



XUNTA DE GALICIA  
CONSELLERÍA DE FACENDA

# SUSTAINABLE FINANCE FRAMEWORK - XUNTA DE GALICIA -

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## 1. INTRODUCTION

Xunta de Galicia, is committed to the well-being of its population and sustainable development of the economic activities that are settled in the region. As part of its commitment, Xunta de Galicia has develop several planning instruments that guide its decision making and management.

The government developed the current Plan Extratexico de Galicia (PEG) for the 2015-2020 period. It was approved by the regional parliament the 11st of May of 2016. So, the Galician Strategic Plan 2015-2020 is the document that currently drives the path of economic recovery, making the region a more attractive territory to work, invest and live together. It's structured through 5 axis and another 4 cross-cutting objectives. It also pays attention to several horizontal principles:



A complete resume may be found at: <http://www.planestratexico.gal/documents/4752806/4752831/PEG-2015-2020-20161104-Resumen-ejecutivo-ing.pdf/29f1cffb-fbc5-4321-bb64-b1075525ce5b>

The regional Government budget approval and implementation is consistent with the PEX and its challenges defined in terms of growth and economic convergence, employment, RDI, education, social inclusion, the environmental protection and demographic revitalization, which, in turn, are closely aligned with Europe 2020 strategy, expanding the range in some of the areas.

The plan's structure is as follows:

- 5 priority axes:
  - A1: Employability and smart growth
  - A2: Wellbeing of people and families and social cohesion
  - A3: Sustainable growth, territory, agriculture, farming, sea and forestries
  - A4: Digital society, culture & reinforcement of Galicia in its socioeconomic setting

- A5: INSTRUMENTAL AXIS. Modern, efficient & high- quality public administration
  - 20 priority actions
  - 74 strategic objectives
  - 21 instrumental objectives

The monitoring framework includes 194 indicators to measure investment and expenses productivity, which are gender-sensitive when required. Linked to proposed objectives, the monitoring system defined 135 result indicators. However, the main dashboard is formed by the following indicators:

Indicator	2020 GOAL
<b>Employment rate of 20-64 year olds</b>	70%
<b>% GDP to be invested in R&amp;D&amp;i</b>	1.7%
<b>Greenhouse gas emissions (reduction target)</b>	-35% (respect to 2005)
<b>Renewable energies</b>	30%
<b>Primary energy consumption per capita</b>	-20%
<b>School drop-out rate</b>	13.5%
<b>Third level education (% population 30-34 year olds)</b>	47%
<b>Third level education (% population 30-34 year olds)</b>	90-100 thousand people less
<b>Third level education (% population 30-34 year olds)</b>	88%

Its comprehensive approach is also interconnected with the Sustainable Development Agenda, the 2030 Agenda and its 17 Sustainable Development Goals (SDGs). It is true that SDG didn't lead the definition of the current PEG, but Xunta de Galicia has made an ex post analysis of interconnections. Many of the goals that the SDGs set are part of the PEG 2015-2020, constituting work areas underway for the Xunta de Galicia. Thus, there is a real overlap between Galicia public policies applied and the international development agenda that constitutes the SDGs. As it is said, the implementation of the SDGs should respond to regional needs and priorities and be coherent with, and complement, national strategies, which is the same purpose of the strategic planning that Xunta de Galicia periodically performs.

Axis and Priority Actions	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17		
<b>A1. Employability and smart growth</b>																			
PA1.1: To promote the consolidation of expenditure policies related to R&D&i. To integrate Galicia into the virtuous circle of innovation for growth								□	□										1
PA1.2: To promote business and trade, boosting competitiveness and internationalization of companies and freelancers ...								□	□					□					3
PA1.3: To increase employability and productivity of workers in Galicia through training and permanent innovation								□	□	□									3
PA1.4: To complete Galicia in terms of basic infrastructure. Give new impetus to housing rehabilitation and maintenance policies			□					□	□		□								3
PA1.5: To consolidate an educational system that minimizes school failure and shares results with leading European regions at all levels, driving Galicia's University System (GUS) towards excellence				□				□											2
<b>A2: Wellbeing of people and families and social cohesion</b>																			
PA2.1: Quality and sustainable health system. Promotion of public health and healthy lifestyles		□																	1
PA2.2: Developing the system of social services for the elderly and dependent people										□									1
PA2.3: Improving social services to families and children, supporting conciliation and promoting equality				□	□			□											3
PA2.4: Devising a social integration strategy to improve citizens' welfare, help disadvantaged people and promote gender equality	□	□			□					□									3
PA2.5: Ensuring access to decent housing for ownership or rent, adapted to the possibilities of every family											□								1

Axis and Priority Actions	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	
<b>A3: Sustainable growth, territory, agriculture, farming, sea and forestries</b>																		
PA3.1: Promoting a primary sector based on innovation and quality of Galician produce, securing the level of rural population		1						1	1	1	1		1	1	1			8
PA3.2: Efficient, intelligent renewable energy, non-aggressive with the environment and landscape. Promoting a low-carbon economy							1	1	1	1		1		1		1		4
PA3.3: Enhancement of tourism in Galicia based on its privileged environment and culture								1			1		1			1		4
PA3.4: Nature conservation, land and landscape use and territorial cohesion			1					1	1		1	1	1	1	1			7
PA3.5: Closing a waste treatment model and one of Europe's leading water cycle models						1		1			1	1	1		1			6
<b>A4: Digital society, culture &amp; reinforcement of Galicia in its socioeconomic setting</b>																		
PA4.1: Development of the digital economy. Support for cultural and media industry as a source of wealth and boost the development of the information society																		0
PA4.2: Conservation and promotion of the cultural richness of Galicia											1							1
PA4.3: Promoting self-government institutions and improving their influence and collaboration with Europe, the Euro-region and the rest of Spain																1		1
<b>A5: INSTRUMENTAL AXIS. Modern, efficient &amp; high-quality public administration</b>																		
PA5.1: Professional and motivated civil servants oriented to public service																1		1
PA5.2: Transparent, efficient and results-oriented public administration																1		1
<b>Total</b>	<b>1</b>	<b>2</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>7</b>	<b>8</b>	<b>4</b>	<b>8</b>	<b>2</b>	<b>5</b>	<b>3</b>	<b>4</b>	<b>3</b>	<b>0</b>	

In this sense, Xunta de Galicia has carried out the definition of a Sustainable Finance Framework to increasingly link its finance with sustainable finance. This framework follows the ICMA Green Bond Principles (GBP) 2018 and Social Bond Principles (SBP) 2020 according to current Green Bond and Social Bond Principles (2018 and 2020 version respectively). Therefore, it provides guidelines in the form of four core components:

- i. Use of Proceeds
- ii. Process for Project Evaluation and Selection
- iii. Management of Proceeds
- iv. Reporting

Xunta de Galicia intends to play a significant role in the sustainable finance market as issuer as well as finance promoter in Galicia in order to tackle environmental, social and economic challenges of the region.

This frameworks has been verified by and external entity.

## 2. Use of proceeds

### Definition and scope of Sustainable eligible expenditures

“Eligible Projects” means a selected pool of projects determined as eligible according to this framework. Eligible projects promote the transition to a more sustainable society. They investment expenditures and operating expenditures, as any of such expenditure can be deployed to meet Galicia sustainable policies. Projects might be funded in whole or in part Xunta de Galicia. It includes also some tax expenditures related to eligibility criteria.

The net proceeds from the issuance of Sustainable Bonds or any other sustainable loans will be used by Xunta de Galicia to finance a select pool of “Eligible Projects and Assets” that promote environmental and social matters in different areas. The net proceeds will be used exclusively on project, activities and assets that comply with the categories and criteria’s set out below:

### Description of eligibility criteria

#### GREEN USE OF PROCEEDS

##### a) **Renewable energy**

###### Scope for the Eligible Green Expenditures and examples

Proceeds linked to this Sustainable Finance Framework will be allocated to financing several programmes who attempt to increase the share of renewable energies production and consumption in Galicia and to encourage a low-carbon economy. Related expenditures include, but are not limited to:

1. Subsidies and support for renewable production (solar and wind energy) and technological development in order to increase private individuals and companies demand.
2. Actions that contribute to energy diversification through renewable energy generation (solar and wind energy) and replace the consumption of fossil fuels and petroleum-based products.

##### b) **Energy efficiency**

###### Scope for the Eligible Green Expenditures and Tax Credits and examples

Proceeds linked to this Sustainable Finance Framework will be allocated to financing several programmes who attempt to reduce energy intensity in businesses, promote energy savings and energy efficiency in enterprises, and those who pursue energy savings and efficiency in public infrastructures, including public buildings and public housing which at least get an energy performance improvement of 25%. Related expenditures include, but are not limited to:

3. Subsidies and support for residential building retrofitting.
4. Energy efficiency projects development in public building and public facilities: schools, hospitals, health centres and other administrative buildings.
5. Tax credits in relation to income tax, on home refurbishment aimed to improve their energy rating.



**c) Pollution prevention and control**

**Scope for the Eligible Green Expenditures and examples**

Proceeds linked to this Sustainable Finance Framework will be allocated to financing several programmes who attempt to pursue soil decontamination and other environmental damages, and prevention and recycling of waste. Related expenditures include, but are not limited to:

6. Actions in the environmental field such us recycling of industrial and domestic waste.
7. Actions to control and reduction of environmental damage of dammed waters.
8. Subsidies and support for the promotion of separate collection and management of household and industrial waste, including electric vehicles related to mobile recycling facilities.

**d) Environmentally sustainable management of living natural resources and land use**

**Scope for the Eligible Green Expenditures and examples**

Proceeds linked to this Sustainable Finance Framework will be allocated to financing several programmes who attempt to ensure a favourable state of conservation of natural heritage, promoting efficient management and sustainable protection. Projects linked to forestry area will be just considered if those ones have a sustainable certificate (PEFCS/FSC/SFI) or pursue its achievement. Related expenditures include, but are not limited to:

9. Subsidies and support for a sustainable forestry related activity such as maintenance.
10. Actions related to forestry conservation.
11. Reforestation of woods damaged from forest burnt and other disasters.
12. Operating cost related to nature and biodiversity conservation.

**e) Clean transportation**

**Scope for the Eligible Green Expenditures and examples**

Proceeds linked to this Sustainable Finance Framework will be allocated to financing several programmes who attempt to encourage replacement of fossil fuel based vehicles by electric ones. Related expenditures include, but are not limited to:

13. Acquisition of electric taxi vehicles or other type of vehicles.

**f) Sustainable water and wastewater management**

**Scope for the Eligible Green Expenditures and examples**

Proceeds linked to this Sustainable Finance Framework will be allocated to financing several programmes who attempt to improve the status of all water bodies. Related expenditures include, but are not limited to:

14. Water sanitation works.
15. Control of wastewater treatment plants.
16. Operation of wastewater treatment plants.
17. Water supply works.
18. Control of quality of drinking water.
19. Guarantee of supply and droughts management.

**SOCIAL USE OF PROCEEDS**

**g) Affordable basic infrastructure**

**Scope for the Eligible Social Expenditures and examples**

Proceeds linked to this Sustainable Finance Framework will be allocated to financing several programmes who attempt to improve infrastructure that is considered essential to improve quality of life in rural areas. Related expenditures include, but are not limited to:

20. Service infrastructures to the rural population.
21. Rural paths upgrades to increase connectivity in rural areas.
22. Broadband to the rural areas.
23. Actions to improve and preserve bus stops and stations.
24. Construction of multimodal stations in different municipalities.
25. Subsidies and support for public transports.

**h) Access to essential services**

**Scope for the Eligible Social Expenditures and examples**

Proceeds linked to this Sustainable Finance Framework will be allocated to financing several programmes who attempt to improve education, health and social services to families and children. Related expenditures include, but are not limited to:

26. Subsidies for childhood education, primary and secondary education, special education and vocational training.
27. Projects related to technological solutions related to education and health
28. Projects related to training practices in companies and institutions for vocational training students.
29. Comprehensive foreign language learning plan.
30. Improvement of infrastructure of primary and secondary schools
31. Subsidies for transport, dining, acquisition of text books and school supplies.
32. Actions aimed to prevention of early school drops.
33. Construction, repairs, extensions and improvements in childhood, primary and secondary school centres.
34. Improvement of digital and scientific technological competences. Stem.
35. Training projects aimed to improve employability of long-term unemployed people and young people.

36. Dependency care program.
37. Implementation of projects for people with disabilities.
38. Construction, repairs, extensions and improvements in hospitals and health centres.
39. Galician vaccination program
40. Supply of blood derivatives for the Galician agency of blood, organs and tissues.

**i) Affordable housing**

**Scope for the Eligible Social Expenditures and examples**

Proceeds linked to this Sustainable Finance Framework will be allocated to financing several programmes who attempt to facilitate access to housing, owned or rented, especially among the most disadvantaged groups (as part of this framework, those beneficiaries which has income below 250% of the public income index (IPREM) in effect at that time + lack of house ownership). Related expenditures include, but are not limited to:

41. Housing construction and repair projects.
42. Rehabilitation of old houses.
43. Rent bonus for vulnerable groups (not all potential beneficiaries<sup>1</sup> will be considered).
44. Support for conservation, security improvement and accessibility in housing.

**j) Employment generation, and programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises, including through the potential effect of SME financing and microfinance**

**Scope for the Eligible Social Expenditures and examples**

Proceeds linked to this Sustainable Finance Framework will be allocated to financing several programmes who attempt to encourage the creation of stable and quality employment and to reduce unemployment and promote both the recruitment of unemployed persons and individual and collective self-employments. Related expenditures include, but are not limited to:

45. Self-employment and entrepreneurship promotion.
46. Orientation, training and capacity building activities to accelerate entrepreneurial initiatives.
47. Implements of LEADER (economic development and diversification in rural areas) projects.
48. Subsidies and support for employment in the rural areas.

<sup>1</sup> 1-Those who need help to cover the cost of renting their home, because they are immersed in situations of special difficulty that have determined that the landlord has filed a lawsuit for eviction for non-payment of rent.

2-Those of victims of gender violence who have difficulty assuming the cost of renting a home and who at the time of application, are residing in a reception resource of those integrated in the Galician reception network for this group and attached to a public administration.

3-Those who have difficulty assuming the cost of renting a home and who are deprived of their usual home, which they own as owners or usufructuaries, for damage suffered in this resulting from an unpredictable and surviving circumstance, such as fires, floods, etc.

5-Those to whom, having been tenants of a public housing development owned by the Galician Institute of Housing and Land (hereinafter, IGVS) will end the validity of their contract from the entry into force of this order.

6-Those to which, due to circumstances of social emergency and not reaching the minimum income limit established in the Empty Homes Program, the monitoring and coordination committee of the said program proposes the award of a home within the framework of the said program.

49. Subsidies and support for artistic and cultural production.

k) **Socioeconomic advancement and empowerment**

**Scope for the Eligible Social Expenditures and examples**

Proceeds linked to this Sustainable Finance Framework will be allocated to financing several programmes who attempt to promotion of equality between men and women and non-discrimination, devising a social integration strategy to improve citizens' welfare, help disadvantaged people and promote gender equality. Related expenditures include, but are not limited to:

- 50. Measures for conciliation and demographic dynamism.
- 51. Volunteering promotion actions.
- 52. Equality and well-being services.
- 53. Resources and programs to foster conciliation and share-responsibility.
- 54. Subsidies and support for women victims of gender-based violence.
- 55. Actions related to fight against poverty and social exclusion
- 56. Subsidies to deliver basic social benefits to people in need.
- 57. Galicia social integration income.
- 58. Specific actions of social inclusion
- 59. Subsidies and support for social integration and against economic inequality.

The list of examples of Eligible Green and Social Expenditures is for illustrative purpose only. The Eligible Green/Social Expenditures are not limited to this list. Any expenditure included in the regional budget that contributing explicitly to Green or Social categories as defined by GBP and SBP are eligible for the Xunta de Galicia Sustainable Finance Framework.

**(Exclusion Criteria)**

The Use of Proceeds may include capital and operating expenditures of eligible project categories and programs, as well as indirect lending to projects such as grants for private and public organizations and consortiums for special purposes. It may also include tax credits related to Only Xunta de Galicia's own expenditures (net of EU grants, EIB loans, state grants or other revenues earmarked for specific purposes) are eligible (Sections 2, 4, 6 and 7). Specific sections of the relevant budgetary programmes that will be excluded are:

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

Furthermore, operating costs, although included, will not be a majority and no single project will just have this time of expenditures.

### 3. Process for Project Evaluation and Selection

(Process)

Eligible projects will be selected through a rigid, established and transparent process to secure the quality. A first analysis of assets eligibility will be carried on by the Planning and Budgeting department, which collects data regarding eligible projects. Other members will be involved from this stage on:

- a. 4 people in representation of General Direction for Financial Policy, Treasury and European Funds.
- b. 2 people in representation of General Direction for Planning and Budgeting.

These participants will be part of the Sustainable Finance Committee. Furthermore, the committee will require participation from other Xunta de Galicia departments when it considers optimal in order to share additional knowledge or specific aspects.

Xunta de Galicia Sustainable Finance Committee will select projects and budgetary programmes that align with the sustainable criteria previously mentioned in this Sustainable Finance Framework.

Not all expenditures in the selected budget programmes might be eligible according to the Sustainable Finance Framework; the Committee will provide investors with information that let them to identify the percentage of investment eligible assigned to the Sustainability Bond or any other sustainable finance product. This information will be made available through annual reporting, see section 5 of this framework.

## 4. Management of Proceeds

### (Management)

The net proceeds of the Sustainability Bonds issuance or any other sustainable finance product will be managed within Xunta de Galicia' normal treasury liquidity account in accordance with Art. 89 del Decreto Legislativo 1/1999, por el que se aprueba el texto refundido de la Ley de Régimen Financiero y Presupuestario de Galicia<sup>2</sup>, until the total amount of the net proceeds equals the total amount of selected eligible projects.

The eligible projects will be part of current to eligible budgetary programmes in the General Budget of Xunta de Galicia, corresponding to the fiscal year of the issuance. The total expenditures required for the eligible programmes will equal or exceed the net total proceeds. Xunta de Galicia will implement a buffer of program expenditures that will exceed the total Sustainable Finance proceeds. It will be a safeguard when eligible projects or programmes are adversely affected.

### (forecast of funds allocation)

Proceeds from the issuance of sustainable bonds or any other sustainable finance product will be allocated directly to eligible projects at the time of the disbursement date. In the event that not all funds can be assigned, Xunta de Galicia will temporarily keep the funds not allocated in the treasury account. It will be able to cash management according to regulation, i.e. liquidity position or term deposits with banks. The General Direction for Financial Policy Treasury and European Funds, as part of Xunta de Galicia regional Ministry of Finance, will supervise. The Committee on Sustainable Bonds will review it afterwards.

Xunta de Galicia has put in place several changes in their budgetary IT system to track the invested amounts used to finance the selected eligible projects.

In case of eligible and selected programme becomes ineligible or cancelled, Xunta de Galicia will use the net proceeds to finance other eligible programs which are compliant with the current Use of Proceeds.

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<sup>2</sup> <https://www.boe.es/buscar/pdf/1999/BOE-A-1999-23410-consolidado.pdf>

## 5. Reporting

### (Allocation Reporting)

Fund allocation reports will be available to investors within one year from the date of the issuance of sustainable bonds or any other sustainable finance product (or the signature date if other financial product) and annually until the proceeds have been fully allocated.

The reporting will generate information on the amount of funds allocated to the various eligible budget programs and for each eligible category. It will include:

- the total amount of investments and expenditures in the Eligible Green/Social Projects Portfolio;
- the amount and/or percentage of new and existing projects (share of financing);
- the year of investment / disbursement (if suitable);
- the balance of unallocated proceeds (if suitable);

The assignment report will be available on the Xunta de Galicia website related to Indebtedness: <http://www.conselleriadefacenda.es/es/areas-tematicas/politica-financeira-tesouro-e-fondos-europeos/operacions-de-endebedamento-da-comunidade-autonoma/datos-procedementos-e-contacto;jsessionid=VwzAnHgNm5kjYNEHIXGTzROq.cac6cba5-fef0-33d4-a719-d618a829dfb1>

### (Impact Reporting)

Where feasible, Xunta de Galicia intends to report on the environmental and social impacts of the projects funded with the Sustainable Finance Instruments proceeds, by way of its existing PEG monitoring framework.

A list of potential indicators is included in Appendix A. They may be supplemented by qualitative and/or case-study reports on outcomes and impacts of the projects funded. Information related to eligible programmes might also be included

The report will include a summary table like the following:

Name		Type of project		(If suitable)	Use of proceeds			Monitoring	
Project	Category	SDG	Target population	Type of expenditure	Euros	Share of Total Project Financing	Year	Indicators	Comments



## 6. External Review

Xunta de Galicia will commission an external provider to supply a Second Party Opinion on this Sustainable Finance Framework, and confirm alignment with current Green Bond Principles and Social Bond Principles.

This Second Party Opinion document will be made available on Xunta de Galicia's website <http://www.conselleriadefacenda.es/es/areas-tematicas/politica-financeira-tesouro-e-fondos-europeos/operacions-de-endebedamento-da-comunidade-autonoma/datos-procedementos-e-contacto;jsessionid=VwzAnHgNm5kjYNEHIXGTzROq.cac6cba5-fef0-33d4-a719-d618a829dfb1>

## 7. Appendix A. Impact indicators

Examples of potential impact indicators are provided below:

- Companies (with 10 or more salaried workers) that carry out innovative activities
- Number of researchers
- Number of established companies
- Exporting companies
- SME survival rate at 4 years old
- Percentage of companies from 0 to 9 employees that sold through internet in the last year
- Overnight stays in tourist establishments
- Burned surface
- Economic value of the productions covered under quality indicators
- Percentage of disease-free Galician livestock farms subject to official control
- Retrofitted houses and buildings
- Centres with improved energy efficiency
- Number of users who use the metropolitan transport by bus in Galicia within the areas constituted for the purpose in application of the Plan of Metropolitan Transport of Galicia
- Capacity for production and distribution of renewable energies for thermal uses in ktep
- Population exposed to poor or improvable air quality
- Percentage of the volume of household waste collected selectively on the production of household waste
- Percentage of water bodies that reach or maintain good condition
- % of population with new and / or improved health centres
- % of population with new and / or improved hospital infrastructures
- Population schooling rate from 0 to 3 years
- Early school leaving
- Participants who obtain a job, including self-employment, after their participation, in actions of acquisition of professional experience
- % of people receiving aid and benefits on the population at risk of poverty
- At-risk-of-poverty or social exclusion rate of the immigrant population in Galicia
- Number of households that benefit from housing access measures

## 8. Appendix B. Energy Efficiency tax credits

Tax credits in the full regional quota of income tax related to energy efficiency improvement works in residential buildings or in single-family homes.

Taxpayers may deduct from the full regional contribution in the year in which it is completes the work to improve energy efficiency of residential buildings:

- a) 15% of the total amounts invested. The deduction base will be limited to € 9,000 by taxable person.
- b) The cost of the fees for obtaining the certificate that justifies the improvement in the energy rating of the property, as well as the fees related to its registration in the Register of Energy Efficiency Certificates of Buildings of the Autonomous Community of Galicia, with a single limit of € 150 which will be prorated according to the percentage of ownership of the house

For these purpose, energy efficiency improvement works will be considered those that meet the following requirements:

- a) Owners obtained the required permits, authorizations or enabling titles.
- b) Owners improve the energy performance of buildings by reducing energy demand, improving the performance of thermal installations and / or incorporating equipment that uses renewable energy sources and whose main purpose is to improve in the energy rating scale of CO<sub>2</sub> emissions and on the scale of non-renewable primary energy consumption.