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Iceland's Sovereign Sustainable Financing Framework

Government of Iceland
Ministry of Finance and Economic Affairs

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Introduction

Iceland is committed to the fulfilment of the ambitions of the Paris Agreement on climate change and United Nation's (UN) Sustainable Development Goals (SDGs). Iceland is committed to playing a role, in partnership with others, to alleviate poverty, improve health and education, reduce inequalities, and spur economic growth, while contributing towards a low-carbon and climate resilient economy and preserve our oceans and land. This Framework describes how the Government of Iceland will mobilize financing to achieve these ambitions.

1. Sustainability

1.1 United Nation's Sustainable Development Goals

On 25 September 2015, Iceland voted on UN's Resolution to support the SDGs. Since then, the SDGs have served as the Government's main guide in its pursuit for sustainability. Iceland took an active role in the negotiations on the SDGs, emphasizing renewable energy, halting land degradation, sustainable use of marine resources, and gender equality.

In 2017, an inter-ministerial working group headed by the Prime Minister's Office was formed to further support the implementation and Iceland's alignment with the SDGs. Iceland's first Voluntary National Review[1] to the UN was issued in 2019 along with a website, project portal[2], and a statistical dashboard[3] operated by Statistics Iceland.

Furthermore, in an effort to bridge sustainable development and its fiscal policies, Iceland has integrated the SDGs into its national budgetary process. Therein, several key priorities to increase allocation to projects related to the SDGs have been highlighted, including transportation and telecommunication, social housing, insurance, and other environmental and climate issues.

1.2 Environmental and climate objectives

In 2016, Iceland signed the Paris Agreement, committing to its goals of keeping a global temperature rise this century well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit temperature increase to 1.5 degrees Celsius. To fulfil its commitment, the Government established a new Climate Action Plan in 2018, with a notable increase in funding for climate mitigation projects. The Climate Action Plan established a long-term, comprehensive plan for Iceland to achieve 40% reduction in emissions by 2030 and carbon neutrality by 2040. It was then updated in 2020, following a comprehensive stakeholder dialogue, adding new measures, improved analysis, and increased funding.

Iceland is pursuing its decarbonization efforts in nine sectors, namely, land transport, ships and ports, energy production and small industry, F-gases[4] and chemical use, agriculture, waste management, transition incentives, air transport and heavy industry, and improved land use and land use change and forestry (LULUCF), with all but the last two mentioned being part of the European Union

[1] Iceland's Implementation of the 2030 Agenda for Sustainable Development, June 2019.

[2] Heimsmarkmið | Forsíða (heimsmarkmidin.is)

[3] Indicators for The Sustainable Development Goals (hagstofa.is)

[4] F-Gases are Fluorinated gases often used for refrigeration applications, but which are powerful GHGs with a global warming effect which can be thousands of times stronger than carbon dioxide.

(EU) Effort Sharing Regulation (ESR). A total of 48 measures are listed in the Action Plan.

The Government additionally acknowledges the impacts and associated risks a changing climate may have on Iceland and continues to monitor them and is working to increase the level of management of these risks. Scientific assessments of the impact of climate change, led by the Icelandic Meteorological Office has identified glacier retreat, reduction and shifts in pelagic fish populations, ocean acidification (higher than the global average), and potential for hazards (such as landslides and floods) to be the primary risks to Iceland. To respond to these threats the Icelandic Government has assessed the potential impacts of increased glacial melting to hydroelectric power capacity and is working to upgrade the resilience of the electricity transmission network. The Government has additionally invested in increased protection against natural hazards. Lastly, the Government has established a flood fund and Icelandic natural disaster insurance to ensure financial resilience against such events. The ocean objectives within this framework will discuss the Government's reaction to fish stocks and ocean acidification.

1.3 Renewable energy

Iceland's geography provides the country with access to a vast amount of renewable energy resources. The country currently produces 99.99% of its electricity using renewable energy[5] and 97.4% of the heating used is provided by geothermal energy[6].

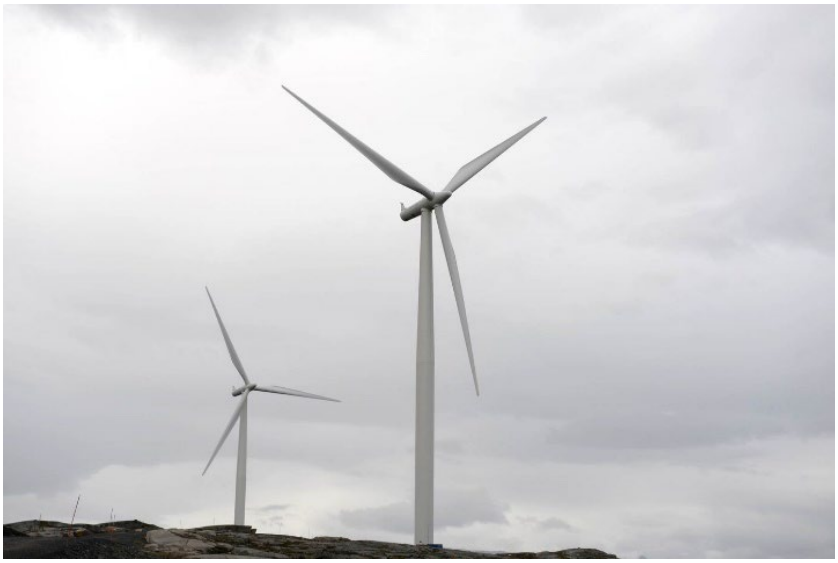
[5] Orkustofnun (2020). OS-2020-T012-01: Installed capacity and electricity production in Icelandic power stations in 2019.

[6] Orkustofnun (2020). OS-2020-T010-01: Final Heat Use in Iceland 2019 by District Heating Area.

The Government is committed in maintaining its leadership in renewable energy production and has released an Energy Policy for 2050[7]. The Policy aligns with the Climate Action Plan and states that by 2050 all energy production is to be from renewable sources and developed in a sustainable and socially beneficial manner. A balance is to be maintained between the protection of nature and natural resources and the utilization of the energy resources so unique to Iceland.

The primary aims of the Energy Policy is to develop a diverse energy system that is shock-resistant and resilient to natural disasters and climate change impacts. This sustainable energy is intended for the transition for land, sea, and air uses (thus beyond just electricity production/use) which will allow the country to become fossil fuel independent.

This transition needs to occur, however, while ensuring the country's energy needs are fulfilled, providing equitable access to this energy. The circular economy potential of the energy resources should also be unlocked, where resource streams are multi-use and shared as much as possible. Lastly, this utilization of renewable energy resources should be done in way such that allows for an active and competitive energy market, and that the economic benefits from harnessing these resources are shared amongst the population.



1.4 Social objectives

Iceland maintains a welfare society and has ratified, among others, the following conventions: European Convention for the Protection of Human Rights and Fundamental Freedom, International Convention on Civil and Political Rights, the European Social Charter, International Covenant on Economic, Social, and

[7] A Sustainable Energy Future, An Energy Policy to the year 2050. Government of Iceland.

Cultural Rights, UN Convention on the rights of the Child, and UN Convention on the Rights of Persons with Disabilities.

The foundations of the welfare society are reflected in progressive legislation passed by a democratically elected Parliament. The spirit of the welfare state is based on respect for human rights, equality, inclusion, human dignity, and access for all to essential services.

In the Educational Policy for 2030[8], the Government commits to ensure that development of the educational system fulfils the needs of the society. The Policy further sets out objectives for diverse and individualized study policies based on underlying values of welfare, happiness, equality, inclusion, togetherness, and mutual respect for different backgrounds and opinions.

Iceland's health care system is based on the fundamental value of being accessible to all regardless of economic status. The Government has set a Healthcare Policy for 2030[9] which has a strong focus on comprehensive physical and mental health issues.

Support and inclusion of marginalized and vulnerable populations into broader society is well regulated. The focus is on the support and assistance for those with low income, disabled persons, elderly, immigrants, women, and non-binary. Support is both financial and social. Matters with particular focus have been gender-based violence and sexual harassment, multifarious discrimination, and inclusion regardless of origin, gender, or other issues.

Participation in the labour market in Iceland is high by all genders and ages. The unemployment rate has historically and generally been low. However, the

[8] Education Policy 2030.

[9] Health Policy for the Icelandic healthcare system 2030.

Government is committed to those unemployed, either short or long-term, and acts fast in times when unemployment rates increase due to external conditions e.g. financial crises or pandemics. The objective is to both ensure financial stability and wellbeing of those unemployed through direct financial support and initiatives to hinder worsening mental and physical health during unemployment. This objective is achieved through strong legislative framework of the labour market where rights and duties of the workforce are regulated, and diverse initiatives are tailored to the circumstances in the society at any given time.

1.5 Ocean and seafood objectives

The Government has acknowledged that robust measures need to be taken in order to protect fish stocks and marine ecosystems and has identified three key challenges: sustainable fisheries, ocean acidification and associated impacts, and pollution (especially plastic pollution).

Conservation and effective management of the ocean, to ensure sustainability in the use of marine resources, has for a long time been a major priority issue for Iceland. Utilisation of living marine resources is of vital importance for the Icelandic national economy, resulting in a great emphasis on sustainable fisheries management based on following the best available scientific advice.

Iceland, therefore, implements robust fisheries management systems to ensure both biological and economic sustainability and cooperates with neighbouring states regarding the management of shared stocks.

In a report published in 2017 by the OECD, it was recognized that "The Icelandic [fishing management system] is seen as a success in terms of economic efficiency and as a way of drastically reducing fishing effort to safeguard the sustainability of fish stocks". While harvested stocks in Iceland are generally in well-monitored and sustainably utilised, this is unfortunately not the case all over the world. UN's Food and Agriculture Organization (FAO) estimates that globally around a third of fish stocks are fished at biologically unsustainable levels.[10] Iceland is therefore an active participant in a variety of international fore to improve fisheries management around the world and to combat illegal, unreported, and unregulated fishing.

Ocean acidification is caused by increasing absorption of atmospheric CO_2 by the sea, which has detrimental effects on marine life, including shellfish, corals, and many species of plankton. The need to halt ocean acidification adds further reasoning to Iceland's climate mitigation efforts.

[10] FAO. 2020. *The State of World Fisheries and Aquaculture 2020. Sustainability in action*. Rome. https://doi.org/10.4060/ca9229en

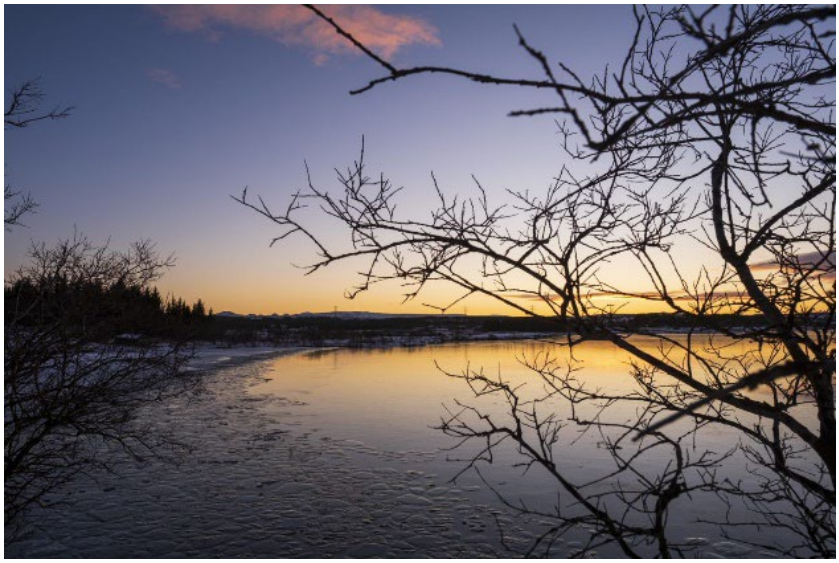
Lastly, the Government is also committed to minimizing ocean pollution. It monitors the levels of heavy metals, persistent organic substances, and other maritime pollutants in the seas around Iceland. In general, Icelandic waters are relatively unpolluted in comparison to most European coastal waters and many other marine areas. It further monitors plastic pollution on coasts and in marine biota, and has launched initiatives to reduce plastic pollution, including a September 2020 specific action plan against plastic pollution, as well as provisions in a national waste reduction plan ("Together Against Waste").

2. Sustainable Financing Framework

The Government acknowledges the important role capital markets can play in the transition towards sustainability by allocating capital towards sustainable projects and investments. Several Icelandic private and public parties have issued green, social, and/or sustainable bonds. The Government, therefore, contributes further to the role of capital markets in sustainable development by addressing a growing demand from investors for sustainable debt instruments.

This Sustainable Financing Framework (hereafter referred to as Framework) has been developed to align with the Green Bond Principles (2018), Green Loan Principles (2021), The Social Bond Principles (2021), Sustainability Bond Guidelines (2018), Climate Bonds Standard (v. 3.0 2019). It has also been benchmarked, to the extent possible, to the EU Sustainable Finance Taxonomy, and a draft of EU's Green Bond Standard.

The work on this Framework was carried out by the Government's working group on sustainable finance, experts within individual ministries and governmental agencies, as well as having involved an independent external consulting firm.



This Framework may, from time to time, be updated in order to comply with future changes to the abovementioned principles, guidelines, and taxonomies as well as to general sustainable finance market practices and/or changes in the Government's expenditures.

2.1 Funding

The Government Debt Management on behalf of the Republic of Iceland will issue debt instruments (bonds, loans, bills and/or other types), including but not limited to green, social, blue, and/or sustainable instruments. All these instruments will be commonly referred to as Sustainability Instruments.

2.2 Use of proceeds

An amount equal to the net proceeds of the Sustainability Instruments will be used to finance or refinance the Government's expenditures and assets. All expenditures and assets financed under this Framework will need to align with at least one of the below Project Categories.

Eligible Expenditures can include government expenditures in the form of direct investments, equity, onlending, subsidies, fiscal measures (tax credits) and selected operational expenditures to the extent they are contributing to the sustainability objectives of the Government.

The Government may finance governmental agencies, state-owned companies, and other public sector entities which have or may themselves issue Sustainability Instruments but will prevent financing of the same eligible expenditures to prevent double counting.

Administrative charges can also be accepted in so far as they form a small part of the appropriation and are necessary for realizing the appropriation's purpose and objective.[11]

Net proceeds can finance both existing and new Eligible Expenditures. New financing refers to expenditures disbursed to activities and/or projects initiated in the same year as financing has taken place, or later. Refinancing refers to activities and/or projects initiated in the previous calendar year or earlier.

In order to mitigate environmental and social risks, net proceeds will not be placed in assets, projects, or in entities related to the following activities or sectors focused on fossil energy generation, fossil fuel machinery, nuclear energy generation, research and/or development within weapons and defence, environmentally negative resource extraction (such as rare-earth elements or fossil fuels), gambling, alcoholic beverages or tobacco, whaling, livestock, and crypto-currency mining. In addition, climate risk and resilience will be screened in accordance with national policies, laws, and regulations, as well as environmental standards and best practices when feasible, in order to identify mitigating actions.

[11] Expenditures towards administrative charges will be capped to 15%.

Green Categories			
Green Bond Principles Project Categories / EU Taxonomy	UN SDGs Targets and indicators	Description	Impact indicators (numbered indicators, i.e. "15.2.1" refer to SDG indicators)
G1: Clean transportation Objectives: — Improve and promote clean transportation systems and reduce vehicles carbon intensity / emissions. — EU objective: climate change mitigation.	9.1 9.4 11.2 13.2	Criteria — Vehicles (below threshold no. 1 applies): any vehicle using electric, hydrogen, or biogas/landfill gas methane, or other zero mission transportation equipment, e.g. bicycles and scooters. Dedicated vehicles solely using advanced biofuels (thresholds no. 2, 3, and 4 apply) or renewable liquid and gaseous transport fuels of non-biological origin. — Public transport (threshold no. 5 applies): fully electrified or other low-carbon (biogas and hydrogen) busses, trains, trams, or ferries. — Infrastructure: any construction, expansion, equipment, and improvements of infrastructure supporting vehicles, and/or public transport as defined above. Threshold 1 Passenger cars and light commercial vehicles: eligible if they have zero CO_2 emissions. Two- and three-wheel vehicles and quadricycles: eligible if they have zero CO_2 emissions. Heavy commercial vehicles: eligible if they have zero CO_2 emissions. 2 Only rapeseed oil that has a valid certification from any of the voluntary schemes approved by the EU commission for biofuels. 3 Other first-generation biofuels are not eligible. 4 As defined in Art. 2 (34) and Art. 2 (36) Directive (EU) 2018/2001 as well as certified low-ILUC biofuels are eligible.	— Proportion of clean transportation vehicles in new registrations, by category of vehicles and energy sources. — The total number of charging, methane, and hydrogen stations in the country. Number of vehicles per fast charging station. — Percentage of people walk or who use public transport, bicycles, scooters, and electric bicycles when traveling. — Estimated reduced/avoided GHG emissions (tonnes CO_2e) per year.

		5 Emit below the defined threshold of <=50 gCO_2e/pkm until 31 Dec 2022. From 2023 0gCO_2/pkm.	
G2: Renewable energy Objectives: — Accelerating the transition towards an economy that fully runs on renewable energies. — EU objectives: Climate change mitigation.	7.1 7.2 9.1 9.4 13.1 13.2	Criteria — All expenditures enabling construction and operation of electricity generation facilities and/or companies which produce, transmit or distribute electricity or heat from: — Solar PV, concentrated solar power, wind power. — Hydropower, including pumped-storage facilities (below threshold 1 applies). — Geothermal (threshold 2 applies) when life-cycle impacts for producing 1 kWh of electricity are below the declining threshold. — All expenditures enabling construction and operation of hydrogen or other bio (threshold 3 applies)/electrofuels. — Measures to increase sustainable heating and cooling, heat usage, heat insulation, installation of heat pumps (threshold 4 applies) and waste heat usage (industry and private sectors). — All expenditure enabling research for all renewable energies and energy storage (e.g., “green” hydrogen), energy efficiency, power grid and renewable energy integration, and energy transition. Threshold 1 Facility commencing operation before 2020 needs to have a power density higher than 5W/m2 or GHG emission intensity lower than 100gCO_2e/kWh. Facilities commencing operation after 2020 need to have a power density higher than 10W/m2 or GHG emission intensity lower than 50gCO_2e/kWh. 2 Facilities are operating at life-cycle emissions lower than 100gCO_2e/kWh, declining to net-0gCO_2 e/kWh by 2050. 3 Only rapeseed oil that has a valid certification from any of the voluntary schemes approved by the EU commission for biofuels. https://ec.europa.eu/energy/topics/renewable-energy/biofuels/voluntary-	— Capacity of renewable energy plants constructed or rehabilitated in MW each year. — Energy supplied per year in GWh. — Number of meters of piping/conduit/cables laid, upgraded, or replaced. — Amount of renewable fuels produced in Iceland by type of fuel. — Estimated reduced/avoided GHG emissions (tonnes CO_2e) per year.

		schemes_en. Other first-generation biofuels are not eligible. Or produced from the advanced feedstock listed in Part A of Annex IX of Directive (EU) 2018/2001. 4 Facilities that produce using electricity from the abovementioned sources or biomass with a declining threshold of 100gCO_2e/kWh.	
G3: Green buildings Objectives: — Improve and promote green buildings and reduce environmental impact. — EU objective: climate change mitigation and the transition to a circular economy.	11.1 11.3 13.1 13.2	Criteria — New construction, acquisition of buildings, leasing, operations, renovation, and refurbishment of existing buildings must be certified (threshold 1 applies). The grading must include the following: — A screening for climate risk and resilience included in the design. — Electricity and space heating from 100% renewable energy sources, and electric car charging provided. — Solutions for a car-free living, e.g. public transport access and bike/walking considerations. — Life-cycle assessments are performed. — Material choice based on life-cycle considerations. Threshold 1 LEED “Gold”, BREEAM “Excellent” (also BREEAM in-use and BREEAM Refurbishment and Fit Out), Miljöbyggnad “Silver”, DGNB “Gold”, The Nordic Swan Ecolabel certification", or similar.	— Number of qualified buildings (into categories e.g. local baseline, Nordic Swan Ecolabel and/or BREEAM, Miljöbyggnad, DGNB certification or other certifications with similar goals) per year. Including the scores for each project. — Estimated reduced/avoided GHG emissions (tonnes CO_2e) per year. — Key results from life-cycle assessments.
G4: Management of living natural resources & land-use Objectives: — Promote sustainable agriculture, biodiversity and	13.1 13.2 15.1 – 15.5 15.8 15.9	Criteria — Expenditure in projects or activities in sustainable forestry (below threshold 1 applies) land conservation and/or restoration, e.g. land remediation, reforestation, and afforestation (threshold 2 applies). — Management and maintenance of national parks and conservation areas. — Expenditures to support horticulture and agriculture (threshold 3 applies).	— Area (hectares) transformed or reclaimed by type and by objective. — Area (hectares) conserved or protected. — 15.2.1: Progress towards sustainable forest management — Proportion of land in good condition. Annual number of planted forest plants divided into tree species.

preservation of living natural resources. — EU objective: The protection and restoration of biodiversity and ecosystems, and climate change mitigation.		— Investments to promote use of renewable technology in the agriculture sector (e.g. geothermally heated greenhouses). Threshold **1** A forest that maintains their biodiversity, productivity, regeneration capacity, vitality and their potential to fulfil, now and in the future, relevant ecological, economic and social functions. **2** The land conversion and/or restoration activity must follow a relevant management system, have an established baseline GHG balance, and be projected to increase above ground carbon stock over the baseline and enhance biodiversity. **3** Avoided or reduced GHG emissions are demonstrated through appropriate management practices, along with maintaining or increasing the existing carbon stock, and production activity cannot be undertaken on land that had any of the following status in or after January 2018: i) Wetlands, namely land that is covered with or saturated by water permanently or for a significant part of the year; ii) Continuously forested areas, i.e. with minimal crown cover and the minimal height of forest at maturity of 10% and 2 m accordingly. The minimal area is 0.5 ha and minimal width 20 m. iii) Land spanning more than one hectare with trees higher than five metres and a canopy cover of between 10% and 30%, or trees able to reach those thresholds in situ; iv) Peatland, unless evidence is provided that the cultivation and harvesting of that raw material does not involve drainage of previously undrained soil.	— Renewable energy supplied to the agricultural sector (GWh). — Estimated reduced/avoided/ sequestered GHG emissions (tonnes CO_2e) per year.
G5: Circular Economy and Emission Reduction Based on the following project categories:	12.2 13.1 - 13.3	Criteria — Expenditures to facilitate carbon capture and storage/utilization, and increased air quality.	— Number of certified products purchased (categorized e.g. Nordic Swan, EU Ecolabel) per year. — Waste which is prevented, minimized, reused or recycled before and after the

— Eco-efficient and circular economy adapted products. — Pollution prevention and control. — Waste management. Objectives: — The transition to a circular economy, and pollution prevention. — EU objective: Climate change mitigation.		— Construction and operation of capture and storage/utilization of CO_2 to lower global atmospheric CO_2 concentration levels as defined in the Government's climate action plan. — Activities supporting increased air quality in line with goals of the Government's air quality action plan. — Expenditures to facilitate increased use of eco-efficient products, waste reduction, and better waste management. — Purchases of certified (below threshold no. 3 applies) products, services, or processes. — Collection and transport of non-hazardous waste where: source segregated waste (in single or co-mingled fractions) is separately collected with the aim of preparing for reuse and/or recycling, or anaerobic digestion of bio-waste (threshold no. 1 applies). — Material recovery from separately collected non-hazardous waste (threshold no. 2 applies). — Composting of bio-waste when; bio-waste is source segregated and collected separately, anaerobic digestion is not a technically and economically viable alternative, and the compost produced is used as fertilizer/soil improver. — Other expenditures enabling climate change mitigation and transition to circular economy according to the climate action plan and transition to circular economy policy that are not defined elsewhere in the framework. Threshold 1 In dedicated bio-waste treatment plants, bio-waste shall constitute a major share of the input feedstock (at least 70%, measured in weight, as an annual average). Co-digestion is eligible only with a minor share (up to 30% of the input feedstock) of advanced bioenergy feedstock listed in Annex IX of Directive (EU) 2018/2001. 2 It should produce secondary raw materials suitable for substitution of virgin materials in production processes and, at least 50%, in terms of weight, of the	project in % of total waste and/or in absolute amount in tonnes per year. — Estimated reduced/avoided GHG emissions (tonnes CO_2e) per year.

		processed separately collected nonhazardous waste is converted into secondary raw materials. 3 Nordic Swan Ecolabel, EU Ecolabel, Blauer Engel, Bra Miljöval, Green Seal, or other green procurement purchases as defined by EU's Green Public Procurement (GPP) criteria.	
G6: Climate change adaptation Objectives: — Strengthen resilience and adaptive capacity to climate related hazards and natural disasters. — EU objective: Climate change adaptation.	9.1 9.4 13.1	Criteria — Research and innovation and/or the acquisition of technologies and information systems to support adaptation and early warning systems (monitoring of climate and weather systems and hydrological systems, etc.). — Funding to enhance climate resilience, e.g. but not limited to: — Resilient reconstruction (incorporation of disaster risk reduction and resiliency building to enhance the ability of urban infrastructure to withstand weather related events or other natural disasters. — Flood mitigation (drainage system upgrades, etc.). Threshold — No threshold	— Proportion of measuring networks that return data for real-time natural disaster monitoring. — Interconnected sea level and GPS meters in operation (for monitoring and analyses along the coastline of the country). — Number of climate adaption/resilience projects supported.
G7: Information and communication Objectives: — Promote data-driven solutions for GHG emission reductions and low carbon data storage. — EU objective: Climate change mitigation	9.1 9.4 13.1	Criteria — Expenditures enabling storage, manipulation, management, movement, control, display, switching, interchange, transmission, or reception of diversity of data through data centres (below threshold no. 1 and 2 apply), including edge computing. — Expenditures enabling development and/or use of ICT solutions that are aimed at collecting, transmitting, storing data and at its modelling and use when these activities are exclusively aimed at the provision of data and analytics for decision making (by the public and private sector) enabling GHG emission reductions. Threshold	— Number of ICT infrastructure projects supported. — Average energy intensity of data centres. — Average carbon footprint of data storage. — Estimated reduced/avoided GHG emissions (tonnes CO_2e) per year.

and Climate change adaptation.		1 The data centre implements the European Code of Conduct for Data Centre Energy Efficiency. 2 Power Usage Effectiveness (PUE) < 1.5 is required.	

Blue Categories			
Green Bond Principles Project Categories / EU Taxonomy	UN SDGs Targets and indicators	Description Criteria & threshold	Impact indicators
B1: Clean vessels Objectives: — Promote energy transition in state-owned vessels, ferries and fisheries vessels. — EU objective: climate change mitigation.	7.2 9.1 13.2	Criteria — Expenditures related to any vessel using electric, hydrogen (below threshold 1 applies), biogas/landfill gas, or vessel using advanced biofuels (thresholds no. 2 - 4 apply) or renewable liquid and gaseous transport fuels of non-biological origin. — Infrastructure: any construction, expansion, equipment, and improvements of infrastructure supporting vessels as defined above. Threshold 1 Electricity use in hydrogen production must be aligned with the renewable energy criteria and thresholds in this framework. 2 Only rapeseed oil that has a valid certification from any of the voluntary schemes approved by the EU commission for biofuels is eligible. Other eligible feedstock is produced is listed in Part A of Annex IX of Directive (EU) 2018/2001. 3 Methane leakage from relevant facilities (e.g. for biogas production and storage, energy generation, digestate storage) is controlled by a monitoring plan. 4 In dedicated bio-waste treatment plants, bio-waste shall constitute a major share of the input feedstock (at least 70%, measured in weight, as an annual average). Co-digestion is eligible only with a minor share (up to 30% of the input feedstock) of advanced bioenergy feedstock listed in Annex IX of Directive (EU) 2018/2001. The digestate produced is used as fertilizer/soil improver – directly or after composting or any other treatment.	— Number of clean vessels and/or infrastructure projects supported (categorized e.g. electric, bio-LNG, etc.) per year. — Number and proportion of ferries in Iceland that run on eligible (under this framework) fuels. — Estimated reduced/avoided GHG emissions (tonnes CO_2e) per year.

B2: Pollution prevention and control Objectives: — Decrease local pollution and promote sustainable consumption and production modes. — EU objective: Pollution prevention.	12.5 14.1 14.2	Criteria — Expenditures supporting reduction of air emissions and greenhouse gas control including tools for surveillance. — Construction and operation of interconnections that transport electricity between the Iceland's national grid (hydropower and geothermal power supply) and vessels or onshore processing facilities. — Expenditures related waste prevention/recycling and to solution to fully utilize all by-products from the fish processing to produce value-added products for human consumption and/or other closing the loop on creating zero waste from production. Threshold — No threshold	— Absolute in tons or % reduction in local pollutants per year. — GWh of electricity provided through harbour electrification. — GWh of electricity provided to onshore processing facilities. — Number of ports where high voltage connection is available. — Estimated reduced/avoided. GHG emissions (tons CO_2e) per year.
B3: Management of living natural resources Objectives: — Promote aquatic biodiversity and preservation of living aquatic natural resources. — EU objective: The sustainable use and protection of water and marine resources.	12.2 14.1 – 14.6	Criteria — Aquatic biodiversity conservation, including the protection of coastal, marine and watershed environments. — Equitable bioprospecting of marine species. — Protection of threatened habitats and species. — Conservation and restoration of coral reefs, mangroves, and seagrasses: avoided emissions and production of blue carbon. Threshold — No threshold	— Area (hectares) transformed, reclaimed, or protected. — Size (tons) of stock protected per species. — Proportion of fish stocks within biologically sustainable levels. — Percentage of sea area within territorial waters where the seabed has been mapped using multi-beam measurements. — Percentage of species within the territorial waters which are evaluated and published maximum yield advice for.

B4: Sustainable water and wastewater management Objectives: — Maintain sustainable water supply and improve wastewater management. — EU objective: The sustainable use and protection of water and marine resources.	6.1 14.1 14.2	Criteria — Water distribution: installation or upgrade of water efficient irrigation systems, construction, or upgrade of sustainable infrastructure for drinking water (including research or studies). — Wastewater management: installation or upgrade of wastewater infrastructure including transport, treatment, and disposal systems. — Expenditures related to construction or extension of wastewater systems including collection (sewer network) and treatment with no association with fossil fuel operations. Threshold — No threshold	— Annual absolute (gross) amount of wastewater treated, reused, or avoided before and after the project in m3/a and p.e./a and as %. — Annual volume of clean drinking water in m3/a supplied for human consumption. — Overall nationwide wastewater treatment ratio.

Social Categories			
Social Bond Principles Project Categories	UN SDGs Targets and indicators	Description Criteria & threshold	Impact indicators
S1: Access to essential services – education Objectives: — Ensure inclusive and equitable quality education and increasing the level of education in the country. Target population: — Undereducated. — People with disabilities. — Excluded and/or marginalized populations. — Students.	4.1 – 4.3 4.5 - 4.7 4.c	Criteria Extending the educational capacities, and improving the quality of the existing educational infrastructure, equipment, and services. With special focus on improving: — Level of literacy. — The number of students in technical and vocational studies. — Drop-out rate in upper secondary schools. — Education of pupils with other mother tongue than Icelandic. Special projects facilitating increased educational capacity in the event of extreme events (e.g. natural disaster, extreme weather events, public health disasters). Threshold — Building projects with a higher cost than ISK 500 m should receive a Green Building certification and a screening for climate risk and resilience should be included in the design.	— 4.1.1: Proportion of children and young people: (a) in grades 2/3; (b) at the end of primary; and (c) at the end of lower secondary achieving at least a minimum proficiency level in (i) reading and (ii) mathematics, by sex. — 4.5.1: Parity indices (female/male, rural/urban, bottom/top wealth quintile, and others such as disability status, as data become available), — 4.3.1: Participation rate of youth and adults in formal and non-formal education and training in the previous 12 months. — 4.4.1: Proportion of youth and adults with information and communications technology (ICT) skills, by type of skill). — Proportion of students finishing Bachelors' studies in three years.

S2: Access to essential services – healthcare Objectives: — Ensure healthy lives and promote well-being for all at all ages. Target populations: — Aging populations and vulnerable youth. — Underserved, owing to a lack of quality access to essential goods and services. — People with disabilities. — Excluded and/or marginalised populations, and communities.	3.3 3.4 3.5 3.8	Criteria Extending healthcare capacities and improving the quality of the existing healthcare facilities, infrastructure, and services. With a special focus on improving such healthcare for: — Children, elderly and disability care. — Supply of and access to resources and services by region. — Treatment of chronic lifestyle diseases. — Supply of new drugs. — Recruitment of healthcare personnel. Special projects facilitating increased healthcare capacity in the event of extreme events (e.g. natural disaster, extreme weather events, public health disasters). Threshold — Building projects with a higher cost than ISK 500 m should receive a Green Building certification and a screening for climate risk and resilience should be included in the design.	— Parity indices (female/male, rural/urban, bottom/top wealth quintile and others such as disability status, as data become available) for percentage of people living in good health, and percentage of people living with limitations in daily life due to health. — Emergency call rate in rural areas there which is the response time under 20 minutes. — Proportion of people given access special care residence within 90 days of application. — Average doctor waiting time. — Percentage of people who feel they need services but refuse mental health services due to costs. — Number of nursing rooms and number of day care rooms.

S3: Access to essential services – social inclusion — Objectives: Provide access to essential services for population groups at risk of social exclusion. Target populations: — People with disabilities. — Underserved, owing to a lack of quality access to essential goods and services. — Excluded and/or marginalised populations, and communities. — Migrants and/or displaced persons. — Aging populations and vulnerable youth. — Women and/or sexual and gender minorities.	1.2 1.4 1.b 5.4 5.5 10.2 10.3 10.4 10.7 10b	Criteria Extending social inclusion, and improving the quality of the existing welfare facilities, infrastructure, and services. With a special focus on improving: — The position of people regardless of origin, nationality, religion or non-religious convictions, disability, restricted work capacity, age, sexual orientation, or gender identity. — Opportunities and conditions for immigrants to become active participants in Icelandic society. — The proportion of fathers taking paternity leave. Humanitarian aid with special emphasis on sustainable development, renewable energy, health, education, equality, and human rights. Special emphasis on transferring Icelandic knowledge to developing countries. Special projects facilitating increased welfare capacity in the event of extreme events (e.g. natural disaster, extreme weather events, public health disasters). Threshold — Building projects with a higher cost than ISK 500 m should receive a Green Building certification and a screening for climate risk and resilience should be included in the design.	— 1.2.1: Proportion of population living below the national poverty line, by sex and age. — 10.2.1 Proportion of people living below 50 per cent of median income, by sex, age, and persons with disabilities. — International protection granted by nationality, type of protection, sex and age — 10.b.1: Total resource flows for development, by recipient and donor countries and type of flow (e.g. official development assistance, foreign direct investment and other flows). — 5.5.2: Proportion of women in managerial positions. — Ratio of children in households with incomes below the low-income threshold according to Statistics Iceland's living standards survey. — Length of paternity leave and distribution between mothers and fathers.

S4: Affordable housing and infrastructure — Objectives: Provide access to affordable housing and infrastructure to vulnerable population. Target populations: — Living below the poverty line. — Aging populations and vulnerable youth. — Migrants and/or displaced persons. — Underserved, owing to a lack of quality access to essential goods and services.	10.2 10.3 11.1 11.2 11.3	Criteria Extending the affordable housing and infrastructure capacities, and improving the quality of the existing affordable facilities and infrastructure: With special focus on improving: — The supply of housing suitable for people with low income and assets, elderly and the disabled. — The situation of disadvantaged people, with particular emphasis on children. — The refugee housing issues. — Challenges for rural areas, such as communications and public transport. Threshold — Building projects with a higher cost than ISK 500 m should receive a Green Building certification and a screening for climate risk and resilience should be included in the design.	— 11.1.1: Proportion of urban population living in slums, informal settlements, or inadequate housing. — Percentage of population with burdensome housing costs are defined as housing costs amounting to a.m. 40% of household disposable income. — 11.2.1 Proportion of population that has convenient access to public transport, by sex, age, and persons with disabilities. — 11.3.1 Ratio of land consumption rate to population growth rate.

S5: Employment generation and socioeconomic advancement and empowerment — Objectives: Support employment generation and socio-economic advancement and empowerment. Target populations: — Undereducated. — Unemployed. — Excluded and/or marginalised populations and/or communities. — People with disabilities.	4.7 8.1 8.5 8.6 8.8 10.2	Criteria Extending the capacity of employment generation and retention initiatives: With special focus on improving: — Long-term unemployment. — Support options for people with limited work capacity. — Productivity with a skilled workforce. Special projects facilitating increased employment generation and retention initiatives capacity in the event of extreme events (e.g. natural disaster, extreme weather events, public health disasters). Threshold — No threshold	— 8.5.2: Unemployment rate, by sex, age, and persons with disabilities. — 8.5.1: Average hourly earnings of female and male employees, by occupation, age, and persons with disabilities. — Proportion of people with 75% disability that receive independent income. — Proportion of youth (aged 15-24 years) not in education, employment, or training.

2.3 Governance: project evaluation and selection

The evaluation and selection of Eligible Expenditures is the responsibility of the inter-ministerial Sustainability Financing Committee and will be performed on at least an annual basis. The Committee is headed by the Ministry of Finance and Economic Affairs and consists of representatives from, at least, the Ministry of Environment and Natural Resources, Ministry of Industries and Innovation, and Ministry of Social Affairs or equivalent ministries if names and/or responsibilities change. Technical expertise will be considered in appointment of persons to the Committee. Committee decisions shall be unanimous. Other individuals recognized as subject matter experts, internal and/or external, may be consulted.

The Sustainability Committee is responsible for the implementation and maintenance of this Sustainable Financing Framework, evaluation, and selection of Eligible Expenditures, allocation and management of proceeds, and reporting.

The Ministry of Finance coordinates the process of project selection with individual Ministries and prepares an initial list of potential Eligible Expenditures by identifying expenditures in the Government Budget.

The Sustainability Committee reviews the feasibility of including the expenditures in a Sustainability Registry, verifies whether the expenditures comply with the criteria and thresholds in this Framework, and approves the selected expenditures as Eligible Expenditures.

2.4 Management of proceeds

The Ministry of Finance will establish and maintain a Sustainability Registry for the purposes of transparency and recording funding and expenditures as well as serving as the basis for the Government's Allocation and Impact reporting.

The allocation of the proceeds of the issued Sustainability Instruments to Eligible Expenditures will be reviewed and approved by the Sustainability Committee on, at least an annual basis, until full allocation. In case that an Eligible Project no longer meets the project category's requirements, it will be removed, and the expenditures of the year will be excluded. In case of legal controversies associated to an Eligible Project the Sustainability Committee will assess, in collaboration with relevant Ministries, if the Eligible Project is to be maintained or removed from the Sustainability Registry.

The Government intends to fully allocate the proceeds from any financing within three following calendar years from the year of financing. The Government strives to achieve a level of allocation for the Eligible Projects which matches or exceeds the balance of net proceeds from its outstanding Sustainability Instruments. Unallocated net proceeds may temporarily be placed in cash, cash equivalents, or other liquid marketable instruments, preferably other financial instruments presenting criteria similar or equivalent to the categories of the Sustainability Instruments, such as green bonds or green deposit accounts.

2.5 Reporting & Transparency

The Government will provide an annual report in English to its investors and other stakeholders in line with its general annual reporting cycle until net proceeds are fully allocated. The reporting will be public and consist of both allocation and impact reporting per Sustainability Instrument.

The reporting will be conducted according to international guidelines and protocols[12] at an aggregated level and on a project category basis. The Ministry of Finance will be responsible for preparing the report.

Allocation reporting	Impact reporting[13]
• Summary of financing activities • Types of financing instruments • Outstanding amounts of instruments • Balance of unallocated proceeds • New vs. refinancing ratio • Eligible Expenditure category allocation • An example list of funded projects	• Methodologies • Impact indicator results

2.6 External roles

To ensure alignment with international guidelines and best practices an independent pre-issuance second-party opinion has been obtained on this Framework from CICERO Shades of Green. This opinion is publicly available.

The Government intends to request its Independent Auditor to provide an independent verification for the allocation of the proceeds of issued Sustainability Instruments to Eligible Expenditures in line with the criteria of this

[12] This may include alignment with: Multilateral Development Banks's Proposal for a harmonized framework for impact reporting on Renewable Energy/Energy Efficiency projects (2015), International Capital Markets Association's Handbook on Harmonized Framework for Impact Reporting (2021), Nordic public sector green bond issuers' Position Paper on Green Bonds Impact Reporting (2020), and the EU Green Bond Standard.

[13] The impact assessment is provided subject to the availability of information and baseline data.

Framework. Furthermore, the Government may engage an independent third party to consult, prepare, verify, or confirm its post-issuance Impact reporting.

These documents will be publicly available on the Government's website: www.stjornarradid.is

Disclaimer

Potential investors should be aware that there is currently no clearly defined definition (legal, regulatory or otherwise) of, nor clear market consensus as to what constitutes, a 'green', 'environmental' or 'sustainable' or an equivalently labelled project or as to what precise attributes are required for a particular project to be defined as 'green', 'environmental' or 'sustainable' or such other equivalent label nor can any assurance be given that such a clear definition or consensus will develop over time. Accordingly, no assurance is or can be given to investors that any projects or uses the subject of, or related to, any Eligible Expenditures will meet any or all investor expectations regarding such 'green', 'environmental', 'sustainable' or other equivalently-labelled performance objectives (including Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment) or that any adverse environmental, social and/or other impacts will not occur during the implementation of any projects or uses the subject of, or related to, any Eligible Expenditures. Furthermore, no assurance is given that the use of proceeds from any Sustainability Instruments for any Eligible Expenditures will satisfy, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates, in particular with regard to any direct or indirect environmental, sustainability or social impact of any projects or uses, the subject of or related to, any Eligible Expenditures. No assurance or representation is given as to the suitability or reliability for any purpose whatsoever of any opinion or certification of any third party (whether solicited or unsolicited) which may be made available in connection with the issue of any Sustainability Instruments and in particular with any Eligible Expenditures to fulfil any environmental, sustainability, social and/or other criteria. Any such opinion or certification is not, nor should be deemed to be, a recommendation to buy, sell or hold any such Sustainability Instruments. Any such opinion or certification is only current as of the date that opinion was initially issued. Potential investors must determine for themselves the relevance of any such opinion or certification and/or the information contained therein and/or the provider of such opinion or certification for the purpose of any investment in such Sustainability Instruments.

In the event that any Sustainability Instruments are listed or admitted to trading on any dedicated "green", "environmental", "sustainable" or other equivalently-labelled segment of any stock exchange or securities market (whether or not regulated), no representation or assurance is given that such listing or admission satisfies, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such

investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates, in particular with regard to any direct or indirect environmental, sustainability or social impact of any projects or uses, the subject of or related to, any Eligible Expenditures. Furthermore, it should be noted that the criteria for any such listings or admission to trading may vary from one stock exchange or securities market to another. Nor is any representation or assurance given or made that any such listing or admission to trading will be obtained in respect of any such Sustainability Instruments or, if obtained, that any such listing or admission to trading will be maintained during the life of the Sustainability Instruments. While it is the intention to apply the proceeds of any Sustainability Instruments so specified for Eligible Expenditures, there can be no assurance that the relevant expenditure(s) or use(s) the subject of, or related to, any Eligible Expenditures will be capable of being implemented in or substantially in such manner and/or accordance with any timing schedule and that accordingly such proceeds will be totally or partially disbursed for such Eligible Expenditures. Nor can there be any assurance that such Eligible Expenditures will be completed within any specified period or at all or with the results or outcome (whether or not related to the environment) as originally expected or anticipated. Any such event or failure will not constitute an Event of Default under the Sustainability Instruments. Any such event or failure to apply the proceeds of any issue of Sustainability Instruments for any Eligible Expenditures as aforesaid and/or withdrawal of any such opinion or certification or any such opinion or certification attesting the non-compliance in whole or in part with any matters for which such opinion or certification is opining or certifying on and/or any such Sustainability Instruments no longer being listed or admitted to trading on any stock exchange or securities market as aforesaid may have a material adverse effect on the value of such Sustainability Instruments and also potentially the value of any other Sustainability Instruments which are intended to finance Environmental Projects and/or result in adverse consequences for certain investors with portfolio mandates to invest in securities to be used for a particular purpose.