

Second-Party Opinion

Xunta de Galicia Sustainable Finance Framework



Evaluation Summary

Sustainalytics is of the opinion that Xunta de Galicia's Sustainable Finance Framework is credible and impactful and aligns with the Sustainability Bond Guidelines 2018. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds – (i) Renewable Energy, (ii) Energy Efficiency, (iii) Pollution Prevention and Control, (iv) Environmentally Sustainable Management of Living Natural Resources and Land Use, (v) Clean Transportation, (vi) Sustainable Water and Wastewater Management, (vii) Affordable Basic Infrastructure, (viii) Access to Essential Services, (ix) Affordable Housing, (x) Employment Generation, and (xi) Socioeconomic Advancement and Empowerment – are aligned with those recognized by both the Green Bond Principles and Social Bond Principles. Sustainalytics considers that the eligible categories will lead to positive environmental or social impacts and advance the UN Sustainable Development Goals (SDGs), specifically SDG 3, 4, 6, 7, 8, 9, 10, 11, and 15.



PROJECT EVALUATION / SELECTION Xunta de Galicia will establish a Sustainable Finance Committee in charge of project evaluation and selection. The Sustainable Finance Committee will be comprised of members from the General Direction for Financial Policy, Treasury and European Funds, and the General Direction for Planning and Budgeting. Sustainalytics considers the project selection process in line with market practice.



MANAGEMENT OF PROCEEDS The General Direction for Financial Policy Treasury and European Funds will be in charge of supervising net proceeds, and Xunta de Galicia will track funds through its budgetary system. Pending allocation, net proceeds will be temporarily kept in liquidity positions or term deposits. This is in line with market practice.



REPORTING Xunta de Galicia intends to share allocation and impact reports with investors on an annual basis and until full allocation on the Xunta de Galicia website. Allocation reporting will include the amounts of net proceeds allocated to eligible budget programs and each eligible category. In addition, Xunta de Galicia is committed to reporting on relevant impact metrics. Sustainalytics views Xunta de Galicia's allocation and impact reporting as aligned with market practice.

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Introduction

Xunta de Galicia is the regional government of Galicia, Spain, with administrative and legislative competences. Xunta de Galicia is in charge of passing regional laws, budget, and taxes in Galicia, and is the decision-maker in the autonomous community that aims to guarantee the strategic development of the region.¹ The current population in Galicia stands at approximately 2.7 million.²

Xunta de Galicia has developed the Sustainable Finance Framework (the “Framework”) under which it intends to issue sustainable bonds or loans and use the proceeds³ to finance, in whole or in part, existing and/or future projects that will reduce the region’s environmental footprint and improve sustainable resource management while providing social benefits. The Framework defines eligibility criteria in six green, and five social areas:

Green Eligible Categories

1. Renewable energy
2. Energy efficiency
3. Pollution prevention and control
4. Environmentally sustainable management of living natural resources and land use
5. Clean transportation
6. Sustainable water and wastewater management

Social Eligible Categories

1. Affordable basic infrastructure
2. Access to essential services
3. Affordable housing
4. 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
5. Socio-economic advancement and empowerment

Xunta de Galicia engaged Sustainalytics to review the Sustainable Finance Framework, dated September 2020, and provide a second-party opinion on the Framework’s environmental and social credentials and its alignment with the Sustainability Bond Guidelines 2018 (SBG).⁴ This Framework has been published in a separate document.⁵

Scope of work and limitations of Sustainalytics Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent⁶ opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Green Bond Principles 2018, the Social Bond Principles 2020, and Sustainability Bond Guidelines 2018, as administered by ICMA;
- The credibility and anticipated positive impacts of the use of proceeds;

¹ European Comission, “Xunta de Galicia”, at: <https://ec.europa.eu/growth/tools-databases/regional-innovation-monitor/organisation/xunta-de-galicia>.

² Xunta de Galicia, “La población de Galicia creció en 2019 hasta los 2.700.269 habitantes, el primer incremento en los últimos diez años”, (2020), at: <https://www.xunta.gal/notas-de-prensa/-/nova/48475/poblacion-galicia-crecio-2019-hasta-los-2-700-269-habitantes-primer-incremento#:~:text=La%20poblaci%C3%B3n%20de%20Galicia%20creci%C3%B3%20a%C3%B3n%20de%20Xunta%20de%20Galicia>.

³ Xunta de Galicia’s use of proceeds may include capital and operating expenditures, indirect lending to projects such as grants for private and public organizations, consortiums, and tax credits related to Xunta de Galicia’s own expenditures. Xunta de Galicia discloses that operating expenditures will represent only a minor share of the total allocation.

⁴ The Sustainability Bond Guidelines are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>

⁵ The Sustainable Finance Framework is available on Xunta de Galicia’s website at: <http://www.conSELLERIADEFACENDA.es/es/areas-tematicas/politica-financeira-tesouro-e-fondos-europeos/operacions-de-endebedamento-da-comunidade-autonoma/datos-procedementos-e-contacto;jsessionid=VwzAnHgNm5kjYNEHIXGTzR0q.cac6cba5-fef0-33d4-a719-d618a829dfb1>.

⁶ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

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- The alignment of the issuer's sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.5, which is informed by market practice and Sustainalytics' expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various representatives of Xunta de Galicia to understand the sustainability impact of their operations and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. Xunta de Galicia representatives have confirmed (1) they understand it is the sole responsibility of Xunta de Galicia to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

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

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and Xunta de Galicia.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

In addition, the Second-Party Opinion opines on the intended allocation of proceeds but does not guarantee the realised allocation of the bond proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that Xunta de Galicia has made available to Sustainalytics for the purpose of this SPO.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Sustainable Finance Framework

Sustainalytics is of the opinion that the Sustainable Finance Framework is credible, impactful and aligns with the four core components of the Green Bond Principles 2018 (GBP) and Social Bond Principles 2020 (SBP). Sustainalytics highlights the following elements of Xunta de Galicia's Sustainability Bond Framework:

- Use of Proceeds:
 - Xunta de Galicia's six green and five social eligible categories proceed – (i) Renewable Energy, (ii) Energy Efficiency, (iii) Pollution Prevention and Control, (iv) Environmentally Sustainable Management of Living Natural Resources and Land Use, (v) Clean Transportation, (vi) Sustainable Water and Wastewater Management, (vii) Affordable Basic Infrastructure, (viii) Access to Essential Services, (ix) Affordable Housing, (x) Employment Generation, and (xi) Socioeconomic Advancement and Empowerment – are aligned with those recognized by the GBP and the SBP. Sustainalytics believes Xunta de Galicia's use of proceeds will reduce the region's environmental footprint and improve sustainable resource management while providing social benefits in Galicia.
 - Xunta de Galicia confirmed that the regional government does not intend to invest in refinancing activities as part of the Framework. Additionally, Xunta de Galicia will allocate the whole amount of the bond or loans proceeds within the first year of the issuance, which Sustainalytics considers to be in line with market practice.
 - Xunta de Galicia confirmed that the Renewable Energy category includes investments in solar and wind energy projects only.

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- Under the Energy Efficiency category, the Framework allows for financing energy efficiency improvements in public infrastructures that achieve at least a 25% energy performance improvement, which Sustainalytics considers to be aligned with market practice. Under the same category, Xunta de Galicia may include financing related to tax credits that aim to improve the energy efficiency of residential buildings or single-family homes.⁷ Sustainalytics welcomes the objectives of the category and encourages Xunta de Galicia to report on the improvement achieved.
- Under the Pollution Prevention and Control category, Xunta de Galicia intends to invest in industrial and domestic waste recycling, waste collection activities that enable source segregation of waste, and pollution monitoring systems in reservoirs. Intended project examples include the installation of mobile recycling facilities, the promotion of on-site composting, and reservoir analysis that aims to mitigate the pollution of water resources. Sustainalytics notes the importance of the waste hierarchy in assessing the impact of waste management projects and highlights positively the focus of waste reduction and recycling. Furthermore, Xunta de Galicia commits to providing further disclosure on the financed projects in its annual reporting to ensure transparency.
- Under the Environmentally Sustainable Management of Living Natural Resources and Land Use category, Xunta de Galicia follows credible third-party standards for its investments in forestry activities, namely the Forest Stewardship Council (FSC), the Programme for the Endorsement of Forest Certification (PEFC), and the Sustainable Forestry Initiative (SFI). Sustainalytics views these certifications as being credible standards upholding sustainable forest management practices (see Appendix 1 for more information).
- For the Sustainable Water and Wastewater Management category, the Framework allows for financing of projects such as wastewater treatment plants, water sanitation and water supply infrastructure, and water supply and draught management. Sustainalytics notes positively that Xunta de Galicia has communicated its intention to carry out environmental impact assessments for water supply and drought management projects.
- Sustainalytics highlights Xunta de Galicia's targeted and diligent approach under the following social categories:
 - Affordable Basic Infrastructure: (i) Development of public and free/subsidized basic infrastructure in rural areas,⁸ including day care centers, residences for disadvantaged groups such as elderly, dependent or disabled, and training centers, (ii) Upgrades of roads in rural areas that increase connectivity, (iii) Development of telecommunication services in rural areas, such as broadband, (iv) Development of public transportation infrastructure for high occupancy vehicles and associates lanes, such as multimodal stations, and (v) Provision of subsidies and support to increase access to public transportation such as the implementation of tariff policies that aim to reduce the cost per trip for passengers.
 - Access to Essential Services: Investments in the areas of education, health and social services. Intended project examples include the construction, development, and digitalization of education and health centers, the upgrades in infrastructures for people with disabilities, and the provision of dependency care programme for individuals who are in a situation of dependency as defined by the Government.⁹ Xunta de Galicia confirmed that all intended projects will be invested within infrastructures and services that are free and accessible to public.
 - Affordable Housing: (i) Expenditures related to affordable housing, targeting households that lack house ownership and with annual income below 2.5 times of the

⁷ Eligible beneficiaries include owners that 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 CO₂ emissions and on the scale of non-renewable primary energy consumption.

⁸ Xunta de Galicia's methodology in determining rural areas, available at:

<http://www.ige.eu/estatico/pdfs/s3/clasificaciones/urbanizacion/MetodoloxiaGU2016Concellos.pdf>

⁹ Eligible beneficiaries can be found at: <https://www.boe.es/eli/es/l/2006/12/14/39/con>

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- Multiplier for the Public Income Index (IPREM)¹⁰, and (ii) Provision of rent bonus for vulnerable groups.¹¹
- Employment Generation: (i) Self-employment and entrepreneurship programmes for disadvantaged groups such as individuals in rural areas, people with disabilities, groups at risk of social exclusion, long-term unemployed, transsexual people, and women, (ii) Free trainings and capacity buildings activities for entrepreneurs, and (iii) Subsidies and support for employment programmes in rural areas.
 - Socioeconomic Advancement and Empowerment: Programmes that aim to mitigate discrimination, promote gender equality, and foster the integration of disadvantaged groups to community. Intended project examples include the provision of grants to non-profit social entities that aim to support vulnerable women, implementation of initiatives to foster female entrepreneurship, and provision of social integration programmes for vulnerable population, including unemployed and socially excluded groups.
 - Xunta de Galicia confirmed to Sustainalytics that the regional government excludes financing of any activity, asset or technology associated with fossil fuels, as well as operations associated with child labor, forced labor, weaponry, and tobacco from the Framework.
 - Project Evaluation and Selection:
 - Xunta de Galicia has established a Sustainable Finance Committee (the “Committee”), comprised of members from the General Direction for Financial Policy, Treasury and European Funds, and the General Direction for Planning and Budgeting, to be in charge of project evaluation and selection. The Committee will be supplemented by members from other departments when knowledge on a specific area is required.
 - Based on this governance structure with representation from cross-divisional membership, Sustainalytics considers this process to be in line with market practice.
 - Management of Proceeds:
 - Xunta de Galicia will track net proceeds using its internal tracking mechanism. Net proceeds from any type of bond issuance or other debt-like sustainable finance product will be managed within Xunta de Galicia's normal treasury liquidity account and following applicable regulations.¹² Pending allocation, Xunta de Galicia will keep net proceeds in cash or liquid instruments as per the appropriate regulations. Xunta de Galicia intends to allocate net proceeds within the same year of each issuance.
 - The Ministry of Finance's General Direction for Financial Policy Treasury and European Funds will be in charge of monitoring net proceeds.
 - Based on its tracking mechanisms and the disclosure of temporary use of proceeds, Sustainalytics consider this management approach to be in line with market practice.
 - Reporting:
 - Xunta de Galicia intends to publish allocation and impact reports within a year of the issuance, and annually thereafter until bond proceeds have been fully allocated on the Xunta de Galicia website. Allocation reporting will include (i) the total amount of investments and expenditures in the Eligible Green/Social Projects Portfolio; (ii) the amount and/or percentage of financing going to new and/or existing projects; (iii) year of investments/disbursement; and (iv) balance of unallocated proceeds.

¹⁰ IPREM is an index used in Spain as a reference for the granting of aid, subsidies or unemployment benefit. Under Galician Institute of Housing and Land's social housing programme, household with income less than 2.5 times of annual IPREM (Annual IPREM as of 2020: EUR 6.454,03) are considered eligible for special protection under social housing. Further information is available at: <http://www.iprem.com.es/> and <http://www.igvs.es/web/axudamoste/12>

¹¹ Vulnerable groups are defined as; (i) 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, (ii) 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 residential complex part of the Galician network for this group and attached to a public administration, (iii) 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 resulting from an unpredictable and surviving circumstance such as fires, floods, etc, (iv) 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, and (v) 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.

¹² Boletín Oficial del Estado, “Decreto Legislativo 1/1999, de 7 de octubre, por el que se aprueba el texto refundido de la Ley de Régimen Financiero y Presupuestario de Galicia”, at: <https://www.boe.es/buscar/pdf/1999/BOE-A-1999-23410-consolidado.pdf>.

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- Regarding impact reporting, Xunta intends to report on environmental and social impacts, where feasible, of the projects financed. Impact reporting may include qualitative and/or case-study reports with outcomes such as retrofitted houses and buildings, percent of the population with new and/or improved health centers, and number of households benefiting from housing access programmes. Xunta de Galicia confirmed that additional indicators per each category will be identified based on the nature of eligible projects prior to allocation of proceeds.
- Based on the commitment to both allocation and impact reporting, Sustainalytics considers the reporting process to be in line with market practice.

Alignment with Sustainability Bond Guidelines 2018

Sustainalytics has determined that the Sustainable Finance Framework aligns to the four core components of the GBP and the SBP. For detailed information please refer to Appendix 2: Sustainability Bond/Sustainability Bond Programme External Review Form.

Section 2: Sustainability Strategy of Xunta de Galicia

Contribution of Framework to Xunta de Galicia's sustainability mandate

Sustainalytics is of the opinion that Xunta de Galicia demonstrates a strong commitment to sustainability and that the regional government has formulated a series of policies and plans to support its sustainability agenda. Xunta de Galicia has developed the Galician Strategic Plan 2015-2020 (the "Strategic Plan")¹³ that delineates the path for regional development and which outlines key areas that cover environmental and social aspects.

The Strategic Plan's key axis areas identify priority actions. Sustainalytics highlights the following as being particularly aligned with the objectives of the Framework:¹⁴

(i) Axis 1: Employment and Smart Growth – To increase employability and productivity of workers in Galicia through training and permanent innovation through the creation of stable and quality employment; to improve Galicia's basic infrastructure, with a focus on housing rehabilitation and maintenance policies that incorporate energy efficiency in homes and buildings; (ii) Axis 2: Wellbeing of people and families and social cohesion – To devise a social integration strategy to improve citizens' welfare, help disadvantaged people improve their socio-economic situations and promote gender equality; To ensure access to appropriate housing for ownership or rent that meets the necessities of every family; (iii) Axis 3: Sustainable growth, territory, agriculture, farming, sea and forestry – To increase the amount of renewable sources in the energy mix and promote the transition to a low-carbon economy, accompanied by reducing energy intensity in businesses, promote energy savings and energy efficiency in enterprises. To protect the environment and ensure biodiversity conservation; (iv) Axis 4: Digital society, culture, and reinforcing Galicia's weight in its socioeconomic setting – To ensure a level of protection and security of the population against serious risks or catastrophic events through an integrated civil protection system.

The Strategic Plan is followed by four cross-cutting objectives which are (i) promotion of culture innovation; (ii) promoting entrepreneurship, industrialization, and internationalization; (iii) demographic renewal; and (iv) territorial cohesion. Overall, the Strategic Plan was established to address some of the most pressing regional challenges and it established the following goals for the year 2020: to increase the employment rate of 20-64 year old's to 70%; a GHG reduction target of 35%, relative to 2005 levels; a reduction in 20% of primary energy consumption per capita; and reaching 30% in the use of renewable energies.¹⁵ Furthermore, Xunta de Galicia has formulated a Climate Change and Energy Strategy 2050 in which it seeks to lower its GHG emissions and improve energy efficiency through promoting alternative mobility through an environmentally sustainable public transport system; promote research and innovation in climate change to turn Galicia into an exporting region of solutions to climate change; improve management systems and response mechanisms to extreme weather events; conserve, restore and use ecosystems in a sustainable way, so that they maintain the environmental services they provide; and reduce GHG emissions by 25% in 2030 and by 80% in 2050 compared to 1990 levels.¹⁶

¹³ Xunta de Galicia, "Galicia's Estrategic Plan 2015-2020", at: <http://www.planestratexico.gal/documents/4752806/4752831/PEG-2015-2020-20161104-Resumen-ejecutivo-ing.pdf/29f1cffb-fbc5-4321-bb64-b1075525ce5b>.

¹⁴ Xunta de Galicia, "Galicia's Estrategic Plan 2015-2020", at: <http://www.planestratexico.gal/documents/4752806/4752831/PEG-2015-2020-20161104-Resumen-ejecutivo-ing.pdf/29f1cffb-fbc5-4321-bb64-b1075525ce5b>.

¹⁵ Xunta de Galicia, "Galicia's Estrategic Plan 2015-2020", at: <http://www.planestratexico.gal/documents/4752806/4752831/PEG-2015-2020-20161104-Resumen-ejecutivo-ing.pdf/29f1cffb-fbc5-4321-bb64-b1075525ce5b>.

¹⁶ Xunta de Galicia, "Estrategia Galega de Cambio Climático e Enerxía 2050", at: https://www.xunta.gal/plans-e-actuaciones-da-xunta?content=/Portal-Web/Contidos/Actuacions/actuacion_0118.html.

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Xunta de Galicia aims to increase the prosperity of the region in which 20% of the population is at risk of poverty.¹⁷ To this end, the regional government has developed the Galicia Social Inclusion Strategy 2014-2020.¹⁸ An integrated framework of priorities aimed at addressing the needs and providing social services to people and families in situations of vulnerability, poverty and social exclusion.

Sustainalytics is of the opinion that the Xunta de Galicia's Sustainable Finance Framework has the potential to contribute to the region's sustainability objectives and advance sustainable development in Galicia.

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

While Sustainalytics recognizes that the use of proceeds from the Framework will be directed towards eligible projects that are recognized by the GBP and the SBP as impactful, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Some key social and environmental risks associated with the eligible projects include worker health and safety, land use change, biodiversity loss, waste management, and stakeholder participation. In addition, social projects may also create some risk of increasing inequality if not targeted to vulnerable populations. Sustainalytics is of the opinion that Xunta de Galicia is able to manage and/or mitigate potential risks through implementation of the following:

- All projects undertaken by Xunta de Galicia must comply with Spanish environmental regulations that require public and private projects to ensure environmental protection and responsibility, through environmental impact assessments and environmental permits, in accordance with the Spanish Environmental Law.¹⁹ Annex II of Law 21/2013 requires that the competent authority considers an environmental impact assessment depending on the significance of the effects of the project on the environment. In regards to habitat and biodiversity, Law 42/2007 (Natural Heritage and Biodiversity) sets out a regulatory regime for the "conservation, sustainable use, improvement and restoration of natural heritage and biodiversity."²⁰ Sustainalytics considers this law and the ensuring processes to be robust, and sufficient to mitigate multiple environmental risks.²¹
- Regarding waste management, Law 26/2007 on Environmental Liability (Environmental Liability Law) requires operators of potentially contaminating activities to (i) prevent, avoid and remedy any environmental damage; (ii) report to the relevant authorities any damage (or any threat of damage) that it has caused; and (iii) bear the costs of remedying any actual damage. Any operator of waste requires an administrative authorisation issued by the environmental authority and each Autonomous Region is responsible for enforcing the contaminated land regime.²²
- Regarding worker's health and safety at construction sites, the Spanish Law 31/95²³ provides prevention and safety regulations for contractors. Chapter V of said Law regulates in detail, the rights of consultation and participation of workers in relation to issues affecting safety and health. Sustainalytics considers this law and the ensuring processes to be robust, and sufficient to mitigate many occupational health and safety risks.
- The Equator Principles consider Spain to be a Designated Country, indicating that it is deemed to have "robust environmental and social governance, legislation systems and institutional capacity designed to protect their people and the natural environment".²⁴
- To mitigate the risk of increasing inequality in the case of insufficient targeting of social investments, Xunta de Galicia defines the scope of disadvantaged groups per each social category. Furthermore, the existing public healthcare and education systems provide a safety net of minimum care. Please see Section 1 for additional information on target populations.

¹⁷ Instituto Nacional de Estadística, "Tasa de riesgo de pobreza por comunidades autónomas", (2019), at: <https://www.ine.es/jaxiT3/Datos.htm?t=9963#itabs-tabla>.

¹⁸ Xunta de Galicia, "Estrategia de Inclusión Social de Galicia", (2016), at: https://politicasocial.xunta.gal/sites/w_polso/files/archivos/publicaciones/estrategia_inclusion_social_galicia_2014-2020_version_2016_cas.pdf.

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

²⁰ Lavilla J. J., "Environmental law and practice in Spain: overview", Thomson Reuters, at: [https://uk.practicallaw.thomsonreuters.com/0-521-6274?transitionType=Default&contextData=\(sc.Default\)&firstPage=true&comp=pluk&bhcp=1](https://uk.practicallaw.thomsonreuters.com/0-521-6274?transitionType=Default&contextData=(sc.Default)&firstPage=true&comp=pluk&bhcp=1).

²¹ Lavilla J. J., "Environmental law and practice in Spain: overview", Thomson Reuters, at: [https://uk.practicallaw.thomsonreuters.com/0-521-6274?transitionType=Default&contextData=\(sc.Default\)&firstPage=true&comp=pluk&bhcp=1](https://uk.practicallaw.thomsonreuters.com/0-521-6274?transitionType=Default&contextData=(sc.Default)&firstPage=true&comp=pluk&bhcp=1).

²² Lavilla J. J., "Environmental law and practice in Spain: overview", Thomson Reuters, at: [https://uk.practicallaw.thomsonreuters.com/0-521-6274?transitionType=Default&contextData=\(sc.Default\)&firstPage=true&comp=pluk&bhcp=1](https://uk.practicallaw.thomsonreuters.com/0-521-6274?transitionType=Default&contextData=(sc.Default)&firstPage=true&comp=pluk&bhcp=1).

²³ Instituto Nacional de Seguridad e Higiene en el Trabajo, "LEY 31/1995, de 8 de noviembre, de Prevención de Riesgos Laborales. BOE nº 269 10- 11-1995", at: <https://www.boe.es/buscar/act.php?id=BOE-A-1995-24292>.

²⁴ Equator Principles, "Designated Countries", at: <https://equator-principles.com/designated-countries/>.

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- Xunta de Galicia excludes financing of any activity, asset or technology associated with fossil fuel, as well as operations associated with child labor, forced labor, weaponry, and tobacco from the Framework.

Given the regulatory context in which Xunta de Galicia operates, and the policies and standards in place including the selection of target populations provided in the Framework, Sustainalytics is of the opinion that Xunta de Galicia is well positioned to mitigate social and environmental risks commonly associated with the eligible categories.

Section 3: Impact of Use of Proceeds

All eleven use of proceeds categories are aligned with those recognized by GBP or SBP. Sustainalytics has focused below on where the impact is specifically relevant in the local context.

Renewable Energy and Energy Efficiency in Galicia

In Spain, the government has unveiled a climate law which aims to decrease its carbon emission to net-zero by 2050. The law intends to make Spain's electricity system 100% renewable and make all new vehicles emission-free by 2040.²⁵ In addition, Spain's national energy and climate plan sets a target of 23% GHG emission cuts by 2030 compared to 1990.²⁶ To achieve these goals, Spain will have to make a concerted effort to cut its GHG emissions from various industries and sectors simultaneously. This will also have to include the participation of regional governments and authorities for Spain to achieve its stated goal of 74% of its electricity from renewable sources by 2030, and 100% by 2050.²⁷ As part of the Galician Strategy on Climate Change and Energy 2050,²⁸ Xunta de Galicia is analyzing the possibility of obtaining 100% of its electricity needs from renewable sources, and the regional government has set the goal making 84% of final electricity consumption from renewable sources by the end of 2020. This target is more ambitious than the national target of 40% by 2020.²⁹

For energy efficiency, there is ample room for improvement from the built environment which accounted for 31% of Spain's final energy consumption in 2015, with residential buildings accounting for 18.5% and non-residential buildings accounting for 12.5%.³⁰ Spain released a National Energy Efficiency Action Plan in order to reduce buildings' energy consumption, in line with the EU's objectives for energy efficiency encompassed in Directive 2012/27/EU³¹ and Directive 2010/31/EU.³² The Action Plan targets a primary energy consumption reduction of 24.7% compared to the 2010 baseline by 2020.³³ In addition, at the EU level, Spain's strategy for energy renovation in the building sector ("ERESEE") scores highest out of all 31 strategies, highlighting Spain's leadership in renovating buildings.³⁴ To this end, Xunta de Galicia passed Law7/2019 to amend Article 5 of the Legislative Decree 1/2011 which aims to improve the energy efficiency of residential buildings. Sustainalytics views the inclusion of residential building retrofitting in the Framework to contribute to meeting regional and national targets for primary energy consumption reduction targets.

Based on above, Sustainalytics believes Xunta de Galicia's investments in the areas of renewable energy and energy efficiency will support to Galicia's transition towards a low carbon economy while reducing the region's carbon footprint.

²⁵ ECEE, "Spain unveils climate law to cut emissions to net zero by 2050", (2020), at:
<http://www.asmallworld.net/login.php?url=http://www.asmallworld.net/home>.

²⁶ ECEEE, "Spain finally sends 2030 climate plan to Brussels", (2020), at: <https://www.eceee.org/all-news/news/spain-finally-sends-2030-climate-plan-to-brussels/>.

²⁷ Ministerio para la Transición Ecológica, "Borrador Actualizado del Plan Nacional Integrado de Energía y Clima 2021-2030", at:
https://www.miteco.gob.es/images/es/pniec_2021-2030_borradoractualizado_tcm30-506491.pdf.

²⁸ Xunta de Galicia, "Estrategia Gallega de Cambio Climático y Energía 2050", at: <https://cambioclimatico.xunta.gal/estratexia-cambio-climatico>.

²⁹ Xunta de Galicia, "Estrategia Gallega de Cambio Climático y Energía 2050", at:
https://cambioclimatico.xunta.gal/c/document_library/get_file?folderId=86132&name=DLFE-54461.pdf.

³⁰ Ministry of Public Work and Transport, "2017 ERESEE – 2017 Update of the Long-Term Strategy for Energy Renovation in the Building Sector in Spain", (2017), at: https://www.mitma.gob.es/recursos_mfom/paginabasica/recursos/es_building_renov_2017_en.pdf

³¹ EUR-Lex, "Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency", (2012), at: <https://eur-lex.europa.eu/legal-content/en/ALL/?uri=CELEX%3A32012L0027>

³² EUR-Lex, "Directive 2010/31/EU of the European Parliament and of the Council of 19 May 2010 on the energy performance of buildings", (2010), at:
<https://eur-lex.europa.eu/legal-content/FR/ALL/?uri=CELEX%3A32010L0031>

³³ Ministry of Energy, Tourism and Digital, "2017-2020 National Energy Efficiency Action Plan", (2017) at:
https://ec.europa.eu/energy/sites/ener/files/documents/es_nieap_2017_en.pdf

³⁴ Ministry of Public Work and Transport, "2017 ERESEE – 2017 Update of the Long-Term Strategy for Energy Renovation in the Building Sector in Spain", (2017), at: https://www.mitma.gob.es/recursos_mfom/paginabasica/recursos/es_building_renov_2017_en.pdf.

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Pollution prevention and control and sustainable water and wastewater management in Galicia

Currently, Spain produces approximatively 6% of the total waste generated in the European Union,³⁵ and, as a member of the EU, Spain is committed to recycling at least 50% of municipal waste by 2020, 55% by 2025, and 65% by 2035.³⁶ In 2018, the country recycled 29.7% of its municipal waste, which is lower than the EU average of 45%,³⁷ while its landfilling rate was 57%.³⁸ Despite these low resource recovery rates, the waste management industry in Spain is significant, consisting of 40% of all environmental sector business activity.³⁹ This high level of economic activity suggests the potential for substantial improvements. The Galician Urban Waste Management Plan 2010-2020 aiming to reduce waste and increase recycling has rendered positive leading to a 10% reduction in waste generation in 2020 compared to 2009, and an increased recycling rate of 30% compared to 10%. To this end, Sustainalytics notes that Xunta de Galicia's expenditures to advance soil decontamination, supporting recycling infrastructure and promoting the separation, collection and management of household and industrial waste to contribute to increasing the recycling capacity of Spain and supporting a transition to a circular economy.

In addition, the shortage and uneven distribution of water and the treatment of wastewater remain to be an issue faced by multiple countries, and Spain is no exception. Several studies have reported that the incidence of droughts in Europe has increased by 20% since 1976, and have especially affected southern European states,⁴⁰ such as Spain, which is the most semi-arid country in the EU.⁴¹ This represents a risk to water management in the country. To mitigate this risk, the Spanish government has developed drought management strategies consisting of comprehensive action plans with detailed preventive and remediation measures. Although these approaches have been effective in addressing short-term droughts, severe long-term challenges remain in many basins.⁴²

Wastewater treatment processes also represent a vital part of efficient water management, which is of specific relevance in Spain due to the high level of water stress (water scarcity levels of 40-80%).⁴³ Even though in 2018 around 96.9% of Spain's population had access to public sewage treatment facilities,⁴⁴ the environmental tax collected by the government does not fully cover the costs of wastewater treatment.⁴⁵

Given the Framework's inclusion of wastewater treatment plants, water supply works, and drought management, Sustainalytics considers Xunta de Galicia's expenditures and financing activities to improve water management and climate resilience in Spain.

The importance of supporting self-employment and entrepreneurship in Galicia

One of the strategies Xunta de Galicia has implemented to incentivize job creation and innovation, is by promoting self-employment and entrepreneurship to create new and successful businesses. Under the strategy Autónomo 2020, the aim is to support more than 10,000 working people each year. This program is of particular relevance as it also prioritizes women, persons with disabilities or at risk of social exclusion, family units in which all their members are unemployed and if the workplace is in rural communities.⁴⁶ With SMEs representing 99.8% of all companies in Spain, it is crucial to support entrepreneurs that can start their own business and for them to have the necessary resources to grow. Furthermore, with many rural regions in Spain facing depopulation due to lower demographic growth⁴⁷ incentivizing entrepreneurship can stem the creation of new opportunities.

In addition, supporting self-employed people and entrepreneurs is particularly relevant given the current context as the economy recovers from the global pandemic. The economic ramification, which continues to

³⁵ Argali Abogados, "Waste Management: A Growing Business in Spain", at: <http://www.mandaspain.com/spain-waste-management/>.

³⁶ El País, "Why Spain gets a failing grade when it comes to recycling", (2018), at: https://elpais.com/elpais/2018/02/28/inenglish/1519836799_117305.html.

³⁷ Argali Abogados, "Waste Management: A Growing Business in Spain", at: <http://www.mandaspain.com/spain-waste-management/>.

³⁸ Europe Commission, "The early warning report for Spain", (2018), at: http://ec.europa.eu/environment/waste/pdf/early_warning_report_ES.pdf

³⁹ Argali Abogados, "Waste Management: A Growing Business in Spain", at: <http://www.mandaspain.com/spain-waste-management/>.

⁴⁰ Navarro, Teresa. (2018), "Water reuse and desalination in Spain – challenges and opportunities" Journal of Water Reuse and Desalination, at: <https://iwaponline.com/jwrd/article/8/2/153/38035/Water-reuse-and-desalination-in-Spain-challenges>.

⁴¹ Schuman, Robert, (2018), "Water Governance in Spain: The Role of Federalism and Private-Public Partnerships", Centre for Advanced Studies Florence School of Regulation, at: http://cadmus.eui.eu/bitstream/handle/1814/52004/RSCAS_2018_07.pdf?sequence=1.

⁴² K. Schwabe, et al., (2013), "Water Scarcity and Droughts in Spain: Impacts and Policy Measures", at:

https://www.researchgate.net/publication/299282151_Water_Scarcity_and_Droughts_in_Spain_Impacts_and_Policy_Measures.

⁴³ Analysis of Environmental Taxes to Finance Wastewater Treatment in Spain: An Opportunity for Regeneration; Leticia Gallego Valero, Encarnación Moral Pajares, Isabel María Román Sánchez and José Antonio Sánchez Pérez; published January 2018;

⁴⁴ Eurostat, "Water Statistics, (2017), at: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Urban_wastewater_treatment

⁴⁵ Gallego, Leticia; et al, "Analysis of Environmental Taxes to Finance Wastewater Treatment in Spain: An Opportunity for Regeneration?", at: <https://www.mdpi.com/2073-4441/10/2/226/pdf>.

⁴⁶ Xunta de Galicia, "La estrategia Autónomo 2020", at: <http://www.oficinadoautonomo.gal/es/estrategia-autonomo-2020>.

⁴⁷ ESPON, Fighting rural depopulation in Southern Europe, (2018), at: https://www.espon.eu/sites/default/files/attachments/af-espon_spain_02052018-en.pdf

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unfold, has made the Spanish economy shrink by 18.5% in the April-to-June period, with an overall GDP decline of 12.1%.⁴⁸ As Spain continues to manage the measures imposed during the pandemic to stop the spread of Covid-19, it will be imperative to support entrepreneurs in the face of multiple business closures.⁴⁹ Furthermore, Galicia reported an unemployment rate of 11.9% as of the second quarter of 2020,⁵⁰ demonstrating the importance of increasing access to employment and finance.

Considering the above, Sustainalytics views favourably Xunta the Galicia's Framework which incorporates programmes for self-employed and entrepreneurs to support their economic activities while providing access to employment and finance.

Alignment with/contribution to SDGs

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

Use of Proceeds Category	SDG	SDG target
Renewable energy Energy efficiency	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Pollution prevention and control	11. Sustainable Cities and Communities	11.6 By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management
Environmentally sustainable management of living natural resources and land use	15. Life on Land	15.A Mobilize and significantly increase financial resources from all sources to conserve and sustainably use biodiversity and ecosystems
Clean transportation	11. Sustainable Cities and Communities	11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons
Sustainable water and wastewater management	6. Clean Water and Sanitation	6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally 6.4 By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity
Affordable basic infrastructure	9. Industry, Innovation and Infrastructure	9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and trans-border infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all

⁴⁸ BBC News, "Eurozone suffers deepest contraction on record", (2020), at: <https://www.bbc.com/news/business-53606101#:~:text=Spain%20has%20been%20plunged%20into,three%20months%20of%20the%20year.&text=France's%20economy%20has%20also%20been,13.8%25%20in%20the%20second%20quarter.>

⁴⁹ CEPYME, "Presentación Barómetro PYMES 2020 CEPYME", (2020) at: https://www.cepyme.es/wp-content/uploads/2020/03/BAROMETRO-PYMES-2020-CEPYME-V2-2020-03-25-23_59_55.pdf.

⁵⁰ IGE, "Tasa de paro 2020/II", at: <https://www.ige.eu/web/index.jsp?paxina=001&idioma=es>.

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	11. Sustainable Cities and Communities	11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons
Access to essential services	4. Quality Education	4.3 By 2030, ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university
	3. Good Health and Wellbeing for People	3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all
Affordable housing	11. Sustainable Cities and Communities	11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums
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	8. Decent Work and Economic Growth	8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services
Socio-economic advancement and empowerment	10. Reduced inequalities	10.3 Ensure equal opportunity and reduce inequalities of outcome, including by eliminating discriminatory laws, policies and practices and promoting appropriate legislation, policies and action in this regard

Conclusion

Xunta de Galicia has developed the Sustainable Finance Framework under which it intends to issue sustainability bonds and use the proceeds to finance projects that have the potential to reduce the region's environmental footprint and improve sustainable resource management while providing social benefits. Sustainalytics considers that the projects funded by the sustainability bond proceeds has the potential to provide positive environmental and social impact.

The Sustainable Finance Framework outlines a process by which proceeds will be tracked, allocated, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that Xunta de Galicia's Sustainable Finance Framework is aligned with the overall sustainability strategy of the company and that the use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goals 3, 4, 6, 7, 8, 9, 10, 11, and 15. Additionally, Sustainalytics is of the opinion that Xunta de Galicia has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the use of proceeds.

Based on the above, Sustainalytics is confident that Xunta de Galicia is well-positioned to issue sustainability bonds and that its Sustainable Finance Framework is robust, transparent, and in alignment with the four core components of the Green Bond Principles (2018) and Social Bond Principles (2020).

Appendices

Appendix 1: Summary of Forestry Certifications

	FSC ⁵¹	PEFC ⁵²	SFI ⁵³
Background	Founded in 1993 after the 1992 Earth Summit in Rio failed to produce any international agreements to fight against deforestation, FSC aims to promote sustainable forest management practice.	PEFC was founded in 1999 in response to the specific requirements of small- and family forest owners as an international umbrella organization providing independent assessment, endorsement and recognition of national forest certification systems.	In 2005, the PEFC recognized the SFI standard with an aim to advance sustainable forestry and responsible purchasing globally. The SFI program has on-product labels to help consumer interact with the forestry supply chain by supporting responsible forestry. The SFI standards pertain to - Forest Management Standard, Fiber Sourcing Standard and Chain-of-Custody Standard
Basic Principles	<ul style="list-style-type: none"> • Compliance with laws and FSC principles • Tenure and use rights and responsibilities • Indigenous peoples' rights • Community relations and workers' rights • Benefits from the forests • Environmental impact • Management plans • Monitoring and assessment • Special sites – high conservation value forests (HCVF) • Plantations 	<ul style="list-style-type: none"> • Maintenance and appropriate enhancement of forest resources and their contribution to the global carbon cycle • Maintenance and enhancement of forest ecosystem health and vitality • Maintenance and encouragement of productive functions of forests (wood and no-wood) • Maintenance, conservation and appropriate enhancement of biological diversity in forest ecosystems • Maintenance and appropriate enhancement of protective functions in forest management (notably soil and water) • Maintenance of socioeconomic functions and conditions • Compliance with legal requirements 	<ul style="list-style-type: none"> • To practice sustainable forestry that integrates land stewardship ethic and conservation of ecosystem services • To protect and maintain forest productivity and health • To protect water resources and biological diversity • To manage the visual impacts of forest operations, and to provide recreational opportunities for the public • To manage and protect integrity of forests and lands of special significance (ecologically, geologically or culturally important) • To use and promote sustainable forestry practices that are both scientifically credible and economically, environmentally and socially responsible • To avoid Controversial Sources including Illegal logging in Offshore Fiber Sourcing as well as sourcing from countries that do not have effective social laws. • To comply with applicable federal, provincial, state, and local forestry and related environmental laws, statutes, and regulations • To support advances in sustainable forest management through forestry research as well as improve the practice of sustainable forestry through training and education programs • To broaden the practice of sustainable forestry on public lands through community involvement as well as the understanding of the standard by documenting certification audits and making the findings publicly available. • To continually improve the practice of forest management

⁵¹ Forest Stewardship Council, at: <https://www.fsc.org/en>.

⁵² Programme for the Endorsement of Forest Certification, at: <https://www.pefc.org/>.

⁵³ Sustainable Forestry Initiative, at: <https://www.sfiprogram.org/>.

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Governance	<p>The General Assembly, consisting of all FSC members, constitutes the highest decision-making body.</p> <p>At the General Assembly, motions are proposed by one member, seconded by two more, and deliberated and voted on by all members. Members are entitled to vote to amend the bylaws, initiate new policies, and clarify, amend or overturn a policy decision by the board.</p> <p>Members apply to join one of three chambers – environmental, social, or economic – that are further divided into northern and southern sub-chambers.</p> <p>Each chamber holds 33.3% of the weight in votes, and within each chamber the votes are weighted so that the North and South hold an equal portion of authority, to ensure influence is shared equitably between interest groups and countries with different levels of economic development.</p> <p>The votes of all individual members in each sub-chamber represent 10% of the total vote of the sub-chamber, while the votes of organizational members make up the other 90%.</p> <p>The members vote for the board of directors, which is accountable to the members. There is an international board elected by all members and a US board, elected by the US-based members.</p>	<p>PEFC's governance structure is formed by the General Assembly (GA) which is the highest authority and decision-making body. It is made up of all PEFC members, including national and international stakeholders.</p> <p>Members vote on key decisions including endorsements, international standards, new members, statutes and budgets. All national members have between one and seven votes, depending on membership fees, while international stakeholder members have one vote each.</p> <p>The Board of Directors supports the work of the GA and together the GA and the Board make the formal approval of final draft standards. Standards are developed by working groups.</p> <p>In general, PEFC's governance structure is more representative of industry and government stakeholders than of social or environmental groups, which gives industry and governments more influence in the decision-making process. However, the organization does include stakeholders from all sectors.</p>	<p>The SFI program is operated by SFI Inc., a fully independent non-profit charitable 501(c)(3) organization.</p> <p>SFI Inc. is governed by an 18-member board of directors made up of three chambers with equal membership: environmental, social and economic. This multi-stakeholder board of directors is the sole governing body over all aspects of the SFI program, including the SFI 2010-2014 Standard, chain-of-custody, labeling and claims, marketing and promotion.</p> <p>The SFI has an External Review Panel, comprising environmental, conservation and forestry experts. This panel annually reviews the program's progress and releases a report publicly.</p> <p>There are thirty-seven SFI Implementation Committees across North America that operate at the regional, state and provincial level to help promote the SFI Standard through targeted local actions. They involve public agencies, universities, local forestry associations, landowners, loggers, partnerships with conservation groups, and other community based organizations</p>
Scope	<p>FSC is a global, multi-stakeholder owned system. All FSC standards and policies are set by a consultative process. There is an FSC Global standard and for certain countries FSC National standards. Economic, social, and environmental interests have equal weight in the standard setting process. FSC follows the ISEAL Code of Good Practice for Setting Social and Environmental Standards.</p>	<p>Multi-stakeholder participation is required in the governance of national schemes as well as in the standard-setting process. Standards and normative documents are reviewed periodically at intervals that do not exceed five years. The PEFC Standard Setting standard is based on ISO/IEC Code for good practice for standardization (Guide 59)⁵⁴ and the ISEAL Code of Good Practice for Setting Social and Environmental Standards.</p>	<p>SFI Standards promote sustainable forest management in North America and responsible procurement of forest products around the world.</p> <p>The SFI Forest Management Standard particularly applies to organizations in the United states and Canada and the Fiber Sourcing Standard as well as the Chain-of-Custody standard apply to any organization globally.</p>

⁵⁴ ISO, "ISO/IEC Guide 59:2019", (2019), at: <https://www.iso.org/standard/23390.html>.

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Chain-of-Custody	<ul style="list-style-type: none"> • The Chain-of-Custody (CoC) standard is evaluated by a third-party body that is accredited by FSC and compliant with international standards. • CoC standard includes procedures for tracking wood origin. • CoC standard includes specifications for the physical separation of certified and non-certified wood, and for the percentage of mixed content (certified and non-certified) of products. • CoC certificates state the geographical location of the producer and the standards against which the process was evaluated. Certificates also state the starting and finishing point of the CoC. 	<ul style="list-style-type: none"> • Quality or environmental management systems (ISO 9001:2008 or ISO 14001:2004 respectively) may be used to implement the minimum requirements for chain-of-custody management systems required by PEFC. • Only accredited certification bodies can undertake certification. • CoC requirements include specifications for physical separation of wood and percentage-based methods for products with mixed content. • The CoC standard includes specifications for tracking and collecting and maintaining documentation about the origin of the materials. • The CoC standard includes specifications for the physical separation of certified and non-certified wood. • The CoC standard includes specifications about procedures for dealing with complaints related to participant's chain of custody. 	<ul style="list-style-type: none"> • Any entity harvesting, transporting, handling or processing forest based products can use CoC certification to track and communicate forest fiber content using one of the following optional approaches for chain of custody: physical separation, average percentage or volume credit method. • These entities shall obtain an independent, third-party certification by an SFI certification body to the requirements set out in this standard if they choose to utilize an SFI CoC label or claim. • Quality or environmental management systems (ISO 9001: 2008) or environmental management system (ISO 14001:2004) can be used to meet minimum requirements for the management system. • This standard shall be used together with the requirements specifying the origin, which is to be verified by the CoC. Usage of labels and claims based on the implementation of this standard shall follow ISO 14020:2000 (Environmental labels and declarations)
Non-certified wood sources	<p>FSC's Controlled Wood Standard establishes requirements to participants to establish supply-chain control systems, and documentation to avoid sourcing materials from controversial sources, including:</p> <ol style="list-style-type: none"> Illegally harvested wood, including wood that is harvested without legal authorization, from protected areas, without payment of appropriate taxes and fees, using fraudulent papers and mechanisms, in violation of CITES requirements, and others, Wood harvested in violation of traditional and civil rights, Wood harvested in forests where high conservation values are threatened by management activities, 	<p>The PEFC's Due Diligence System requires participants to establish systems to minimize the risk of sourcing raw materials from:</p> <ol style="list-style-type: none"> forest management activities that do not comply with local, national or international laws related to: operations and harvesting, including land use conversion, <ul style="list-style-type: none"> ○ management of areas with designated high environmental and cultural values, ○ protected and endangered species, including CITES species, ○ health and labor issues, 	<p>SFI requires program participants to:</p> <ol style="list-style-type: none"> Comply with applicable federal, provincial, state, and local forestry and related environmental laws, statutes, and regulations such as - The Clean Water Act, The Endangered Species Act, The Species at Risk Act, The Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) etc. Avoid controversial sources including Illegal Logging and Fiber Sourced from Areas that do not have Effective Social Laws pertaining to: workers' health and safety, fair labor practices, indigenous peoples' rights, anti-discrimination and anti-harassment measures, prevailing wages and workers' right to organize. Document information that includes knowledge about direct suppliers' application of the principles of sustainable forestry.

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	<p>d. Wood harvested in forests being converted from forests and other wooded ecosystems to plantations or non-forest uses,</p> <p>e. Wood from management units in which genetically modified trees are planted.</p>	<ul style="list-style-type: none"> ○ indigenous peoples' property, tenure and use rights, ○ payment of royalties and taxes. c. genetically modified organisms, d. forest conversion, including conversion of primary forests to forest plantations. 	
Accreditation/ verification	FSC-accredited Certification Bodies (CB) conduct an initial assessment, upon successful completion companies are granted a 5-year certificate. Companies must undergo an annual audit every year and a reassessment audit every 5 years. Certification Bodies undergo annual audits from Accreditation Services International (ASI) to ensure conformance with ISO standard requirements.	<p>Accreditation is carried out by an accreditation body (AB). Like a certification body checks a company meets the PEFC standard, the accreditation body checks that a certification body meets specific PEFC and ISO requirements. Through the accreditation process PEFC has assurance that certification bodies are independent and impartial, that they follow PEFC certification procedures.</p> <p>PEFC does not have their own accreditation body. Like with the majority of ISO based certifications, PEFC relies on national ABs under the umbrella of the International Accreditation Forum (IAF). National ABs need to be a member of the IAF, which means they must follow IAF's rules and regulations.</p>	<p>All SFI certifications require independent, third-party audits and are performed by internationally accredited certification bodies.</p> <p>Accredited certification bodies are required to:</p> <ul style="list-style-type: none"> • maintain audit processes consistent with the requirements of ISO 17021:2006 conformity assessment – requirements for bodies providing audit and certification of management systems; and • conduct audits in accordance with the principles of auditing contained in the ISO 19011:2002 Guidelines for Quality and/or Environmental Management Systems Auditing.
Conclusion	<p>Sustainalytics views both FSC and PEFC, as well as the PEFC-affiliated scheme SFI, as being robust, credible standards that are based on comprehensive principles and criteria that are aligned with ISO. Both schemes have received praise for their contribution to sustainable forest management practices⁵⁵ and both have also faced criticism from civil society actors.^{56,57} In certain instances, these standards go above and beyond national regulation and are capable of providing a high level of assurance that sustainable forest management practices are in place. However, in other cases, the standards are equal or similar to national legislation and provide little additional assurance. Ultimately, the level of assurance that can be provided by either scheme is contingent upon several factors including the certification bodies conducting audits, national regulations and local context.</p>		

⁵⁵ FESPA, "FSC, PEFC and ISO 38200", (2018), at: <https://www.fespa.com/en/news-media/blog/fsc-pefc-and-iso-38200>

⁵⁶ Yale Environment 360, "Greenwashed Timber: How Sustainable Forest Certification Has Failed", (2018), at: <https://e360.yale.edu/features/greenwashed-timber-how-sustainable-forest-certification-has-failed>

⁵⁷ EIA, "PEFC: A Fig Leaf for Stolen Timber", (2017), at: <https://eia-global.org/blog-posts/PEFC-fig-leaf-for-stolen-timber>

Appendix 2: Sustainability Bond / Sustainability Bond Programme - External Review Form

Section 1. Basic Information

Issuer name:	Xunta de Galicia
Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable:	Xunta de Galicia Sustainable Finance Framework
Review provider's name:	Sustainalytics
Completion date of this form:	September 03, 2020
Publication date of review publication:	

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBP and SBP:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

ROLE(S) OF REVIEW PROVIDER

- | | |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (*if applicable*)

Please refer to Evaluation Summary above.

Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

1. USE OF PROCEEDS

Overall comment on section (*if applicable*):

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The eligible categories for the use of proceeds – (i) Renewable Energy, (ii) Energy Efficiency, (iii) Pollution Prevention and Control, (iv) Environmentally Sustainable Management of Living Natural Resources and Land Use, (v) Clean Transportation, (vi) Sustainable Water and Wastewater Management, (vii) Affordable Basic Infrastructure, (viii) Access to Essential Services, (ix) Affordable Housing, (x) Employment Generation, and (xi) Socioeconomic Advancement and Empowerment – are aligned with those recognized by both the Green Bond Principles and Social Bond Principles. Sustainalytics considers that the eligible categories will lead to positive environmental or social impacts and advance the UN Sustainable Development Goals (SDGs), specifically SDG 3, 4, 6, 7, 8, 9, 10, 11, and 15.

Use of proceeds categories as per GBP:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Renewable energy | <input checked="" type="checkbox"/> Energy efficiency |
| <input checked="" type="checkbox"/> Pollution prevention and control | <input checked="" type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input checked="" type="checkbox"/> Clean transportation |
| <input checked="" type="checkbox"/> Sustainable water and wastewater management | <input type="checkbox"/> Climate change adaptation |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes | <input type="checkbox"/> Green buildings |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input type="checkbox"/> Other (please specify): |

If applicable please specify the environmental taxonomy, if other than GBPs:

Use of proceeds categories as per SBP:

- | | |
|---|--|
| <input checked="" type="checkbox"/> Affordable basic infrastructure | <input checked="" type="checkbox"/> Access to essential services |
| <input checked="" type="checkbox"/> Affordable housing | <input checked="" type="checkbox"/> Employment generation (through SME financing and microfinance) |
| <input type="checkbox"/> Food security | <input checked="" type="checkbox"/> Socioeconomic advancement and empowerment |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBP | <input type="checkbox"/> Other (please specify): |

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

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

Xunta de Galicia will establish a Sustainable Finance Committee in charge of project evaluation and selection. The Sustainable Finance Committee will be comprised of members from the General Direction for Financial

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Policy, Treasury and European Funds, and the General Direction for Planning and Budgeting. Sustainalytics considers the project selection process in line with market practice.

Evaluation and selection

- Credentials on the issuer's social and green objectives
- Documented process to determine that projects fit within defined categories
- Defined and transparent criteria for projects eligible for Sustainability Bond proceeds
- Documented process to identify and manage potential ESG risks associated with the project
- Summary criteria for project evaluation and selection publicly available
- Other (please specify):

Information on Responsibilities and Accountability

- Evaluation / Selection criteria subject to external advice or verification
- In-house assessment
- Other (please specify):

3. MANAGEMENT OF PROCEEDS

Overall comment on section (*if applicable*):

The General Direction for Financial Policy Treasury and European Funds will be in charge of supervising net proceeds, and Xunta de Galicia will track funds through its budgetary system. Pending allocation, net proceeds will be temporarily kept in liquidity positions or term deposits. This is in line with market practice.

Tracking of proceeds:

- Sustainability Bond proceeds segregated or tracked by the issuer in an appropriate manner
- Disclosure of intended types of temporary investment instruments for unallocated proceeds
- Other (please specify):

Additional disclosure:

- Allocations to future investments only
- Allocations to both existing and future investments
- Allocation to individual disbursements
- Allocation to a portfolio of disbursements
- Disclosure of portfolio balance of unallocated proceeds
- Other (please specify):

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4. REPORTING

Overall comment on section (if applicable):

Xunta de Galicia intends to share allocation and impact reports with investors on an annual basis and until full allocation on the Xunta de Galicia website. Allocation reporting will include the amounts of net proceeds allocated to eligible budget programs and each eligible category. In addition, Xunta de Galicia is committed to reporting on relevant impact metrics. Sustainalytics views Xunta de Galicia's allocation and impact reporting as aligned with market practice.

Use of proceeds reporting:

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

Information reported:

- | | |
|---|---|
| <input checked="" type="checkbox"/> Allocated amounts | <input type="checkbox"/> Sustainability Bond financed share of total investment |
| <input type="checkbox"/> Other (please specify): amount and /or percentage of new and existing projects; year of investment/disbursement; balance of unallocated proceeds | |

Frequency:

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

Impact reporting:

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

Information reported (expected or ex-post):

- | | |
|--|--|
| <input type="checkbox"/> GHG Emissions / Savings | <input type="checkbox"/> Energy Savings |
| <input type="checkbox"/> Decrease in water use | <input checked="" type="checkbox"/> Number of beneficiaries |
| <input checked="" type="checkbox"/> Target populations | <input type="checkbox"/> Other ESG indicators (please specify): Please refer to Appendix A of Xunta de Galicia's Sustainable Finance Framework |

Frequency:

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

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Means of Disclosure

- Information published in financial report Information published in sustainability report
- Information published in ad hoc documents Other (please specify): Xunta de Galicia's website
- Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

- | | |
|--|--|
| <input type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification / Audit | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

Review provider(s):

Date of publication:

ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP AND THE SBP

- i. Second Party Opinion: An institution with sustainability expertise that is independent from the issuer may provide a Second Party Opinion. The institution should be independent from the issuer's adviser for its Sustainability Bond framework, or appropriate procedures such as information barriers will have been implemented within the institution to ensure the independence of the Second Party Opinion. It normally entails an assessment of the alignment with the Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy, and/or processes relating to sustainability and an evaluation of the environmental and social features of the type of Projects intended for the Use of Proceeds.
- ii. Verification: An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or sustainability criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally or socially sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Sustainability Bond proceeds, statement of environmental or social impact or alignment of reporting with the Principles may also be termed verification.
- iii. Certification: An issuer can have its Sustainability Bond or associated Sustainability Bond framework or Use of Proceeds certified against a recognised external sustainability standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. Green, Social and Sustainability Bond Scoring/Rating: An issuer can have its Sustainability Bond, associated Sustainability Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental and/or social performance data, process relative to the Principles, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material sustainability risks.

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