



Sustainability Bond Framework

State of North Rhine-Westphalia



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1. Introduction

The State of North Rhine-Westphalia (“State of NRW”) launched a Sustainability Bond programme to finance its sustainability related projects. The Sustainability Bonds under the programme follow the International Capital Market Association (ICMA) Sustainability Bond Guidelines 2018 (“SBG”)¹ and have been verified by ISS ESG. The Framework is applicable for the issuance of Sustainability Bonds where the proceeds will be exclusively used to finance or re-finance, in part or in full, new and/or existing eligible proceeds with clear environmental or social benefits. The framework may, from time to time, be updated for future issuances and made public.

The Framework will be in force as long as those instruments are outstanding. Any future changes in the Sustainable Finance Standards may be implemented in future versions of this Sustainability Bond Framework. Any future updated version of this Framework will undergo review by a Second Party Opinion provider.

Before issuance of each Sustainability Bond, the State of NRW will publish a document “Eligible Assets” with a description of all eligible projects for the respective Sustainability Bond. These projects will be reviewed pre-issuance by a Second Party Opinion provider.

2. About the State of NRW

The State of NRW is located in western Germany, covering an area of 34,112 km². With a population of 17.9 million in 2019, it is the most populous state of Germany. It advocates for a successful, equitable and future-oriented development in social, environmental and economic terms and therefore bases its actions on sustainability as a guiding principle. As the most populous federal state, it demonstrates how to implement successful change towards sustainable development while maintaining and reinforcing economic and industrial structures and going through structural change.

The State of NRW remains an important industrial hub with future-oriented economic structures. Companies are internationally competitive and operate on the basis of social and environmental principles. The State of NRW plays an important pioneering role on an international level, contributes in the context of the sustainability efforts of the Federal Government, the European Union (EU) as well as the United Nations (UN), and benefits from a dialogue with municipalities and other players worldwide. The State of NRW actively joins the global efforts under the umbrella of the Agenda 2030 adopted by the UN in 2015 and the 17 Sustainable Development Goals (SDGs) formulated in it.

In its sustainability strategy², the State of NRW explains how it will implement the global consensus on sustainable development in NRW. The State Government adopted the strategy in 2016 and in an updated version in 2020. The content, goals and measures of the strategy are now closely aligned with the systematics of the federal German Sustainable Development Strategy (2018 update) and the 17 SDGs. The aim is to ensure that the activities at the federal and State level support each other and to achieve a substantial German contribution to the implementation of the SDGs.

¹ Sustainability Bond Guidelines: www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/

² Sustainability Strategy NRW: www.nachhaltigkeit.nrw.de/en



3. Sustainability Bond Framework

The State of NRW's Sustainability Bond Framework follows the four key pillars of the SBG: Use of Proceeds, Process for Project Evaluation and Selection, Management of Proceeds and Reporting. The eligible projects conform to the categories defined in the Green Bond Principles (GBP)³ and the Social Bond Principles (SBP)⁴.

3.1. Use of Proceeds

The proceeds under this Framework will be used for the preparation, realization and operation of projects that satisfy the applicable criteria described in section 3.2. By realizing projects in the following categories, the State of NRW contributes to several SDGs as indicated in the document "Eligible Assets".

- A. SBP: Affordable basic infrastructure**
e.g. digitalization, public transportation
- B. SBP: Access to essential services**
e.g. health care and health infrastructure, education at universities, schools and day care centres, research
- C. SBP: Affordable housing**
e.g. adaptation of urban and rural infrastructure
- D. SBP: Employment generation, and programmes designed to prevent and/or alleviate unemployment stemming from socioeconomic crises, including through the potential effect of SME financing and microfinance**
e.g. integration of handicapped, migrants or long-term unemployed into the labour market, green economy
- E. SBP: Food security and sustainable food systems**
e.g. safe and healthy food
- F. SBP: Socioeconomic advancement and empowerment**
e.g. inclusion of handicapped and migrants, fight against poverty, protection against violence, gender equality
- G. GBP: Renewable energy**
e.g. promotion of and consulting regarding renewable energy
- H. GBP: Energy efficiency**
e.g. promotion of and consulting regarding energy efficiency
- I. GBP: Pollution prevention and control**
e.g. climate protection, circular economy, green infrastructure
- J. GBP: Environmentally sustainable management of living natural resources and land use**
e.g. nature protection, biodiversity, responsible agriculture

³ Green Bond Principles: www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/

⁴ Social Bond Principles: www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp/



- K. GBP: Clean transportation**
e.g. infrastructure for cyclists and pedestrians
- L. GBP: Sustainable water and wastewater management**
e.g. flood protection
- M. GBP: Climate change adaption**
e.g. adaptation to climate change, sustainable infrastructure
- N. GBP: Green buildings**
e.g. new and refurbished buildings

3.2. Project Evaluation and Selection Process

The State of NRW's treasury team of the Ministry of Finance is responsible for the evaluation and selection of projects and regularly exchanges views with the sustainability team of the Ministry for Environment. The treasury team identifies projects in line with Use of Proceeds criteria and allocates the proceeds to the eligible project portfolio in accordance with the eligibility criteria. The reference for the selection of projects is the State of NRW's Sustainability Strategy 2020. Projects are mapped to specific SDGs and a document with the description of all projects will be published pre-issuance of each Sustainability Bond as well as a Second Party Opinion analyzing the sustainability quality of the projects. Only the State of NRW's own discretionary spending (net of EU grants, federal grants or other revenues earmarked for specific purposes) is taken into account. The State of NRW's personnel costs as well as projects prescribed by federal law are excluded. All projects are part of the State of NRW's discretionary spending of the current fiscal year and can be traced to the NRW Budget Plan of the current year. Only the expenditures of the current year are taken into account. In case a project runs for more than one year, it might be part of a number of subsequent Sustainability Bonds. A list of eligible projects is kept by the treasury team and monitored during the term of the Sustainability Bond to ensure that the proceeds are sufficiently allocated to eligible projects on a regular basis.

Do no harm principle

The State of NRW actively joins the global efforts under the umbrella of the global Agenda 2030 and the 17 SDGs articulated in it. In its sustainability strategy, the State of NRW explains how it will implement this global consensus on sustainable development in NRW.

The core of the new sustainability strategy is a set of 67 specific goals and indicators covering 16 of the 17 SDGs (without SDG 14). These goals and indicators are closely aligned with the goals at the federal level. Ecological, economic and social interaction are equally taken into account. A separate indicator report covers the development of the indicators. A dedicated website⁵ enables ongoing progress reporting on the indicators.

“Sustainability checks” for regional legal acts and programmes strive to focus the political debate on the synergies and conflicts between the different sustainability goals. In the implementation process, cooperation with municipalities, civil society and the private sector will continue to play an important role. The State Government also aims at transforming the State bodies and authorities into a

⁵ NRW's sustainability indicators: www.nachhaltigkeitsindikatoren.nrw.de/en



“sustainable administration” (by means of sustainable public procurement, climate neutral buildings, sustainable events etc.) by 2030.

Compliance to social safeguards

The International Labour Organization (ILO) International Labour Standards form an intrinsic part of the EU's legal system. Through compliance with the EU's legal system, the State of NRW's Sustainability Bond is also in compliance with minimum social safeguards. In addition, the State of NRW's investments include provisions on compliance with the laws and regulations (including on social issues) under which its bodies operate.

Controversies

The State of NRW monitors the expenses of the State to ensure that they comply with existing laws and regulations that are in place and that they can achieve the positive environmental and social impacts intended. The State of NRW's parliament carries out the monitoring on a continuous basis, making sure the State's expenses are correctly carried out within the authority provided by the statutory budget. In that context, controversies may come to attention through NGO reports and dialogues, or through media exposure, which will then be subject to further inquiry and debates, if members of parliament demand such scrutiny.

Exclusions

Projects from the following sectors are excluded:

- Fossil fuel production and generation of fossil fuel power,
- Generation of nuclear power,
- Production or trade in any product or activity deemed illegal under international conventions and agreements or subject to international prohibitions.

3.3. Management of Proceeds

The proceeds will be allocated and managed by the State of NRW's Treasury team on a portfolio basis. The State of NRW will monitor and track the expenditures for the selected projects as described in the document “Eligible Assets” through its internal accounting system and will seek to allocate an amount at least equal to the net proceeds of the Sustainability Bond. In case net issue proceeds exceed the State's expenditures for eligible projects in the year of issuance, the remaining proceeds will be used to cover expenditures for similar projects of the following years until the expenditures exceed the net issue proceeds.



3.4. Reporting

Reporting will be made available to investors within one year from the date of the Sustainability Bond issuance and annually thereafter until the proceeds have been fully allocated. The annual Sustainability Bond report with updates on the allocation of proceeds and an impact evaluation of the funded projects will be published on the website for NRW's Sustainability Bonds⁶.

Allocation reporting

Allocation reporting will be available to investors within one year from the date of a Sustainability Bond issuance and annually thereafter, until the proceeds have been fully allocated. The State of NRW will report on the percentage of proceeds allocated.

Impact reporting

In order to give a comprehensive view on the impact of the investments, impact reporting varies for each Use of Proceeds category. Per Use of Proceeds category, the State of NRW or a third party charged with it will provide relevant impact indicators on a best-efforts basis. The impact reporting occurs on a project basis where possible.

⁶ NRW Sustainability Bonds: www.nachhaltigkeit.nrw.de/en/sustainability-bonds/



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