they refer to the year of issue of the bond to be evaluated and the evolution of the indicator in previous years is not taken into account. However, in some cases, the reduction of issues associated to specific projects is estimated for the useful life of the project.

Table 2.2: Typical indicators used in impact reports

Institution/ Region	# beneficiaries	Jobs created	CO2 avoided	Energy Production	Others
North Rhine	(1)	(1)	(1) and (2) *		
Adif**			(2)		
Community of Madrid	(1)				(1) and (2)
Flanders	(1) and (2)		(1) and (2)		(1) and (2)
Ile-de-France Region	(1) and (2)	(1) and (2)	(1) and (2)		
Nordea***			(2)	(2)	
IFC			(2)	(2)	
Caja Rural de Navarra	(1) and (2)				
World Bank	(2)		(2)	(2)	

Notes: (1) Social Bonds; (2) Green Bonds; * Estimated emissions savings for the modernisation of buildings and projects intended to promote the use of public transport or bicycles; ** Includes specific indicators for trains (time savings and external costs avoided); *** Norwegian financial group

The most used indicator in the impact reports by different levels of **governments** to report the results of the social bonds is the number of agents benefiting from the project. Reports such as those from the Community of Madrid, Flanders, Ile-de-France Region or NRW use indicators such as families with social housing or the number of students that receive subsidies for studies. Other indicators used are the number of special education schools, the number of public schools or the number of clean vehicles bought.

Table 2.3: Some indicators

Examples of indicators	Regions using them
Social Bonds	
Social housing (families)	Community of Madrid
Aid for vulnerable families	Community of Madrid
Number of education centres with subsidies	Flanders
Creation of jobs for disadvantaged people	North Rhine
Number of students with subsidies / grants	Flanders, North Rhine
Number of students who will attend the new school	Ile-de-France Region
Number of homes to which a new project will supply energy	Ile-de-France Region
Number of special education schools	Community of Madrid
Number of public schools	Community of Madrid
Number of clean vehicles bought and charging points	Community of Madrid
Green Bonds	
Recycled material (t)	Flanders
Material savings (t)	North Rhine
Water savings (m3)	North Rhine
Land with subsidies for sustainable use (ha)	North Rhine
Emissions savings*	North Rhine

*Emissions savings are limited to specific questions, such as restoration of buildings, change in the use of means of transport or energy transition (energy efficiency and renewable energy).

3. The Agenda Basque Country 2030

Traditionally, the sub-national governments have been key components in the implementation of sustainable development solutions, and more specifically, have played a fundamental role in localizing and implementing so far the Sustainable Development Goals (SDGs) in the territorial sphere that is closer to its citizens.

The Agenda 2030 is thought as a solution for a global scenario, but at the same time its commitment to the promotion of the territorial dimension and the adaptation at the local and regional level is one of its innovative features.

Both the United Nations and the European Commission have highlighted the important role of sub-national governments in the implementation of the SDGs, and have stipulated that each territory should follow in this path with due regard to its own local circumstances, and adapting it to their own reality.

With the elaboration and release in April of 2018 of the Agenda Euskadi-Basque Country 2030, the aim is to lead and continue to encourage the participation of other regions and sub-national governments in their own SDG implementation. This approach was deemed ideal by the Basque Government because of the proximity and specific knowledge of the society's needs, as well as the skills and resources needed to ensure the best possible outcome.

Euskadi (the name of the territory in the regional language)/ Basque Country is a region in the north of Spain bordering with France of just over 7,000 km² and nearly 2.2 million citizens, with its own language, culture and identity, and a high index of sustainable human development. The Basque Government represents a region that enjoys a broad and unique way of self-government (with a high degree of autonomy and power in areas such as economy, education, industry, culture, health, security and social services).

The main contribution of the "Agenda Euskadi-Basque Country 2030" initiative to the Agenda 2030 for Sustainable Development, is to generate a favorable environment in the understanding and implementation of the SDGs to achieve the great objective of "leaving no one behind", through the building of broad partnerships.

The Euskadi-Basque Country 2030 Agenda constitutes the Basque Government's determination to put forward its public policies in the light of the challenges of the United Nations Agenda 2030, and also establishing a link with the strategic approach adopted by the European Commission in the work for sustainable development, which focuses on the use of instruments to ensure that current and future policies take into account social, environmental and economic factors.

3.2 Effectiveness of the Basque Country Agenda 2030

The 15 regional objectives for the 2016-2020 term focus on the "5 Ps" included by the UN in its SDGs: Prosperity (1-7), People (8-13), Planet (14-15), Peace (16) and Partnerships (17).

Thus, the Euskadi-Basque Country 2030 Agenda:

- Covers the three dimensions of sustainable development (social, economic and environmental).
- Is inter-sectoral: it affects all policy areas of the Basque public sector.
- It has Policy Coherence for Development, which is a key tool for the success of Agenda 2030 because it reinforces the idea that we are moving in the same direction. In this sense, it has assessed and taken into consideration the Framework of Reference for Policy Coherence for Development, approved by the Governing Council in April 2016.
- It is specific: it focuses on issues and commitments in which the Government has the competencies, power and capacity to act.

The Agenda Euskadi-Basque Country 2030 reflects how the different Basque sectoral policies help in the implementation of the 17 SDGs. Specifically, the Agenda includes 93 commitments, 80 planning instruments, 19 legislative initiatives, and 50 indicators to help advance the SDGs in the 2016-2020 period. These are the eight main pillars of the Agenda Euskadi-Basque Country 2030:

- a) Integrating and indivisible:** covering three dimensions of sustainable development (social, economic and environmental issues).
- b) Transversal:** covers all areas of public policy and has an impact on them.
- c) Time-based:** notwithstanding the foregoing, the initiatives to be developed are divided into 4 year-periods, coinciding with the legislative period of the Basque Government.
- d) Specific:** focused mainly on the issues and commitments on which action can be taken.

- e) **Clear:** it is a simple, clear, and easy to use tool.
- f) **Participatory:** permanently open to multilevel and multi-stakeholder participation.
- g) **Adaptable:** a "living" and adaptable Agenda, open to changes and adaptation in a process of continuous improvement.
- h) **International:** a universal, global and international plan.

4. The Sustainable Bonds

To understand Sustainable Bonds, it is important noting that the Basque Country has had its own tax system for the last 150 years. The so-called Economic Agreement is a structure of bilateral tax and financial relations between the Basque Country and Spain. That means having an own autonomous internal revenue system through full management power, levying and collection of practically all taxes. Once collected by the autonomous internal revenue service of the region, an agreed amount (quota) is transferred to the Federal Government for the services it provides to the Basque Country region (Armed Forces, Justice, Diplomatic, etc.). In short, to carry out its public policies, the Basque Government has two financing channels: the collection of taxes and the bond issuance that.

4.1 Allocation of the bond

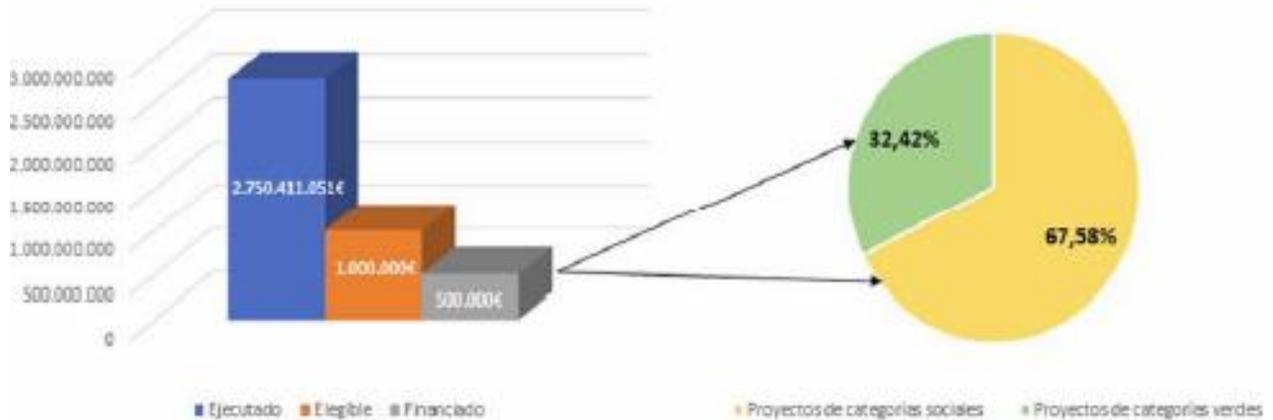
In 2018, the Basque Government **spent** a total budget of €2,750,411,051 in projects corresponding to categories eligible and susceptible to being financed by the sustainable bond, of which €2,575,286,218 were allocated to social projects and €175,124,832 to green projects. Of the total budget spent, the projects that fulfil the **eligibility** criteria and were therefore financed with the Basque Country sustainable bond, €337,921,206 (67.58%) was allocated to social projects and the remaining €162,078,794 (32.42%) went to green projects.

Allocation reporting will be available to investors within one year from the date of the Sustainability Bond issuance and annually until the bond proceeds have been fully allocated. The reporting will produce insights into the total amount provided to the various eligible budgetary programmes and the total of each eligibility category. The allocation reporting will be made available on the Basque Government's website.

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

Figure 3.1 shows the total eligible projects, the budget spent on project categories susceptible to being financed through the sustainable bond and the amount finally financed by means of the sustainable bond. Within the projects financed with the bond, the proportion of green projects and of social projects financed is shown.

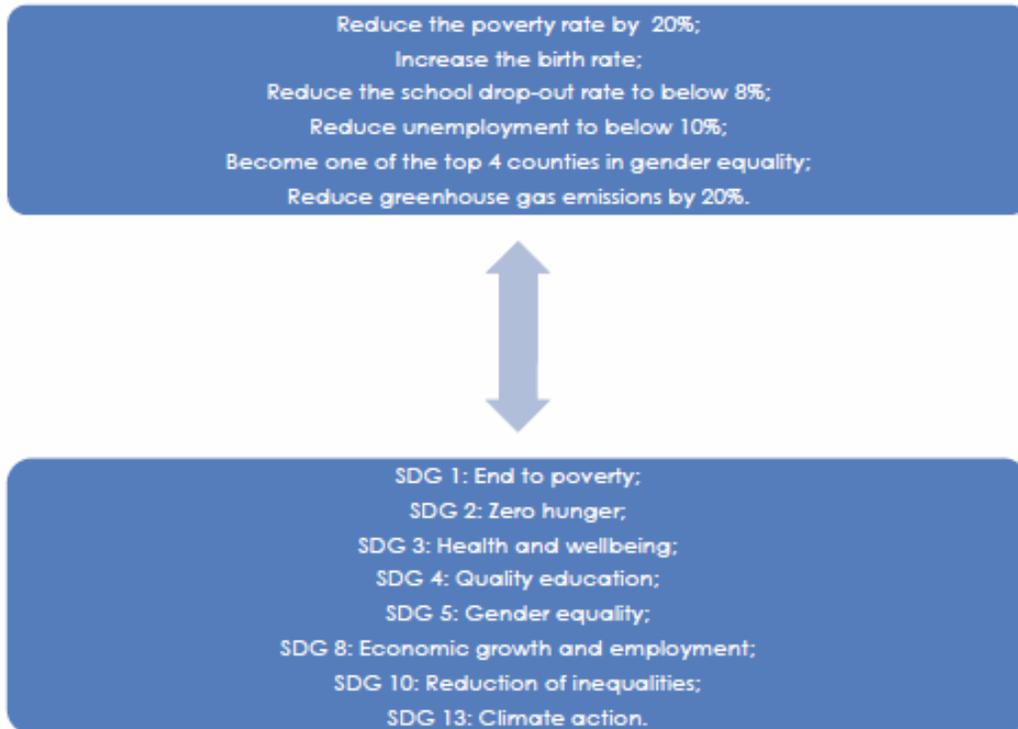
Figure 3.1: Eligible projects, budget spent and budget (green and sustainable) financed through the Basque Country sustainable bond



The total amount of the Basque Country sustainable bond (€500,000,000) has been used to finance part of the budget spent on eligible green and social projects. To select the projects and the proportions of each one to be financed by the bond, the level of alignment with the SDG was taken into account and hence, the goals of the Government Programme.

Social Projects: priority was given to fostering the promotion of investment over expenditure and, within the investments made, priority was given to projects that address the following Government Programme goals: Reduce the poverty rate by 20%; Increase the birth rate; Reduce the school drop-out rate to below 8%; Reduce unemployment to below 10%; Become one of the top 4 counties in gender equality. These objectives are in turn aligned with the following SDGs: SDG 1 (end to poverty), SDG 2 (zero hunger), SDG 3 (health and wellbeing), SDG 4 (quality education) and SDG 5 (gender equality).

Figure 3.2: Relationship between some of the main goals of the Government Programme and the SDG



Source: Metroeconomica

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

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

a) Affordable housing

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

Eligible projects include, but are not limited to:

(i) Construction of new social housing in a rental regime and new rental accommodations (ADA).

(ii) Financing of the Bizigune Program to ensure that privately owned homes, which are uninhabited within the Autonomous Community of Euskadi, are placed on the rental housing market, giving advantages to the owners of these dwellings, as to the current and future tenants. The owners benefit from the guarantee of rent collection, and the tenants benefit from a rent subsidy, so that it does not exceed 30% of their income;

(iii) Financing of the Complementary Housing Benefit (CHB) and the Social Emergency Aid (SEA) for people with monthly incomes lower than the monthly amount of the Guaranteed Income (RGI), depending on the number of household members (coexistence unit);

(iv) Financing of the CHB for people who do not have the economic resources or means necessary to obtain a home and whose annual income is less than 9,000, 12,000 and 15,000 euros depending on the units of coexistence are 1, 2 or 3 or more members, respectively;

(v) Financing of the Gaztelagun Program that provides direct rent assistance to young people between 23 and 34 years old, covers up to 50% of the monthly rent for up to three years, for maximum rents of 600 euros and 750 euros in towns and cities, respectively.

(vi) Rehabilitation and / or renovation of homes and buildings, to improve access and mobility of people, including materials and labour costs.

b) Access to essential services: Education and Healthcare

1a. Education

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

Eligible projects include, but are not limited to:

(i) Development of day-care centers;

(ii) Financing of programmes to improve the performance of students with language barriers or who perform below average specific educational reinforcement Programmes, Complementary Education Programs, as well as the territorial programs for the eradication of absenteeism and de-schooling;

(iii) Programs that guarantee an adequate education for migrant students within inclusive and intercultural schools, such as incorporating the needs of linguistic reinforcement centers that teach to migrant students who do not speak the languages of the schools, specific intervention programs, etc.;

(iv) Programmes that improve access of young people in a situation of greater vulnerability to vocational training and boost their transition to employment;

(v) Construction, renovation and maintenance of schools and public education centers for professional training;

(vi) Financing the development and maintenance of public universities;

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

1b. Healthcare

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

- (i) Development, maintenance and modernization of the facilities (infrastructure) integrated into the public health service system (hospitals, health centers, mental health centers, etc.);
- (ii) Financing the RENOVE plan for health centers (renovation of public buildings and centers);
- (iii) Provision of health care in under-served areas or vulnerable populations, to guarantee universal accessibility to health services by eliminating physical and transport barriers due to the functional diversity of people, gender barriers, barriers due to social stigma caused by certain diseases and disorders, and social, cultural and economic barriers;
- (iv) Financing of medical equipment or provision of diagnostic services for public health and mental health centers and hospitals;
- (v) Programs and financing plans for the promotion of health or to prevent and treat specific diseases;
- (vi) Financing activities to prevent and treat addictions;

c) Socioeconomic advancement

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

Eligible projects include, but are not limited to:

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

Type of complement of ordinary units	nº of people at home	Euro / month
Basic amount by cohabitation unit		450
Complements by adults in the cohabitation unit	Bearer	200
	Couple	160
	Other adults (máx. 4 adults)	100
	First dependent child	120
Complements by dependent child in the cohabitation unit	Second dependent child	84
	Third & Four dependent child	60
	Fifht and subsequent	48
Other complements	Single parenthood, disability or gender violence	100
Maximum amount for any family composition		1,200
Source: Document of basis for the improvement of the RGI and own elaboration		

(ii) Financing of the Social Emergency Aid programmes;

(iii) Financing support services for families with children;

(iv) Financing programs to guarantee equal opportunities after childbirth and guarantee their well-being;

(v) Financing of expenses related to the provision of goods and services to support victims of gender violence;

d) Employment generation

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

Eligible projects include, but are not limited to:

(i) Support programmes for employment in local commerce, the local primary sector and the tourism sector, including training courses;

(ii) Support programmes that foster the social economy, entrepreneurship, self-employment and micro-entrepreneurship;

(iii) Support for the development of District Employment Plans in areas of the Basque Country that exceed 12.4% of unemployment (current average of the Basque Country, 11.1%);

(iv) Financing of the Lehen Aukera Program (programme to foster the employability of young or unemployed people through a labour contract for the purpose of obtaining a first work experience);

(v) Financing programmes of dual training that support educational-labour transition, including programmes to develop employment plans for young people;

(vi) Renovation programs;

(vii) Financing programmes for employment, including but not limited to programmes for youth return to education/ working market and training for employment;

e) Renewable Energy

Use of proceeds: Proceeds of the bond will be allocated to projects and programmes aimed at promoting the increase of renewable energy in the Basque Country. Proceeds will be used to finance the renewable energy priorities included in the Euskadi Energy Strategy 2030 (“Estrategia Energética de Euskadi 2030”); Wind, Biomass (waste to energy), Solar Photovoltaic, Geothermal and Marine renewable energy.

Eligible projects include, but are not limited to:

(i) Support programmes that increase the use of biomass (Energy from waste and residuals of agroforestry) for public services;

(ii) Finance programmes that encourage the use of renewable energy in households, public and private buildings and the industry (solar, wind and geothermal);

(iii) Financing measures and implementation programs that increase the availability of renewable energy, including investments in biomass energy (waste to energy) utilization facilities, investments in geothermal utilization facilities and investments for the demonstration and validation of emerging marine renewable energy technologies;

(iv) Financing of new low-power installations, including the installation and renovation of land and marine wind farms and biomass (waste energy) plants;

(v) Programs to promote the use of renewables in the primary sector;

f) Clean transportation

Use of proceeds: Proceeds of the bond will be used to reduce the dependence on fossil fuel transport in accordance with the lines of action included in the Master Plan for Sustainable Transport of Euskadi 2030.

Eligible projects include, but are not limited to:

- (i) Programmes that promote the progressive decarbonisation of transport (Financing measures and implementation programs that support electric vehicles, e.g. electric taxis in cities, electric vehicles for public buses, RKARGA program, which offered free reloads of electric vehicles for taxi drivers, companies and self-employed individuals to promote electric vehicles.);
- (ii) Finance the development and implementation of the Comprehensive Electric Mobility Plan,
- (iii) Programmes that promote sustainable mobility and the use of more efficient modes of transport, such as electric buses, trams, trains, etc.;
- (iv) Programmes that promote the renewal of the fleet of vehicles, both light and heavy, with hybrid and electric vehicles;
- (v) Financing of grants programs to encourage energy savings and energy efficiency projects in transport, boosting the deployment of electric vehicles;

g) Pollution prevention and control

Use of proceeds: Proceeds of the bond will be used to improve the quality of water, air and soil, managing environmental risks and reducing human diseases related to environmental determinants, in accordance with the lines of action set out in the Environmental Framework Programme 2020 and the Biodiversity Strategy of the Basque Country 2030.

Eligible projects include, but are not limited to:

- (i) Programmes that aim to protect and restore ecosystems;
- (ii) Development, construction and maintenance of wastewater management infrastructure, including sewage treatment plants, etc.;
- (iii) Implementation of an intelligent spatial planning that prioritizes higher population densities enhances the combination of uses (work, leisure, housing) and the optimization of land consumption, prioritizing the reuse and regeneration of the same through projects such as consulting service for land management guidelines, etc.;
- (iv) Ensure air quality and improve the management of contaminated soils;
- (v) Programmes to enhance ecosystem services through the restoration of degraded areas, such as recovery of industrial land for new uses;
- (vi) Promotion of the prevention, reuse and recycling of urban waste by establishing alternatives to landfilling;

(vii) Programmes that foster a circular economy through projects that contribute decisively to create business opportunities from the circular economy by establishing new value recycling solutions for secondary materials, manufacturing products based on secondary materials, repair and remanufacturing of parts or components, products or equipment, as it is included in the Waste Prevention and Management Plan 2020 of Euskadi;

(viii) Activities and equipment to monitor, prevent and manage environmental risks, such as environmental impact assessments;

h) Sustainable water and wastewater management

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

Eligible projects include, but are not limited to:

(i) Maintenance and restoration work of water channels to improve water quality;

(ii) To obtain a good state of surface and underground water bodies by controlling, for example, landfills ;

(iii) Monitoring the status of water masses to ensure water quality;

(iv) Collaborations with water services bodies related to supply, sanitation and purification;

(v) Programmes to ensure quality long-term water supply and quality and deploy demand management instruments.

i) Terrestrial and aquatic biodiversity conservation

Use of proceeds: Proceeds of the bond will be allocated to projects and programmes aimed at promoting protection and restoration of ecosystems in the Basque Country as it is included in the Biodiversity Strategy of the Basque Country 2030.

Eligible projects include, but are not limited to:

(i) Studies to improve knowledge on wild flora and fauna, updating the Basque Catalogue of Endangered Species and improvement of its conservation;

(ii) Monitoring and Evaluation of the Natural Heritage of the Basque Country (including the “Red Natura 2000”);

(iii) Financing of actions and educational activities to enhance and to promote the involvement of the community, public awareness and knowledge of biodiversity and its protection;

j) Energy efficiency

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

Eligible projects include, but are not limited to:

(i) Programmes that promote energy savings and management in the industry, including financing of grants programs to encourage energy savings and energy efficiency projects, through e.g. upgraded equipment, smart meters, etc.;

(ii) Finance the improvement of energy efficiency and demand management, development of smart grids and promotion of cogeneration;

(iii) Programmes to promote energy improvements in commercial and residential buildings and homes (Promotion of the improved insulation in buildings, upgrading of energy-consuming equipment and promotion of the implementation of renewable energies in buildings);

(iv) Programmes to promote energy efficiency in public administration buildings and public housing, e.g. financing of upgrades in equipment and renovation that increases the energy efficiency of the building;

5. Process for Project Evaluation and Selection

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

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

As not all activities in the selected budget programmes might be eligible according to the Sustainability Bond Framework, the Basque Government will provide investors with information

regarding the percentage of each eligible budget programme that was eligible for each Sustainability Bond issuance.

6. Management of Proceeds

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

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

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

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

7. External Review

7.1 Second Party Opinion

The Basque Government has hired Sustainalytics to provide a Second Party Opinion on the Basque Government Sustainability Bond Framework. Sustainalytics has reviewed the Sustainability Bond Framework and its alignment with the four pillars of the Green Bond Principles, Social Bond Principles and the Sustainability Bond Guidelines 2017.

8. Conclusion

The 2030 Agenda, and specifically the Agenda Euskadi-Basque Country 2030, represents an excellent opportunity to improve, implement, and deliver better public policies in service of the whole world, and in this case, of the Basque society.

The innovative characteristic of the Agenda 2030 is that specific steps of the Agenda are not mandated from top-to-bottom, but allows the flexibility for every country, region, and municipality to work and implement within its own government sphere of action, taking into consideration every reality and context at every level.

It is important to open a period of reflection about the role and participation of local and regional governments in international fora, specifically when it comes to the implementation of the Agenda

2030. Although the UN System has given many steps to open this participation moving away from NGOs to the Major Groups and other Stakeholders, it is crucial to consider that 60% of the implementation of the Agenda relies on local and regional governments.

With the opening of a more participatory role of the regional and local governments their Voluntary Regional Reviews can become more relevant and can be also an incentive for the implementation and sharing of good practices at the local and regional level in a more active and constant basis. In this sense, it is also important to highlight that one of the advantages of these regional reviews is that, if done properly, they are elaborated with specific data and relevant indicators that avoid overall national averages that usually mask the reality and disparities that exist within countries.

So, for a successful implementation of this Agenda at all levels, the focus is about sharing experiences, and making visible in this case the Basque Government's commitment to generate a favorable environment of joint-ownership of the SDGs to make a reality the great objective of "not leaving anyone behind".