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CORRIGENDUM

This document corrects document SWD(2021) 242 final of 7 September 2021

- Page 1: updated hyperlinks under footnotes 4 and 5
- Page 7: 'intervention field 045' corrected to 'intervention field 026'
- Page 7: 'intervention field 045bis' corrected to 'intervention field 026bis'
- Page 8: reference to 'Section 3.1.2.1' corrected to 'Section 3.2'
- Page 10: removed intervention fields 039, 041 and 042bis
- Page 11: removed intervention field 072
- Page 15: reference to section '3.1.1' changed to '3.1'
- Page 17: 'Table 3' changed to 'Table 4'
- Page 17: in footnote 25 'CPIs' changed to 'CIs'
- Page 18: in the title of the table 'CPIs' changed to 'CIs'

The text shall read as follows:

COMMISSION STAFF WORKING DOCUMENT

Next Generation EU - Green Bond Framework

NextGenerationEU – Green Bond Framework

PART I – BACKGROUND

1.1 The European Union (EU)

The EU is a supranational entity currently composed of 27 Member States[1]. It was established by the Treaty of Rome (1957) to bring about the political and economic integration of Europe after World War II. The Treaty of Rome was modified and complemented, over time, by the Single European Act, the various Accession Treaties, and the Treaties of Maastricht, Amsterdam, Nice and Lisbon. What began as a purely economic union has evolved into an organisation covering a wide range of policy areas – from climate, environment and health to external relations and security, justice and migration.
The EU has legal personality and possesses, in each of the Member States, the most extensive legal capacity accorded to legal persons constituted in that State.

1.2 The EU as a borrower

The EU enjoys a strong credit rating with major established rating agencies[2]. It operates four loan programmes to provide financial assistance to Member States and non-EU countries experiencing financial difficulties: the European Financial Stabilisation Mechanism[3], Balance of Payments[4], Macro-Financial Assistance[5] and most recently temporary support to mitigate unemployment risks in an emergency (SURE)[6].
Building on this experience, the EU is currently implementing a new instrument, NextGenerationEU, to tackle the adverse economic consequences of the COVID-19 crisis or the immediate funding needs to avoid a re-emergence of that crisis.

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[1] Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain and Sweden (see https://europa.eu/european-union/about-eu/countries_en)

[2] https://ec.europa.eu/info/strategy/eu-budget/eu-borrower/eus-credit-rating_en

[3] European Financial Stabilisation Mechanism (EFSM): Under Council Regulation (EU) 407/2010 of 11 May 2010 (as amended), EU financial assistance may be granted (in the form of a loan or a credit line) 'to a Member State in difficulties or seriously threatened with severe difficulties caused by exceptional occurrences beyond its control' (see https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32010R0407)

[4] Balance of Payments programme (BoP): Under Council Regulation (EU) 332/2002 of 18 February 2002 (as amended), the EU may assist Member States outside the euro area which are experiencing, in difficulties or are seriously threatened with, difficulties as regards in their balance of payments (see https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32002R0332)

[5] The EU may assist non-EU countries experiencing a balance-of-payment crisis with grants and/or loans on the basis of individual decisions of the European Parliament and of the Council. The instrument is designed to address exceptional external financing needs of countries that are geographically, economically and politically close to the EU (see https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/international-economic-relations/macro-financial-assistance-mfa-non-eu-partner-countries_en)

[6] Council Regulation (EU) 2020/672 of 19 May 2020 on the establishment of a European instrument for temporary support to mitigate unemployment risks in an emergency (SURE) following the COVID-19 outbreak (see https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32020R0672)

All five programmes are funded through bonds issued on the capital markets. To this end, the European Commission is empowered to contract borrowings on the capital markets or with financial institutions on behalf of the EU.

1.3 The European Green Deal – EU climate and environment focus and sustainable policies

The EU is committed to the 2015 Paris Agreement and Agenda 2030[7], which also provides a direction to EU policy and integrates the UN Sustainable Development Goals into its work. While the Treaties[8] already define the environmental challenge as a core element of EU action, the Commission has been striving to do more. This is why it made sustainable development its first priority for the 2019-2024 period[9].

In March 2018, the Commission put forward its action plan on financing sustainable growth[10]. Part of this plan involves establishing an EU classification system for sustainable activities (the 'EU Taxonomy') and a Standard for European Green Bonds. The aim is to steer private investment towards environmentally sustainable projects. The Commission proposal for a Taxonomy regulation was adopted in June 2020[11], while the legislative proposal for a voluntary Standard for European Green Bonds[12] was adopted and published by the Commission in July 2021.

In December 2019, the Commission adopted the European Green Deal Communication. It underpins the NextGenerationEU Recovery Plan, which promotes investments in key green sectors needed to build resilience and create jobs and growth in a fair and inclusive society. Climate action is a cornerstone of the European Green Deal and a priority objective of the 8th Environment Action Programme[13]. Among the other main components of the European Green Deal is the European Green Deal Investment Plan. This aims to mobilise EUR 1 trillion of sustainable investment over the next decade, ensure a just transition for regions and workers affected by the green transition, as well as establish a circular economy action plan, a biodiversity strategy and a zero pollution action plan. The European Green Deal has also led to the Commission proposal for the first European Climate Law[14]. The European

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[7] EU approach to sustainable development | European Commission (europa.eu)

[8] Article 191 Treaty on the Functioning of the European Union (TFEU).

[9] see https://ec.europa.eu/commission/sites/beta-political/files/political-guidelines-next-commission_en.pdf

[10] see https://ec.europa.eu/info/publications/sustainable-finance-renewed-strategy_en

[11] 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, and amending Regulation (EU) 2019/2088.

[12] Proposal for a Regulation of the European Parliament and of the Council on European green bonds (COM(2021) 391 final), 6.7.2021 (see https://ec.europa.eu/finance/docs/law/210704-proposal-green-bonds-standard_en.pdf).

[13] Based on Article 192 (3) TFEU, environment action programmes have guided the development of EU environment policy since the early 1970s. The 8th Environment Action Programme decision sets out a general action programme for the period up to 31 December 2030. It lays down priority objectives, identifies enabling conditions for achieving them and sets a framework to measure whether the EU and its Member States are on track to meet those priority objectives.

[14] Proposal for a Regulation of the European parliament and of the Council establishing the framework for achieving climate neutrality and amending Regulation (EU) 2018/1999 (European Climate Law) COM/2020/80 final, (see https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52020PC0080)

Parliament and the Council of the EU ('the Council') have adopted this regulation in 2021 to write into law the goal of climate neutrality by 2050.

In July 2020, the European Council confirmed its ambitions towards climate policy and the institutions agreed on an overall target of at least 30% of the total amount of the Union budget and NextGenerationEU expenditures supporting climate objectives. This translates to EUR 605 billion (current prices) in expected climate spending, which is almost three times of what was spent from the 2014-2020 EU budget.

In July 2021, the European Commission adopted the 'Fit for 55' package of proposals to make the EU's climate, energy, land use, transport and taxation policies fit for reducing net greenhouse gas emissions by at least 55% by 2030, compared to 1990 levels[15]. Achieving this emission reduction in the next decade is crucial to Europe becoming the world's first climate-neutral continent by 2050 and delivering on the European Green Deal. With the proposals, the Commission presented the legislative tools to deliver on the targets agreed in the European Climate Law and fundamentally transform the Union's economy and society for a fair, green and prosperous future.

1.4 NextGenerationEU

In 2020, COVID-19 shook Europe and the world to its core. It tested our healthcare and welfare systems, our societies, economies, and our way of living and working together. To protect lives and livelihoods, repair the single market and build a lasting and prosperous recovery, the Commission proposed a new recovery instrument in May 2020: NextGenerationEU (NGEU).

NGEU provides close to EUR 807 billion (current prices) of reforms and investments, in part through the Recovery and Resilience Facility (RRF)[16] as well as targeted reinforcements to the multiannual financial framework for 2021-2027. This brings the total financial firepower of the Union budget for the 2021-2027 period to EUR 2.018 trillion (current prices).

NGEU raises money by temporarily lifting the own resources ceiling to 2.00% of EU gross national income. This allows the EU to use its strong credit rating to borrow EUR 807 billion on the financial markets (current prices). This additional funding is channelled towards EU programmes and repaid over a

'The recovery plan turns the immense challenge we face into an opportunity, not only by supporting the recovery but also by investing in our future: the European Green Deal and digitalisation will boost jobs and growth, the resilience of our societies and the health of our environment. This is Europe's moment. Our willingness to act must live up to the challenges we are all facing. With Next Generation EU we are providing an ambitious answer.'

Commission President Ursula von der Leyen

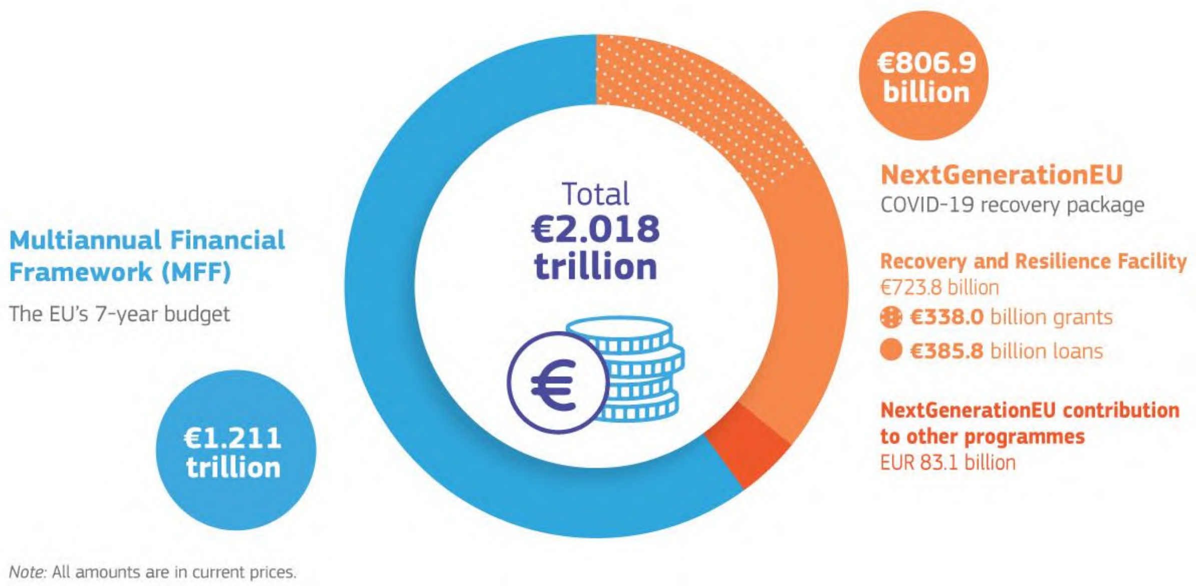
[15] Communication from the Commission to the European parliament, the Council, the European Economic and Social Committee and the Committee of the Regions - 'Fit for 55': delivering the EU's 2030 Climate Target on the way to climate neutrality COM(2021) 550 final

[16] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility, OJ L 57, 18.2.2021, p. 17

long period across future EU budgets – from 2028 through to 2058.

The money raised will be invested across several programmes (current prices):

Figure 1: The NextGenerationEU package



A key feature of repaying NGEU monies borrowed on the capital markets is the proposed change in revenues by the Commission. Among other initiatives, it intends to introduce a carbon border adjustment mechanism[17] as well as strengthen the EU Emissions Trading System[18]. Both proposals, which are still subject to the approval of co-legislators, aim to incentivise companies to reduce their greenhouse gas emissions and thereby contribute to goals set in the European Green Deal.

1.4.1 NGEU green bonds

The EU has been at the forefront of sustainable finance and is committed to developing further the European sustainable finance markets. This commitment is already evident in the Commission's role as regulator (EU Taxonomy), policymaker (Green Deal, sustainable finance action plan) and as a social bond issuer under the SURE programme. To further live up to this commitment, and in line with its efforts to direct capital flows to more sustainable investments[19], the Commission aims to finance 30% of NGEU through green bonds. It therefore aims to give the green bond market another push, inspiring other issuers and providing investors with more green diversification options.

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[17] A newly proposed mechanism, which aims to counteract carbon leakage by putting a carbon price on imports of certain goods from outside the EU.

[18] EU Emissions Trading System (EU ETS) | Climate Action (europa.eu)

[19] 2018 Action Plan: Financing Sustainable Growth (see https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52018DC0097)

PART II – NGEU GOVERNING STRUCTURE

NGEU spending can, as shown in Figure 1, be broadly categorised along two lines: RRF spending and EU budget spending. Close to 90% of NGEU will be spent under the RRF generating a robust volume of green expenditures, which will be financed from NGEU green bonds. Its governing structure is outlined below.

2.1 The Recovery and Resilience Facility

Under the RRF, Member States submit national recovery and resilience plans (RRPs). These contain information about the planned reforms and investments to be implemented until 2026. RRPs are structured around several components that list the respective reforms and investment as one broad investment field (e.g. climate mitigation measures). Investments and reforms themselves consist of groups or portfolios of individual projects related to the same economic activities (e.g. a renovation wave for public buildings) and indicate the expected costs at reform/investment level. The Commission evaluates each RRP based on 11 assessment criteria structured in the four dimensions of relevance, effectiveness, efficiency and coherence.

Table 1: RRP assessment criteria

Relevance	Effectiveness	Efficiency	Coherence
• Comprehensive and balanced response	• Lasting impact	• Cost justification	• Coherence of implementation
• Address all or a significant subset of European Semester recommendations	• Monitoring and implementation	• Prevent, detect and correct corruption, fraud and conflicts of interests	
• Contribution to strengthening the growth potential, job creation, and economic, social and institutional resilience			
• Do no significant harm to environmental objectives			
• Contribution to the green transition			
• Contribution to the digital transition			

The Commission, during its assessment process, examines each plan thoroughly to check their compliance with the 11 assessment criteria. The Commission assesses the recovery and resilience plan or, where applicable, the update to that plan submitted by the Member State[20] within two months of the official submission, and makes a proposal for a Council implementing decision. When carrying out its assessment, the Commission acts in close cooperation with the Member State concerned. The Commission may make observations or seek additional information. During the assessment the Member State concerned shall provide the requested additional information and may revise its recovery and resilience plan if needed, including after its official submission. The Member State concerned and the Commission may agree to extend the deadline for assessment by a reasonable period if necessary. It is important to underscore that the Commission has already been in intense dialogue with each Member State to discuss its draft plan prior to its submission.

The Commission will not positively assess an RRP if it considers that the 11 assessment criteria have not been fulfilled to a satisfactory degree. In its dialogues with Member States during and after submission, the Commission has provided feedback to Member States in order to be able to positively assess a plan. Among the areas that were discussed, of particular interest for green bond issuances are:

- the fulfilment of the 'do no significant harm' principle for every reform and investment;
- the plausibility and reasonability of cost estimates;
- the implementation of adequate control systems;
- the support to the green transition, including in terms of reaching the climate target, and applying appropriate climate coefficients to individual reforms and investments (see Annex).

Commission assessments of RRPs need to be approved by the Council of the European Union ('the Council'). The Commission adopts a proposal for a Council Implementing Decision (CID) detailing its assessment of the RRP. The Council can approve or reject the proposed assessment, but it cannot make any substantial amendments for elements included in the plans. The discretion of the Council to amend is limited to the elements that go beyond the recovery and resilience plan as such, notably elements of the Council Implementing Decision that are not directly part of the recovery and resilience plan. In case the Commission opposes such changes, the Council needs unanimity, which includes the Member State concerned.

In the RRP, each reform and investment is linked to qualitative milestones and quantitative targets that represent steps towards implementing these reforms and investments. The RRPs, including the reforms and investments as well as the milestones and targets, are subject to Commission and Council approval before a plan can be implemented. The Commission can also request changes to milestones and targets during the approval process.

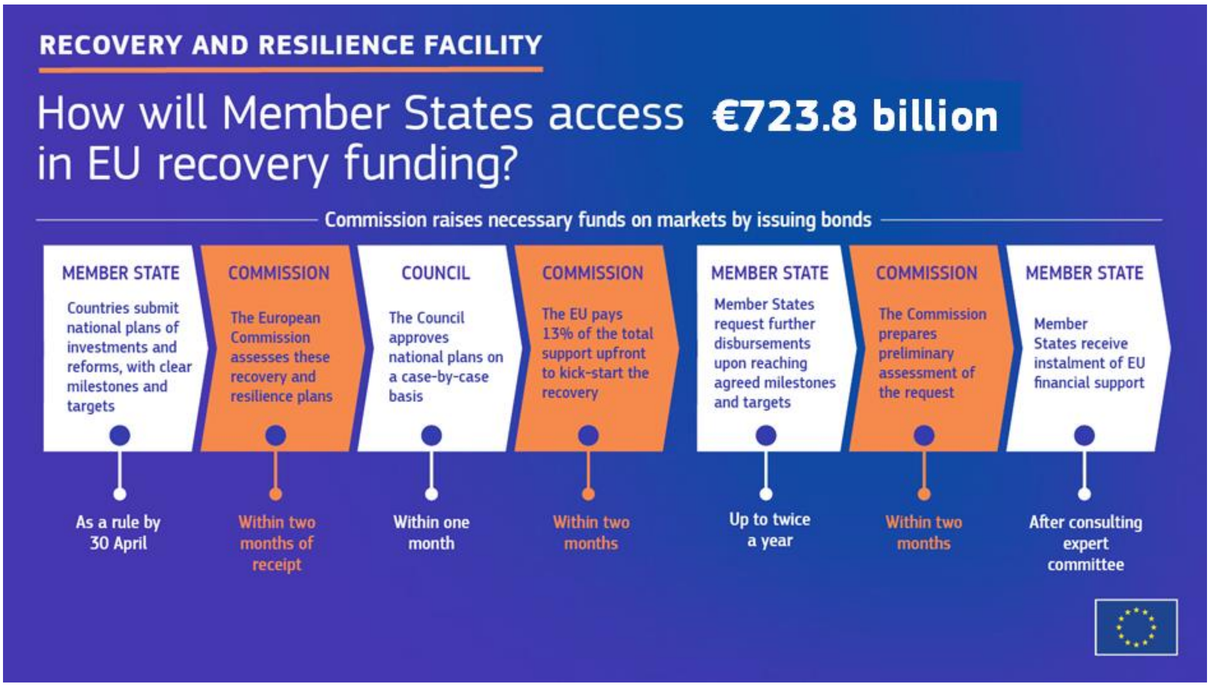
Payments tranches under the RRF, with the exception of 13% pre-financing, are made only if these milestones and targets have been met. The amount corresponds to the satisfactory fulfilment of the milestones and targets associated to the specific payment request. Member States can make payment requests up to twice a year. If a milestone or target is not

[20] In accordance with Article 18(1) or 18(2) of the Regulation establishing the Recovery and Resilience Facility

satisfactorily fulfilled, a partial payment can be made and the remainder of the foreseen payment amount suspended. If, after 6 months, the milestone or target is still not fulfilled, the Commission can reduce the financial contribution.

The actual cost of a reform or investment, while important for the overall amount assigned to Member States, is not taken into account for individual payments. Financing is therefore not linked to actual costs but to performance, with actual expenditure being able to exceed or undershoot the estimated costs in the RRP. In addition, payments flow into Member States' budgets – this means that the payments only finance investments indirectly, rather than directly, as this falls under the responsibility of the respective Member State.

Figure 2: Overview of the RRP approval process



2.2 Tracking climate expenditure in national RRPs

In the RRPs, Member States provide details on how the planned reforms and investments are consistent with their National Energy and Climate Plans, how they contribute to the green transition, and to what extent the plan will help achieve the 2030 climate target and the 2050 climate neutrality target. The explanation is done at RRP level. In addition, they are required to allocate at least 37% of the total financial allocation of each RRP towards climate expenditure.

Investments and reforms are tagged as climate-relevant using the EU climate coefficient methodology defined in Annex VI of the RRF Regulation[21]. The coefficients assign a 100%, 40% or 0% climate relevance to individual reforms and investments. Crucially, several coefficients under the RRF incorporate aspects of the EU Taxonomy's technical screening criteria, where this has been determined to be feasible. Intervention fields that fulfil these

[21] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32021R0241

criteria receive a higher climate coefficient. For example, investments in building renovation will generally receive a 40% climate coefficient (intervention field 026). However, if additional Taxonomy-aligned criteria are met, in this case at least 30% reduction in energy use, the investment will receive a 100% climate coefficient (intervention field 026bis).

In addition to the above cases, further coefficients do not include technical screening criteria outright but are already aligned with the EU Taxonomy technical screening criteria by default. A third group of coefficients is not fully aligned to the technical screening criteria of the EU Taxonomy but can nevertheless be considered to relate to interventions which make a substantive effort towards climate adaptation or mitigation, thus also warranting either a 40% or a 100% climate coefficient.

When submitting payment requests after reaching their target, Member States will, in some cases (when provided by the Council Implementing Decision), have to show evidence to the Commission that investments, which have received a climate coefficient that includes technical screening criteria, actually did fulfil these criteria in their implementation.

On top of the climate coefficient, investments and reforms also have an environmental coefficient. In some cases, this may alter the eligibility for green bond financing. Section 3.2 explains this in more detail.

The RRF is geared towards reform. As a result, if Member States and the Commission agree, they may increase a climate coefficient for a specific investment if its impact on the climate objectives is significantly increased through accompanying reforms – up to 3% of the total allocation of the RRP.

In addition, for reforms and investments not covered by existing climate coefficients of the methodology in Annex VI of the RRF Regulation but that still produce beneficial effects for either climate mitigation or adaptation, Member States may suggest an appropriate climate coefficient. Both cases will be subject to a case-by-case assessment by the Commission. This takes into account the possible contribution towards the 2030 climate and energy targets, as well as to the climate neutrality target by 2050 and other environmental goals**.** The Annex to this framework contains additional information on the coefficient methodology and the intervention fields.

Compliance with the 'do no significant harm' principle based on the environmental objectives of the EU Taxonomy Regulation (Article 17) is mandatory for all reforms and investments. This is in line with the RRF Regulation and is explained in Commission Notice C(2021) 1054 final[22]. Member States will need to explain how they comply with this requirement for each measure in their RRPs. This ensures that selected investments do not cause significant harm to any of the environmental objectives. For measures financed through green bonds, this means that they will be promoting one or more environmental objective while simultaneously not significantly harming another environmental objective, thereby justifying their classification as 'green'.

[22] https://ec.europa.eu/info/sites/info/files/c2021_1054_en.pdf

PART III – NGEU GREEN BOND FRAMEWORK

The NGEU green bond programme will result in the EU becoming one of the largest green bond issuers in the world. The Commission is aware of the responsibility that comes with this status, including in terms of setting an example. It is therefore important to ensure consistency with the EU Taxonomy and the upcoming Standard for European Green Bonds where feasible, based on the information available.

While aligning as much as feasible with the upcoming Standard for European Green Bonds, the framework for green bonds issued under NGEU will be based on the International Capital Market Association (ICMA) green bond principles.

NGEU green bonds will finance the green investments and reforms in the Member States' RRPs. After the plans have been approved, they are largely fixed and changes, while possible, must go through the same approval process as described above and will be limited in scope. Most plans were submitted in April or May 2021. Meanwhile, the Commission's legislative proposal for a voluntary Standard for European Green Bonds has been adopted by the Commission in July 2021 and will only enter into force at a later stage, after adoption by the European Parliament and the Council. By then, the RRPs will be finalised and their implementation will have started.

Given this discrepancy in timeframes, the EU institutions agreed to act early and introduce parts of the EU Taxonomy into the rules governing the RRF (see Section 2.2). In this way, the criteria for green spending under the RRF are aligned as much as feasible with the EU Taxonomy, which has led to a significant number of intervention fields in the EU climate coefficients being in line with the EU Taxonomy, even though some differences remain. The new methodology has also provided an incentive to Member States to implement Taxonomy-compliant measures through their national plans.

The green bond framework for NGEU green bond issuances, outlined below, will be in line with the market-based green bond principles as published by the ICMA.

The framework includes provisions in respect of the following components:

1. Use of proceeds;
2. Process for expenditure evaluation and investment selection;
3. Management of proceeds;
4. Reporting.

3.1 Use of proceeds

NGEU green bonds will finance and refinance eligible green expenditure. This is defined as climate-relevant reforms and investments under the RRF based on both the EU climate coefficient methodology and compliance with the 'do no significant harm' principle (DNSH).

Reforms and investments financed by the RRF, including green ones, are listed in the Council Implementing Decisions approving the assessment of the national RRPs. The expected allocation of proceeds to each of the defined categories below will be determined *ex ante* based on the description of the measures in the national RRPs.

Table 2 provides an overview of the eligible green expenditure categories. Eligible green expenditure is also mapped to the relevant UN Sustainable Development Goals (SDGs).

Table 2: Use of Proceeds

Expenditure category	Definition of green expenditure & example of projects	European environmental objectives	Intervention fields Annex VI of RRF regulation	Expenditure category & Sustainable Development Goal mapping
Research and innovation activities supporting the green transition	Research and innovation processes, technology transfer and cooperation between enterprises focusing on the low carbon or circular economy, resilience and adaptation to climate change	All objectives	022; 023	**Green transition – R&D** 8 DECENT WORK AND ECONOMIC GROWTH 11 SUSTAINABLE CITIES AND COMMUNITIES 12 RESPONSIBLE CONSUMPTION AND PRODUCTION
Digital technologies supporting the green transition	Digitalisation or ICT infrastructure leading to reduction in greenhouse gas emissions	Climate change mitigation	010ter; 011bis; 055bis	**Green transition – Digital technologies** 8 DECENT WORK AND ECONOMIC GROWTH 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
Energy efficiency	Energy efficiency construction, improvements and renovation	Climate change mitigation	024; 024bis; 024ter; 025; 025bis; 025ter; 026; 026bis	**Energy efficiency** 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 11 SUSTAINABLE CITIES AND COMMUNITIES
Clean energy and network	Low or zero-emission energy generation (wind, solar, marine, biomass, other)	Climate change mitigation	028; 029; 030; 030bis; 031; 032; 033; 034; 034bis	**Clean energy** 7 AFFORDABLE AND CLEAN ENERGY 13 CLIMATE ACTION
Climate change adaptation	Adaptation to and prevention of risks of climate change, e.g. storms, drought, fires, etc.	Climate change adaptation	035; 036; 037; 138	**Climate change adaptation** 13 CLIMATE ACTION
Water & waste management	Provisioning of clean water and environmental and water protection through appropriate wastewater and waste prevention, minimisation, sorting, reuse and recycling measures. Use of recycled raw materials. Rehabilitation of industrial sites	Sustainable use and protection of water and marine resources Transition to a circular economy, waste prevention and recycling	039bis; 040; 041bis; 042; 044; 045bis; 046bis.	**Water supply & waste** 6 CLEAN WATER AND SANITATION 11 SUSTAINABLE CITIES AND COMMUNITIES 12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Clean transport & infrastructure	Investing in low carbon transportation or in public transportation systems and infrastructure to significantly reduce the carbon emission of transportation systems	Climate change mitigation	063bis; 064; 065; 066; 066bis; 067; 068; 069; 069bis; 070; 071; 072bis; 073; 074; 075; 076bis; 077; 078; 079; 080bis; 082bis; 084bis	**Clean transport & infrastructure**
Nature protection, rehabilitation and biodiversity	Green infrastructure, protection of Natura 2000 sites	The protection and restoration of biodiversity and ecosystems	049; 050	**Nature protection, rehabilitation and biodiversity**
Other	The category largely contains enabling activities, which serve to support the green transition and measures under other categories and to indirectly lead to GHG emission reductions and/or adaptation measures, such as support to environmentally friendly production processes or contributing to green skills and jobs and the green economy. Air quality and noise reduction is included in addition.	N/A	027; 047; 047bis; 048; 01.	**Other**

3.2 Process for expenditure evaluation and investment selection

The process of expenditure evaluation and investment selection for NGEU green bonds is specific to the RRF, in that it features a clear demarcation from the entity raising the funds (the EU) and the entities responsible for the actual implementation of the investments and reforms (the Member States). The Commission ensures during its assessment that sufficient eligible green expenditure is included in every RRP through its assessment mandate. This means that, at the level of each RRP, the Commission will confirm compliance with the 37% climate expenditure minimum target (floor). The Commission will not positively assess a plan that does not achieve this target.

Sections 2.1 and 2.2 outline the processes for RRP submission and the tagging of climate-related expenditure. Eligibility for expenditure in the RRPs to be financed through NGEU green bonds is based on the following criteria:

1. Contribution to the climate mainstreaming target as assessed through the attribution of climate coefficients of a given intervention field in Annex VI of the RRF Regulation, thereby also contributing to the environmental objectives 1 and 2 of the EU Taxonomy Regulation (climate mitigation and climate adaptation);
2. Compliance with the ‘do no significant harm’ principle as defined in Article 17 of the Taxonomy Regulation and specified in the DNSH Technical Guidance Notice C(2021) 1054 final.

To comply with the 37% climate expenditure target, a distinction is made between measures that are marked as 100% relevant and measures that are marked as 40% relevant in line with the RRF climate coefficient methodology (the Annex provides a more detailed explanation of the EU climate coefficients). The Commission will finance through NGEU green bonds only 40% of the total expenditure of an RRP measure if the latter is assigned a 40% climate coefficient.

The Commission verifies the appropriateness of the assignment of every climate coefficient during the approval process of national Recovery and Resilience Plans. Milestones and/or targets relating to the implementation of ‘green’ measures are included, where necessary, to ensure that climate coefficient requirements are applied and thereby green bond eligibility is justified. The Commission reserves the right to exclude eligible expenditures from financing from green bonds proceeds issued under this framework as a precaution. This may be the case if it has any doubts during the implementation of the facility that a specific expenditure may not fulfil requirements that this framework puts on green bond eligibility. Excluding expenditure from eligibility may result, for example, from additional complexities of the required impact reporting, as well as shortfalls or delays in the actual progress of implementation as indicated by the achievement of relevant milestones and targets and the expenditure reporting provided by the Member States. Such exclusion from the portfolio of eligible green bond expenditures is independent of requirements under the RRF Regulation.

Eligibility for green bond financing can go beyond climate-relevant investments considering that the EU Taxonomy lists further environmental objectives and that Annex VI of the RRF Regulation also includes climate coefficients for environmental expenditure. In the specific case of measures that are marked with a 40% climate and 100% environment coefficients, such measures are considered 100% green bond eligible. Nevertheless, if the Commission considers that green bond eligible expenditures show that the positive environmental impact of those investments is not sufficiently proven, those investments will only be financed by green bonds to 40% in line with their climate coefficient.

Table 3: Examples of eligibility

Reform or investment	Climate coefficient	Environmental coefficient	Green bond eligibility
Construction of solar energy parks	100%	40%	**100%**
Digitalisation of hospital infrastructure	0%	0%	0%
European Rail Traffic Management System (ERTMS)	40%	40%	**40%**
Risk prevention of non-climate-related natural risks programme	0%	100%	0%
Programme to promote recycling of household waste management	40%	100%	**100%**

The performance-based approach, as outlined in section 2.1, ensures that payments will only be made upon the satisfactory completion of milestones and targets, including the ones for green investments. Progress on green investments is thus mandatory to receive disbursements. This procedure strengthens the link with the green transition and climate protection as it serves as a safeguard against spending green bond proceeds on investments that do not materialize as expected. It also prevents spending green bond proceeds on investments other than the green ones outlined in the RRP.

Given that investments and associated payments financed through green bonds are determined *ex ante* in the RRPs, there is no guarantee that the actual cost fully corresponds to the *ex ante* allocation. Several measures are in place to decrease the likelihood of an overestimation of green bond eligible expenditure. Firstly, the Commission will undertake a reasonability and plausibility assessment of the cost estimates provided by Member States for investments and reforms, including the ones to be financed through green bonds, so that expenditure is not overestimated. The Commission does not accept plans where it considers costs to be overestimated. Secondly, Member States will report to the Commission the actual costs incurred on each investment financed from Green Bonds. Up to the point of disbursement, risk management procedures will ensure that green bond issuances remain within a margin of actual expenditure for green investments and the maximum possible issuance amount based on eligible costs listed in the RRPs.

The RRPs will contain more green bond eligible expenditure than necessary to achieve the target of 30% of NGEU expenditure financed through green bonds. Due to this higher share of green bond eligible expenditure, the Commission will be able to maintain a buffer. Member States will provide the Commission with the actual expenditure amounts made under climate-relevant reforms and investments listed in their national RRPs. Where a selected investment does not fully materialise or cannot be implemented as expected, it will be substituted by another eligible investment through this buffer. This mechanism will act as a safeguard to ensure that all green bond proceeds are spent on green investments.

The RRF allows reforms and investments to be included that will be partially financed by the RRF and partially by a Member State or regional and local parties. In this case, only the share of financing that is supplied by the RRF will be eligible for NGEU green bonds under the conditions explained above. Member States may choose to issue their own green bonds under their own green bond frameworks for the remaining part of the expenditure. To avoid any potential issues of double-counting eligible expenditure for NGEU and Member States' green bonds, the Commission has agreed a procedure with Member States. NGEU green bonds will finance all actual expenditure under the reform or investment as reported by the Member State first, until the eligible expenditure threshold for green bonds for the respective reform or investment has been reached, i.e. 40% or 100% of the costs indicated in the RRP. Any further cost will not be financed from NGEU green bonds and is available for financing from national green bond issuance if the Member State so decides.

3.3 Management of proceeds

The Commission will track the net proceeds of all NGEU green bonds and use its standard accounting system to report on them regularly. Like all proceeds under the RRF, the Commission pays green bond proceeds into national budgets after milestones and targets have been met. National accounting systems therefore apply after payment.

Given the nature of the RRF, where Member States are likely to initially finance the investments and reforms with national funds and then receive funding from the RRF at a later stage, up to 100% of the green bond proceeds will be used for refinancing. Pending full allocation to Member States or EU policies, green bond proceeds will be held in a general NGEU cash account.

For oversight over the performance-based payments under the RRF, the European Court of Auditors (ECA) has already announced an audit of the RRP approval process[23] and the European Parliament and the Council will scrutinise the implementation of the RRF by the Commission, including payments and their link to performance. Other programmes that can be financed by NGEU green bonds are already scrutinised under the annual discharge procedure and by the European Court of Auditors.

3.4 Reporting

The Commission is committed to providing investors and the wider public with transparent reporting on the allocation of proceeds as well as on the impact of the expenditure financed by NGEU green bonds.

3.4.1 Allocation reporting

Allocation reporting for the RRF is structured via the RRPs and the reporting obligations that Member States have towards the Commission. It follows two lines: payments made by the

[23] ECA 2021+ work programme, see https://www.eca.europa.eu/Lists/ECADocuments/WP2021/WP2021_EN.pdf

Commission to Member States, and green expenditure incurred by Member States. Together, these payment streams track the proceeds from issuance to allocation. While there may be discrepancies between the two during the implementation of the RRF, these will converge over time.

Ex ante, Member States are required to report in their RRPs on the expected costs of their investments and reforms. The plans are subject to scrutiny by the Commission, which reduces the chances of the costs being overestimated. The Commission has already published links to the RRPs on its website. The respective Council Implementing Decisions (one for each RRP) will include a detailed annex on the plans' investments and reforms and will be published on eur-lex.europa.eu or the Council document registry after their adoption. This provides transparent insight for investors and the wider public into the expected climate and environmental impacts of the measures and expected costs of green investments. The costs as well as the nature of the costs stated in the plans provide an estimate of where and how green bond proceeds will be spent. This will guide allocation reporting as it gives an idea *ex ante* on allocation to eligible green expenditure. The RRPs also set a limit on green allocations to Member States through the share of climate expenditure in each RRP.

Payments made by the Commission to Member States linked to the achievement of milestones and targets will be reported by the Commission each year. There is initially no direct link between investment costs incurred by Member States and payments by the Commission to Member States. The actual costs for specific investments are in most cases initially paid by Member States. The Commission transfers payments under the RRF to Member States in tranches once milestones and targets have been met. Member States will report twice a year on the progress of their milestones and targets. In addition, Member States will submit up to twice a year payment requests and substantiate the completion of the relevant milestones and targets. This reporting will provide necessary insight into the implementation and outcomes of reforms and investments made. Since there is no direct link between RRF payments to Member States and what Member States themselves pay for specific investment, performance reporting is an important part in the allocation chain. It allows for conclusions on the progress made by Member States in implementing their RRPs and reports the corresponding payments made by the Commission to Member States.

The second step in allocation reporting covers expenditure made by Member States. Those will ultimately define where the eligible green proceeds that are funded by NGEU green bonds are spent. To accurately determine the actual expenditure incurred for projects financed through NGEU green bonds, Member States are required to report to the Commission with each payment request the total cumulative expenditure disbursed for the implementation of each reform and investment assigned a positive climate marker. This requirement is set out in the financing and loan agreements between the Commission and Member States. This reporting will allow the Commission to match proceeds raised through green bonds with the concrete expenditure for climate relevant investments.

The Commission will report each year, until proceeds have been fully allocated, on the actual expenditure on climate-relevant investments as transmitted by the Member States. The reporting will be available on the Commission's website at least until maturity of the NGEU green bond instruments.

The allocation report may include the following:

- allocation of the green bond proceeds to the categories as defined in 3.1;
- a geographical and thematic breakdown of proceeds allocations;
- the amount of unallocated proceeds (if applicable);
- the proportion of financing vs refinancing (in %);
- the amount of co-financing.

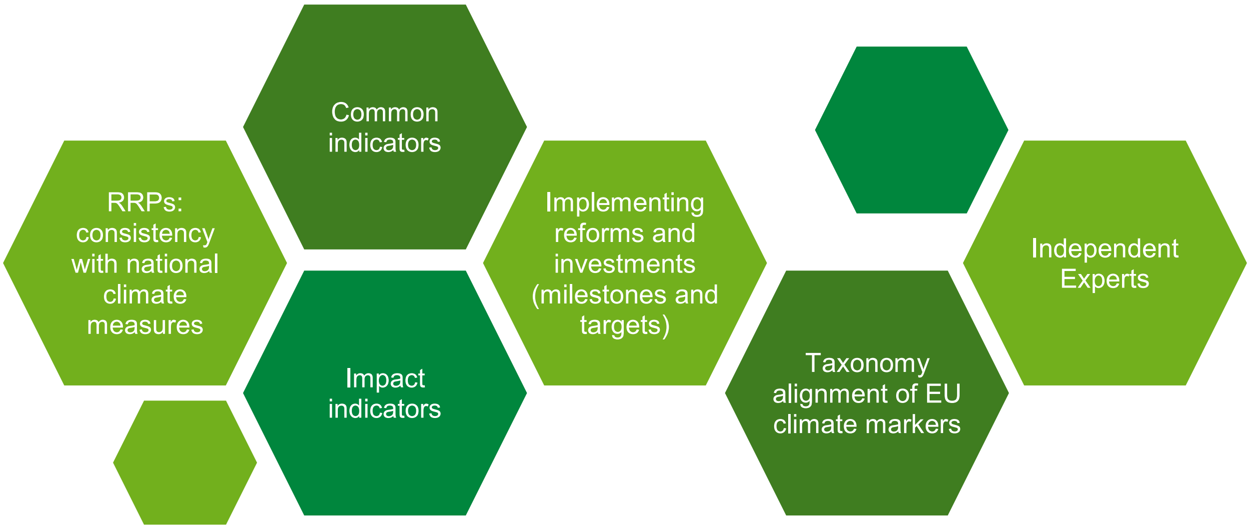
The Commission will employ an independent external auditor to verify the Commission's analysis included in the allocation report.

3.4.2 Impact reporting

To implement impact reporting, the Commission will establish an inter-service working group. It will include representatives from several directorates-general in order to draw on the wider expertise within the Commission. The Directorate-General for Budget will chair the working group and coordinate the impact reporting.

Impact reporting will be based on a range of information sources available to the Commission.

Figure 3: Building blocks of green bond impact reporting



First, the Commission will receive information on the climate and environmental contributions of individual RRPs. More specifically, the RRF Regulation requires the Member States to explain how the measures in the RRP will contribute to the green and digital transitions, including biodiversity, or to the challenges resulting from them. The measures must be consistent with the information included by the Member States in their National Energy and Climate Plans and any updates to explain to what extent the plan will help achieve the 2030 climate and energy targets, climate neutrality by 2050, and other environmental goals. Member States are further required to show that each measure in the RRP will respect the 'do no significant harm' principle as defined by the Taxonomy Regulation and detailed in the technical guidance[24]. The Commission cannot positively assess any RRP that is not in line with the required share of climate expenditure and the 'do no significant harm' principle. Those plans therefore provide the Commission with valuable information that can be used as a source for impact reporting.

Second, Member States will provide the Commission with information using common indictors (CIs)[25]. These CIs will be reported separately from green bond reporting as well in the annual budget performance exercise and the RRF scoreboard. They include impact indicators (e.g. additional capacity of renewable energy installed), which the Commission will use for impact reporting. In some cases, the CIs may be used to calculate additional impact measures. The precise CIs to report on will be established in a Delegated Act accompanying the RRF. Table 4 provides an indication of which CIs may be included in this Delegated Act, though the exact nature of CIs may still be subject to change. CIs are intended to cover as many of the investment categories as possible. Where gaps exist, the Commission will attempt to cover them by the additional means of impact reporting below.

Third, and as explained in the Annex, some of the EU climate coefficients are aligned with the technical screening criteria as defined in the EU Taxonomy Commission Delegated Regulation C/2021/2800 final. As a consequence, reforms and investments that are tagged with an EU climate coefficient that is aligned with the Taxonomy also contribute to the EU's 2030 and 2050 climate objectives, given their shared aim of limiting the global temperature increase in line with the EU's commitments under the Paris Agreement. Reforms and investments assigned with those climate coefficients are thus assumed to produce a beneficial impact in supporting the progress towards climate neutrality by 2050. The Commission will report on the share of climate expenditure under the RRF that it considers to be aligned with the EU Taxonomy.

For investments and reforms where it is challenging to rely on the CIs or the information in the RRPs, the Commission will endeavour to report on additional impact indicators wherever feasible. Potential impact indicators are given in Table 4, though these may still be subject to change. Indicators and methodologies will be primarily developed by the Commission, though it may also rely on external counsel to support a meaningful impact analysis.

The Commission will focus on the investment areas that represent the largest share of climate-relevant reforms and investments. It will endeavour to eventually cover most investment areas, though it will further consider the feasibility and meaningfulness of impact reporting for areas with very small allocations.

The Commission relies on the accuracy, completeness and granularity of data transmitted by Member States for its own reporting on NGEU green bonds. It will report on the information that is delivered by Member States, which will be transformed if necessary and aggregated. Due to the intermediary step of information collection by Member States, reporting will be

[24] Technical guidance on the application of 'do no significant harm' under the RRF Regulation: (see https://ec.europa.eu/info/sites/info/files/c2021_1054_en.pdf)
[25] Article 27 and 29 of the RRF Regulation establish the obligation of MS to report on the CIs.

done at pool level rather than reporting on impact for individual green bond issuances or individual reforms or investments.

INDEPENDENT EXPERT ADVICE

To deliver meaningful, reliable and high-quality NGEU green bond impact reporting, the European Commission will engage independent external experts. Those experts could support the Commission in its development of impact reporting for specific intervention fields. More importantly, the Commission will call on independent experts to critically review the Commission's impact reporting as a whole and issue an independent opinion on the quality of the impact reporting along with recommendations for further improvements. The Commission will publish such opinions on its impact reporting.

FREQUENCY AND SCOPE OF IMPACT REPORTING

The Commission will only be able to fully report on the impact after Member States confirm full allocation of the monies to that investment. All the monies spent on investments or reforms are additional, given that the RRF supports expenditures for eligible measures only if made after February 2020. This is markedly different from sovereign green bonds, where mostly recurring budget items are refinanced. However, the additional nature of the expenditure means that the funded investments and reforms are fairly new and have no established reporting available. Moreover, the investments and reforms will have a considerable implementation or ramp-up period, in which no meaningful impact can be reported. For these reasons, the first impact report is envisaged to take longer than current market practice. After the initial report, reporting will take place annually.

Impact reports will be published on the Commission's website.

Table 4: CIs and potential additional indicators for green bonds.

Category	Potential Delegated Act impact indicators (CIs)	Examples of potential additional impact indicators
Research and innovation activities supporting the green transition	- Researchers working in supported research facilities	- Total funding to research activities supporting the green transition - Investments in pollution control technologies
Digital technologies supporting the green transition	- Additional dwellings with broadband access of very high capacity - Enterprises supported to develop digital products, services and applications processes - Users of new and upgraded public digital services, products and processes	- Reduction in greenhouse gas (GHG) emissions or annual GHG emissions avoided (tonnes of CO_2 equivalent) - Total funding for data analysis on GHG emissions reduction
Energy efficiency	- Savings in annual primary energy consumption	- Annual GHG emissions avoided (tonnes of CO_2 equivalent)
Clean energy & network	- Additional operational capacity installed for renewable energy	- Annual GHG emissions avoided (tonnes of CO_2 equivalent) - Share of fossil fuels in total

		available energy (% year-on-year)
Climate change adaptation	- Population benefiting from protection measures against floods, wild fires, and other climate related natural disasters	
Water supply & waste management		- Annual water savings - Annual wastewater treated - Annual waste prevented
Clean transport and infrastructure	- Alternative fuels infrastructure (refuelling/recharging points)	- Reduction of total GHG emissions from transport (emission per passenger/km and emissions per tonne/km)
Nature protection, rehabilitation and biodiversity		- Surface area of converted land - Area under conservation or preservation - Surface covered by biodiversity measures
Other		- Number of people benefitting from green skills training

PART IV - EXTERNAL REVIEW

The Commission engaged Vigeo Eiris (V.E.) to provide an independent assessment ('Second Party Opinion') on the alignment of the green bond framework with ICMA's green bond principles. The provider considered that the NGEU green bond framework is aligned with the green bond principles. The second party opinion provider's assessment report is published on the Commission's website alongside the green bond framework.

PART V – LEGAL DOCUMENTATION

The Use of Proceeds section in the pricing supplement of the NGEU bonds transaction documents specifies that the EU intends to pay out to Member States an amount equal to the net proceeds of the green bonds in view of the eligible green expenditure under the present framework. The documentation will also refer to the reporting on the allocation of funds and the impact of related expenditure, as per the present framework.

PART VI – DISCLAIMER

This framework has been prepared by the EU for information purposes only. It should not be taken as investment advice and is not intended to serve as a basis for any kind of obligation, contractual or otherwise. In particular, it does not constitute an offer to sell or the solicitation of an offer to buy any securities, nor will there be any sale of securities in any state or jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such state or jurisdiction. No communication and no information in respect of the offering of securities may be distributed to the public in any jurisdiction where a prior registration or approval is required. The offering or subscription of securities may be subject to specific legal or regulatory restrictions in certain jurisdictions. The EU takes no responsibility for any violation of any such restrictions by any person. If any offer of securities is made, it will be made pursuant to an offering document prepared by the EU which would contain material information not contained herein and to which prospective purchasers are referred. Such purchasers should also consult their professional advisers before making any investment decision. The EU undertakes no obligation to publicly update the information contained in this framework, whether as a result of new information, future events, or otherwise. The EU accepts no responsibility for any consequences of the use of the information provided in this framework.