REPUBLIC OF LATVIA

SUSTAINABILITY BOND FRAMEWORK

November 2021

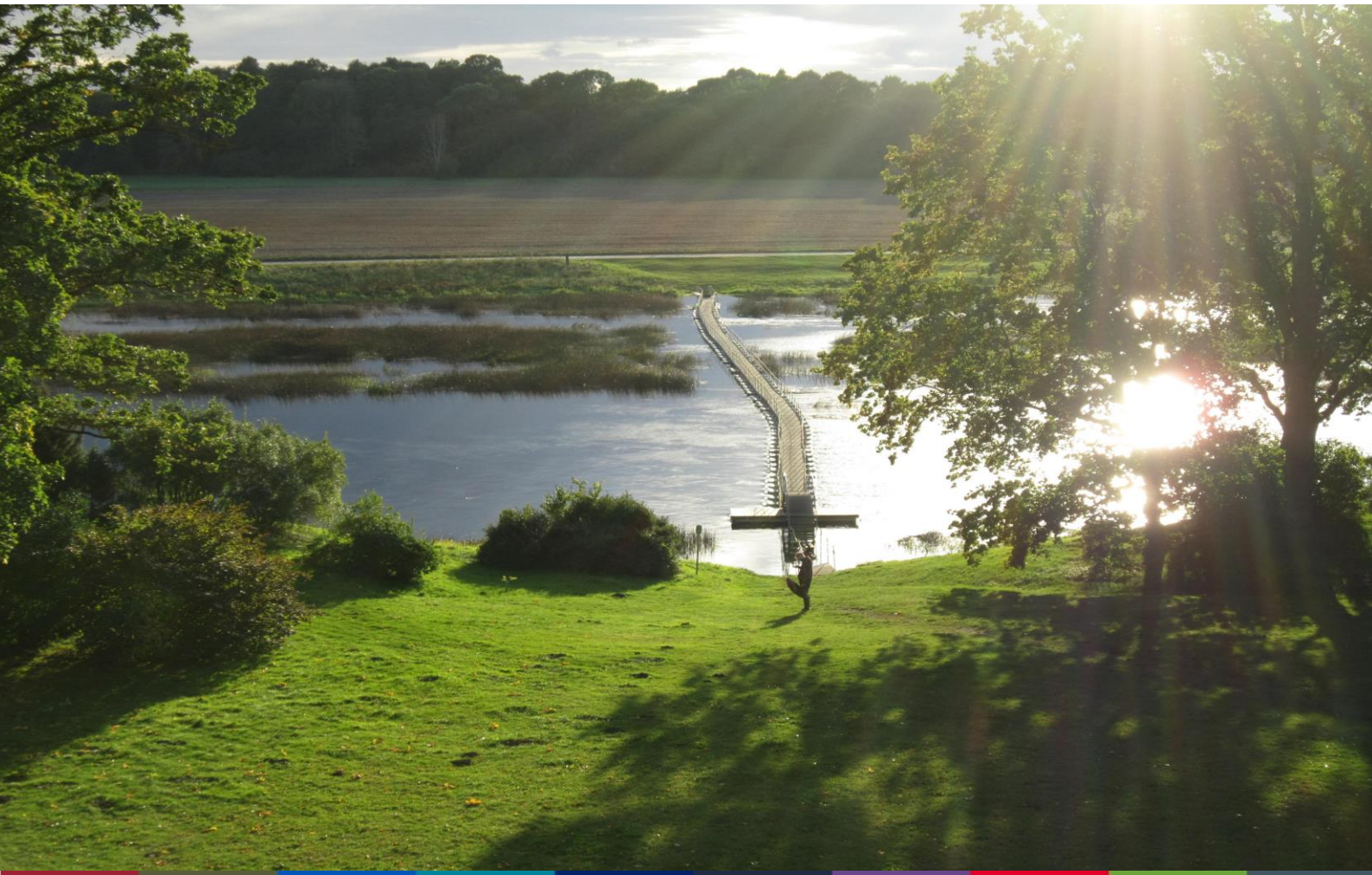


Table of Contents

1. Introduction 3

1.1 Rationale for Issuance 3

1.2 Sustainable Development Strategy 3

1.3 Supporting the UN Sustainable Development Goals 5

1.4 Latvia's Climate policy 6

1.5 The Transport Development Guidelines for 2021-2027 11

1.6 Green Public Procurement 11

1.7 Social Priorities 12

2. Sustainability Bond Framework 14

2.1 Use of Proceeds 14

2.2 Process for Project Evaluation and Selection 21

2.3 Management of Proceeds 23

2.4 Reporting 23

2.5 External Review 25

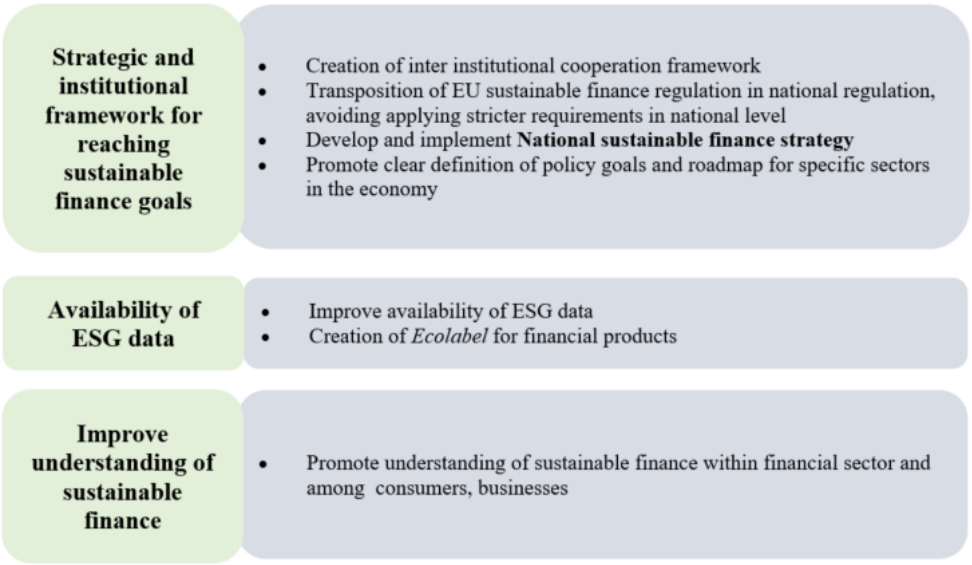
1. Introduction

1.1 Rationale for Issuance

One of the most significant global challenges and opportunities for sovereign entities these days is related to the transformation of their economies towards sustainable development, by combining decarbonisation and sustainable growth. The Government of the Republic of Latvia is committed, with its long-term focus on funding investments with tangible environmental and/or feasible social benefits, to supporting the Republic of Latvia in implementing its transition strategy and reaching its long-term sustainability goals.

Recognizing the transformational force that Sustainable Finance has in accelerating Environmental, Social and Governance ("ESG") progress, the Republic of Latvia is committed to issuing Sustainable Bond(s) to contribute to financing its environmental and social transition, and to support the development of Sustainable Finance in the Republic of Latvia in line with the key priorities set out in its Financial Sector Development Plan 2021-2023[1]. With the support of the Ministries part of the Intergovernmental Working Group, defined in section 2.2, the Treasury of the Republic of Latvia has established a robust framework for Sustainable Bond(s), in line with best market practices.

Figure 1. Planned Sustainable Finance measures of the Financial Sector Development Plan 2021-2023



1.2 Sustainable Development Strategy

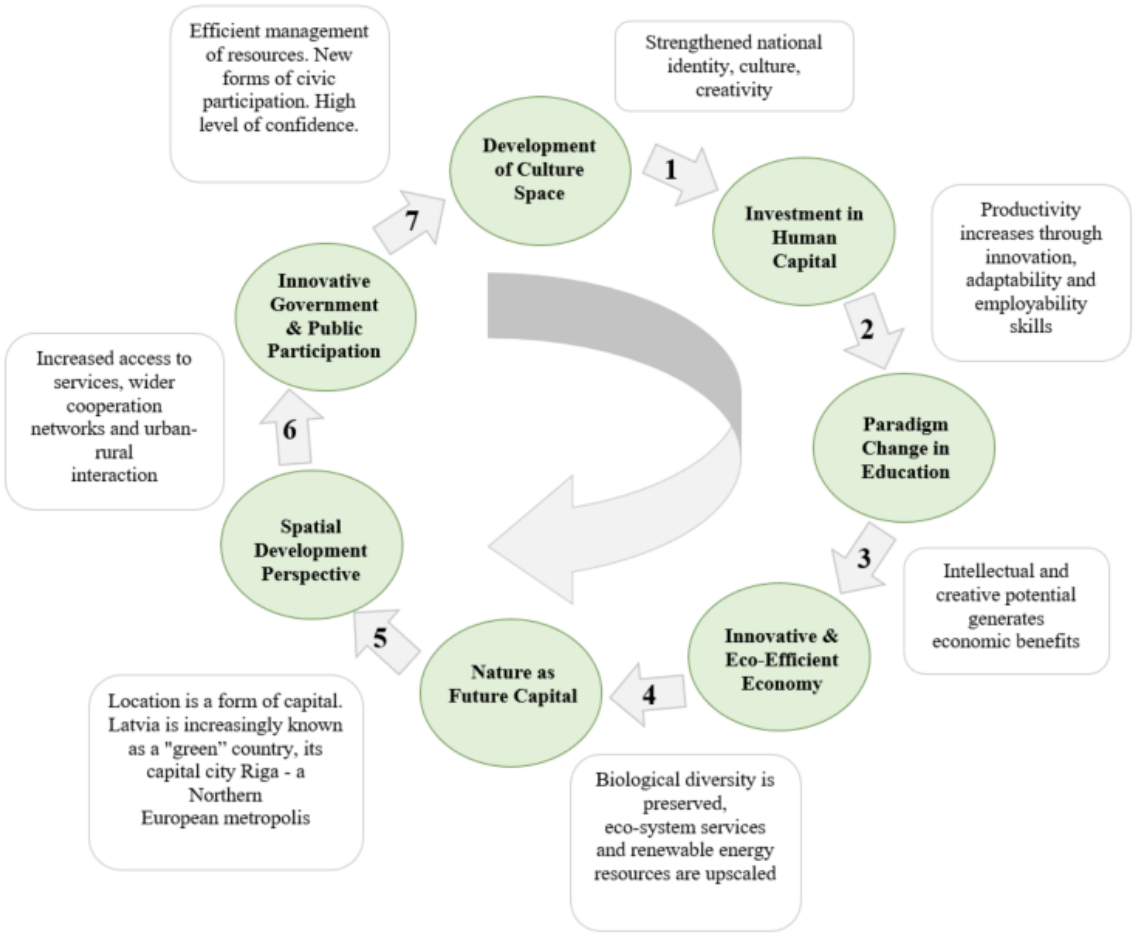
Our national resources – human, cultural, economic, social and natural capital, as well as domestic and international strategic geographical location (associated with competitiveness and territorial cohesion) – are to be entrusted to next generations, not only unharmed, but also enhanced.

The Sustainable Development Strategy of Latvia until 2030 (Latvia2030) outlines Latvia's long-term development priorities, strategic indicators, objectives, development directions, areas of action and performance indicators. It is hierarchically the highest national-level, long-term planning

[1] https://www.fm.gov.lv/en/financial-sector-development-plan-2021-2023

document. It determines the main tasks for the State and the society toward their common objective, the balanced and sustainable development of Latvia.

Figure 2. Latvia2030 priorities



Source: Cross-sectoral Coordination Centre[2]

Complementing Latvia2030, the **National Development Plan of Latvia for 2021-2027 (NDP2027)**, approved by the Saeima (the Parliament) on July 2, 2020 is Latvia's main medium-term development planning document. NDP2027 envisages strategic objectives, operational priorities and relevant measures for the sustainable and balanced development of Latvia during the next seven-year planning period, with the objective of achieving Latvia2030, contributing to the UN Sustainable Development Goals and improving the quality of life in Latvia.

NDP2027 plans investments in 18 directions, many of which define and quantify specific green objectives. For example "Nature and the Environment" aims to make measurable gains in GHG emission intensity, CO_2 sequestration, reduction of air pollution, ensuring high quality water bodies, recycling, waste generation per capita and % of protected area. Other directions cover green goals in transport, housing, energy, etc.

[2] https://www.pkc.gov.lv/sites/default/files/inline-files/LIAS_2030_en_1.pdf

Two of the main directions that prominently address social issues include "Social inclusion", focussed on reduction of the poverty rate and "High quality inclusive education", with indicators on persons with basic and advanced digital skills, ratio of persons in general secondary/vocational education programmes, etc.

In addition, The Recovery and Resilience Facility of the European Commission has made grants available to Latvia with the dual objective of supporting reforms and investments to mitigate the economic and social impact of the coronavirus pandemic, and making Latvia more sustainable, resilient and better prepared for the challenges and opportunities of the green and digital transitions. This additional financing stream helps accelerate the achievement of national sustainability targets.[3]

1.3 Supporting the UN Sustainable Development Goals

Latvia integrates all UN Sustainable Development Goals ("UN SDG") into the national planning system.

Source: www.un.org

Latvia assessed how its approach contributes to achieving all the UN SDGs in its 2018 Voluntary National Review at the UN High Level Political Forum on Sustainable Development[4], which contributed to the ex-ante impact assessment for the National Development Plan from 2021. It summarised Latvia's sustainable development challenges; further work should be concentrated in two vectors:

1. Ensuring an Innovative and Eco-Efficient Economy;

2. Reducing Income and Opportunity Inequality.

The UN SDGs are reflected in the indicators defined in the National Development Plan. These indicators are mapped to the UN SDG targets and are balanced to achieve sustainability objectives in the economic, environmental and social dimensions.

[3] For sake of clarity, state budget expenditures funded from the RRF will not be eligible under this Framework, in order to avoid double-counting
[4] https://www.pkc.gov.lv/sites/default/files/inline-files/Latvia%20Implementation%20of%20the%20SDGs_1.pdf

1.4 Latvia's Climate policy

The Government of Latvia has defined the fight against climate change as one of the State priorities. Latvia is committed to reducing the negative impacts of climate change at international, EU and national levels and moving towards climate neutrality by 2050.

As Latvia is experiencing the impact of climate change, it requires climate change **mitigation** and **adaptation** measures in order to reach low carbon and climate resilient development. Specific targets for greenhouse gas emission reductions are set for 2030, as well as 2050.

- **2030** – Latvia is committed to reducing greenhouse gas (GHG) emissions (covered by the non-ETS sector) by 6% compared to 2005. Note that as a result of the European Commission "Fit for 55" legislative package[5], Latvia will have to adjust its targets in order to ensure its trajectory to climate neutrality in 2050. Indicatively, the European Commission stated that Latvia would have to increase its ambition by reducing its non-ETS emissions by about -17% by 2030 compared to 2005. Compared to 1990, its total GHG emissions reduction target (without LULUCF) is -65% by 2030.
- **2050** – Latvia is fully committed to reaching 2050 climate neutrality (mid-term indicative targets have also been setting the Strategy of Latvia for the Achievement of Climate Neutrality by 2050, see the table below under Section 1.4.1.).

To adapt to climate change, Latvia is fully committed to reducing the vulnerability of the Latvian people, economy, infrastructure, buildings and nature to the effects of climate change and to promoting the use of the opportunities created by climate change.

Targets set by Latvia are fully in line with the climate policy of the European Union and the EU's ambitious objectives for climate policy, as well as with the United Nations Framework Convention on Climate Change, including the Kyoto Protocol and Paris Agreement, treaties to which Latvia is a signatory.

In order to implement our ambitious targets, three important documents for climate policy have been developed:

- Strategy of Latvia for the Achievement of Climate Neutrality by 2050[6]
- National Energy and Climate Plan for 2021-2030[7]
- Latvia's National Plan for Adaptation to Climate Change until 2030[8]

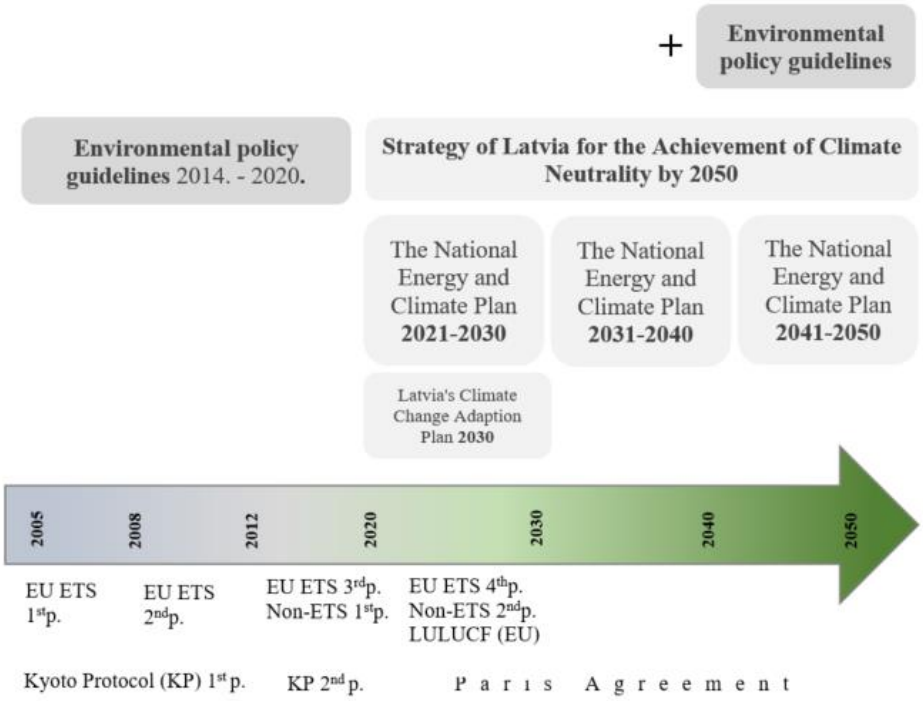
[5] In July, 2021 the European Commission has presented the so called "Fit for 55" legislative package aimed at adjusting the legislation to enhanced 2030 target in EU of at least 55% net GHG emission reduction by 2030 in order for the EU trajectory to climate neutrality in 2050 to be balanced, realistic and prudently chosen.

[6] https://ec.europa.eu/clima/sites/lts/lts_lv_en.pdf

[7] https://ec.europa.eu/energy/sites/default/files/documents/lv_final_necp_main_en.pdf

[8] https://likumi.lv/ta/id/308330-par-latvijas-pielagosanas-klimata-parmainam-planu-laika-posmam-lidz-2030-gadam

Figure 3. Structure Climate Policy Framework in Latvia



In the implementation of the climate change mitigation policy, the following activities are to be supported:

- Production, distribution and use of zero emission energy (wind power, solar energy, heat pumps etc.)
- Energy and resource efficiency project
- "Green" innovation
- Development of renewable energy communities
- Production, infrastructure and promotion of the use of climate friendly transport energy (electricity, modern biofuel, synthetic fuel, hydrogen)
- Digitalisation, automatization and optimization
- Promotion of the use of micro-mobility, public transport services, park & ride and multi-modal carriages
- Development of environmentally friendly agriculture and the promotion of good agricultural practice
- Afforestation of unmanaged agricultural land and increase of forest stand productivity
- Waste reduction and recycling

1.4.1. Latvia's Strategy for Achieving Climate Neutrality by 2050

Latvia has established a comprehensive strategy - Strategy of Latvia for the Achievement of Climate Neutrality by 2050 – approved in January 2020. This is a policy designed to increase the economic competitiveness of the Latvian economy and at the same time limit greenhouse gas emissions in order to contribute to the mitigation of climate change, as well as contributing a safe environment for living for people in Latvia.

The Strategy for the Achievement of Climate Neutrality by 2050 aims at supporting the European Union's common objective on climate-neutrality by 2050.

Table 1. Targets of the climate policy

	Base year 1990[9]	Projection for 2020[10]	Objectives		
			2030	2040	2050
GHG emissions (without the LULUCF[11] sector)	26 299 kt CO_2eq.	-55 %	-65 % (in comparison with 1990)	-85 % (in comparison with 1990)	Climate neutrality (non-reducible GHG emissions are compensated by removals in the LULUCF sector)
CO_2 removals and GHG emissions in the LULUCF sector	-9828 kt CO_2eq. (removals)	2094 kt CO_2eq. (emissions)	≤1047 kt CO_2eq. (emissions)	Net-zero emissions (removals of the sector compensated emissions of the sector)	
Transition towards climate neutrality (total GHG emissions, including the LULUCF sector)	16 471 kt CO_2eq.	-16 %	-38 %* (in comparison with 1990)	-76%* (in comparison with 1990)	

* the objective is deemed fulfilled if the deviation is ±5 %

The Strategy is a vision document that is detailed in the horizontal National Energy and Climate Plan 2021-2030, which defines goals for implementation via sectorial planning documents.

1.4.2. National Energy and Climate Plan 2021-2030

The National Energy and Climate Plan 2021-2030 (NECP) long-term objective is to promote the development of a climate-neutral economy by improving energy security and public welfare in a manner which is sustainable, competitive, cost effective, secure and market principles-based.

The NECP includes Latvia's targets and performance measures in several sectors and activities. The plan was developed by the Ministry of Economics in cooperation with responsible sectorial ministries and industry representatives, and is designed to meet the objectives set by the EU or international commitments taken by the Republic of Latvia.

[9] According to the GHG inventory submitted to UNFCCC in 2019

[10] Indicative estimates regarding the advancement in the direction of achieving the objectives according to the data available in 2019.
[11] Land Use, Land-Use Change and Forestry

Table 2. Key targets of the NECP

Policy outcome in each dimension of the Plan	Actual value	Target value	
	2019	2020	2030
1.1. GHG emission reduction target (% compared to 1990)	-57	-	-65
1.1.1. Non-ETS activities (% compared to 2005)	6.8	17	-6
1.1.2. LULUCF[12] accounting categories (million t)	-	0	-3.1
1.1.3. Transport energy life-cycle GHG emission intensity reduction (%)	1.8	6	≥6
1.2. Share of energy produced from RES in gross final energy consumption (%)	39	40	50
1.3. Share of energy produced from RES in gross final energy consumption in transport (%)	4.9	10	7[13]
1.4. Share of energy produced from RES in heating and cooling (%)	57.8	-	57.6
1.4. Share of advanced biofuels & biogas in gross final energy consumption in transport (%)	0	-	3.5
2.1. Mandatory national target – cumulated final energy savings (Mtoe)	0.47 (2018)	0.85	1.76

The following tactical level activities have been defined as priorities in order to achieve the strategic targets of the NECP:

1. Improving the energy efficiency of buildings, including the construction of sustainable housing
2. Improving energy efficiency aggregated levels and promoting the use of renewable energy sources (RES) in both the district heating and the individual cooling sectors
3. Promoting the use of negative emission technologies in electricity generation
4. Promoting the economically plausible decentralised generation and end-consumption of RES based energy
5. Promoting the use of alternative fuels and RES technologies in the transportation sector
6. Enhancing energy security, reducing the dependency on third-country fossil energy imports, full integration of with EU energy markets and modernisation of energy transmission infrastructure

[12] Land Use, Land-Use Change and Forestry
[13] The target can be reached by setting an obligation for fuel suppliers, within the scope of which it is allowed to use advanced biofuel and/or biogas, which is produced from the raw materials listed in Annex IX to Directive 2018/2001, electricity obtained from RES, hydrogen obtained from RES, processed carbon fuels, as well as other biofuels or biomass fuels which are not produced from food or animal feed crops

7. Improving the efficiency of waste and wastewater management, while sequentially reducing GHG emissions
8. Promoting an efficient use of available resources and reduction of GHG emissions in the agricultural sector
9. Promoting a sustainable utilisation of available resources, while reducing GHG emissions in the forestry and land utilisation sectors;
10. Promoting the reduction in usage of fluorinated greenhouse gases;
11. 'Greening' of the tax system and improvements in the friendliness to energy efficiency and RES technologies
12. Enhancing relevant information availability, sustainability data transparency and raising public awareness of climate-related matters

1.4.3. Latvia's National Plan for Adaptation to Climate Change until 2030

Latvia's National Plan for Adaptation to Climate Change until 2030 was adopted by the Government in 2019. It includes more than 80 concrete adaptation measures and five strategic goals to address climate change risks.

The five strategic goals to address climate change risks are as follows:

- Human life, health and wellbeing are protected from the adverse effects of climate change
- The economy is capable to adapt to the adverse effects of climate change and is able to use the opportunities offered by climate change
- Infrastructure and construction are climate-resilient and planned according to potential climate risks
- Latvia's nature, cultural and historical values have been preserved and the negative impact of climate change has been minimized
- Providing information based on scientific reasoning, to facilitate the integration of climate change adaptation aspects into sectoral policies and spatial development planning

Adaption to climate change is a horizontal issue and essential to all sectors, but according to recent evaluations, among the most vulnerable sectors are:

- Biodiversity and ecosystem services
- Forestry and agriculture
- Tourism and landscape planning
- Health and welfare
- Building and infrastructure planning
- Civil protection and emergency planning

1.4.4. Latvia 's Bioeconomy Development Strategy

In addition to its climate strategy, Latvia is one of the few countries in the Baltic Sea region and the first from the Baltic states that identified bioeconomy as a major economic player and elaborated **Latvia 's Bioeconomy Development Strategy 2030**[14] already in 2017. The bioeconomy is one of

[14] https://www.zm.gov.lv/en/lauksaimnieciba/statiskas-lapas/bioeconomy?id=15246#jump

Latvia`s five smart specialisation areas identified by the smart specialization strategy (RIS3) for Latvia.

The bioeconomy uses renewable natural resources (plants, animals, micro-organisms, etc.) to produce food and feed, industrial products and energy.

In Latvia, the bio-economy sectors are teaming with research institutions to develop and implement innovative approaches to the efficient and sustainable use of natural resources. The strategy aims to develop the economy, ensuring high added value, promoting exports and employment, as well as balancing economic interests with environmental quality, climate change mitigation, climate change risk assessment, adaptation to climate change and the conservation and enhancement of biodiversity.

Achieving the goals of the strategy requires a cross-sectoral approach and the involvement of all stakeholder.

1.5 The Transport Development Guidelines for 2021-2027

The Transport Development Guidelines for 2021-2027 (TDG2027) is a medium-term policy planning document for the development of the transport sector in Latvia. By developing the TDG2027, the Ministry of Transport has defined the common policy goal: an Integrated Transport System that ensures safe, efficient, accessible, smart and sustainable mobility, and promotes the country's economic growth, regional development and progress towards a climate-neutral economy.

The development of the public transport system with rail as its backbone, the development of mobility points, and the promotion of micro-mobility transportation means available to citizens (bicycles, including ski wheels, balance wheels, walking etc.) will be important to foster the modal shift towards clean mobility. The relevance of railway is also reflected in draft TDG2027, the Future concept of public transport system 2021-2030 and the Regional Policy Guidelines 2021-2027. Latvia believes that a change in people's habits should be stimulated in order to encourage them to choose more environment friendly means of transport.

1.6 Green Public Procurement

Every year EU member states spend ~19 % of total GDP for public procurement purposes (20% is the benchmark in Latvia). Such a ratio has a considerable impact on the goods and services market. Green public procurement is therefore becoming one of the priority instruments for EU environmental, climate and energy policy. The integration of environmental considerations within the technical specifications and tender evaluation criteria for procurement also became a priority task for Latvia.

Since October 2014, application of green public procurement criteria is mandatory in the procurement of food supply and catering services in all Latvian state and local government institutions. In 2015, the Green Procurement Promotion Plan 2015-2017 was developed to contribute to sustainable consumption and production through increased proportion of green procurement, especially green public procurement. The current regulation[15] extends the scope of mandatory applications to an additional six product groups and services- copying and graphic paper, imaging equipment, computers and ICT infrastructure, cleaning products and services, indoor lighting, street lighting and traffic signals. Additionally, green public procurement is voluntarily applicable to 15 product groups

[15] https://likumi.lv/ta/id/291867-prasibas-zalajam-publiskajam-iepirkumam-un-to-piemerosanas-kartiba

and services, including construction works, furniture, transport and recreation and sports infrastructure.

1.7 Social Priorities

The Republic of Latvia is committed to reducing the risk of poverty and income inequality. These two priorities are defined in **Latvia 2030** and **NDP2027**.

The aim of social protection and labour market policies in the Republic of Latvia is to promote social inclusion of persons by reducing income inequality and poverty, by developing a system of social services and legal support that is accessible and appropriate to individual needs, and by promoting a high level of employment in a qualitative working environment, inter alia. By providing support to people to overcome the Covid-19 crises. To reach this aim, the following priorities are set for social policy development:

1) Sustainable, stable and adequate material support ensuring sufficient economic independence;
2) A modern and accessible social services` system which, inter alia, enhances the ability of citizens to live independently and live in society, to integrate into education and the labour market;
3) An inclusive labour market for everyone and quality jobs, supporting long-term participation in the labour market.

The Government of Latvia has designed measures for social inclusion and poverty reduction taking into account not only social protection systems as such but also economic situations, income redistribution within the framework of the tax policy, access to health care and lifelong education, mobility opportunities and other factors.

Therefore, NDP2027 envisaged strategic direction to ensure quality, accessible and inclusive education. Education system in Latvia is decentralized and administered at three levels - national, municipal and institutional. Municipalities play an important role in the education governance.

Recently approved **Education Development Guidelines for 2021–2027** highlights the main objective to provide accessible education, while understanding that implementation of envisaged measures and further education policy development will be impacted by global developments in society, labour markets and the economy, technology, digital transformation processes as well as environment and climate matters.

Social Protection and Labour Market Policy Guidelines 2021-2027 (SPLMP Guidelines 2027) defines directions of action and measures to be implemented to meet objectives and goals respectively set in Latvia 2030 and NDP2027.

Measures defined in SPLMP Guidelines 2027 shall provide an increase in income for people in different situations of social risk, the provision of supportive social services, and the possibility of inclusion in a safe and high-quality working environment thus reducing the risk of poverty and promoting social inclusion.

In 2014 the Government of the Republic of Latvia approved a **Concept Report "On Determination of Minimum Income Threshold"** (Concept Report) aimed to establish a methodologically sound and appropriate level of minimum income corresponding to the socioeconomic situation, which

would serve as a reference point for the improvement of support measures established within the framework of the social security system (state social benefits, social insurance, social assistance).

The solution approved by the Government is the minimum income level that is set at 40% of the median disposable income recalculated to the equivalent consumer by applying the equivalence scale (1; 0.7; 0.7) and in addition to develop a new full subsistence minimum basket of consumer goods and services for different types of households according to the territorial distribution.

Several sequential short-term policy planning documents were approved to implement the Concept report, newest of which is the **Plan for Improvement of Minimum Income support system for the period of 2022 - 2024** (IMISS Plan 2022) adopted by the Government on September 14th 2021. The IMISS Plan 2022 provides the fixing methodology for calculation of the minimum income thresholds in legal acts and defines the review of minimum income thresholds annually by indicating the required state and local budget financing and proposing corresponding amendments to these key laws:

- Law on Social Security
- Law on State Pensions
- Law on State Social Allowances
- Law on Social Services and Social Assistance

Besides the IMISS Plan 2022, the NECP addressed energy poverty issues. The NECP stipulates that in the period until 2030, the indicator "proportion of households that were deprived of heat supply" will be reduced, ensuring that this proportion is lower than the EU average (less than 7.5%). To achieve this, municipalities need to ensure a minimum income level for all households, and if necessary, provide housing support, which includes the costs of electricity and heating. At the same time, the conditions and targets for energy poverty must be set and seen in conjunction with the conditions and targets for the protection of energy consumers. The Government has created targeted measures to significantly reduce energy poverty. For example, the Government provides financial support to certain groups of vulnerable consumers by compensating part of the electricity bill. Recent reforms in this regard ensured that protected user support is available to all those who are entitled to it (160,000 instead of 80,000 households).

2. Sustainability Bond Framework

The following Sustainability Bond Framework (the "Framework") enables the Republic of Latvia to raise finance in the form of Sustainability, Green or Social bonds, the proceeds of which will be allocated to relevant Eligible Expenditures as outlined below.

The Framework has been drafted in accordance with the ICMA Green Bond Principles 2021[16], Social Bond Principles 2021[17] and Sustainability Bond Guidelines 2021[18]. The technical screening criteria from the recently published EU Taxonomy Regulation[19] and the EU Taxonomy Delegated Acts on Climate Change Mitigation and Adaptation[20] have also been taken into consideration.

The Framework is presented under the following pillars:

2.1. Use of Proceeds
2.2. Process for Project Evaluation and Selection
2.3. Management of Proceeds
2.4. Reporting
2.5. External review

2.1 Use of Proceeds

An amount equal to the net proceeds from the issuance of each Green, Social and/or Sustainability Bonds will be allocated to relevant Eligible Expenditures from the State budget of the Republic of Latvia:

- Incurred in the two budget years preceding the bond issuance date,
- Incurred in the same budget year as the bond issuance date,
- Expected in the two budget years following the bond issuance date

Eligible Expenditures will align with the Green and/or Social categories outlined below and may include investment expenditures and operational expenditures (for example current expenditures, transfers, subsidies and grants).

Eligible Expenditures exclude:

- Expenditures already financed via a dedicated funding source, including European Union funds or any other Green or Social financing, in order to avoid potential "double counting";
- Rail infrastructure dedicated solely for the transportation of fossil fuels;
- Power generation with greenhouse gas emissions above 100g CO_2/kWh and nuclear power;
- Production, transmission and distribution of fossil fuels;
- Armament, tobacco, alcohol or gaming industries.

[16] ICMA, Green Bond Principles, June 2021: https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Green-Bond-Principles-June-2021-140621.pdf
[17] ICMA, Social Bond Principles, June 2021: https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Social-Bond-Principles-June-2021-140621.pdf
[18] Sustainability Bond Guidelines, June 2021, https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Sustainability-Bond-Guidelines-June-2021-140621.pdf
[19] 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
[20] EU Taxonomy Delegated Act on climate change mitigation published in April 2021 and adopted in June 2021: https://ec.europa.eu/info/publications/210421-sustainable-finance-communication_en

2.1.1 Eligible Green Categories

Green Categories	Sub-categories of eligible expenditures	Description and example of eligible Expenditures
Energy Efficiency for Buildings 	• Construction and acquisition of energy-efficient buildings[21] • Individual renovation measures, such as acquisition, installation or maintenance of improved insulation, LED lighting, new boiler, etc.	• Acquisition and construction of public energy-efficient buildings and renovation of public buildings in order to increase energy-efficiency • Support for measures reducing primary energy consumption and greenhouse gas emissions in municipal buildings
Climate Change Adaptation 	• Infrastructure and resources for climate change adaptation	• Support for reducing the risk of floods and coastal erosion caused by climate change in flood risk areas of national importance • Subsidies for insurance policies support climate change adaptation (e.g. sown areas climate risks insurance)

[21] Energy efficient building is so defined if it is:

1. a nearly zero energy building (NZEB) in accordance with the Cabinet of Ministers Regulation No.222 of 8 April 2021 "Rules for the method for calculating the energy performance of buildings and rules for energy certification of buildings" (hereinafter – Regulation No.222), namely:
   1.1. the energy consumption of the building for heating does not exceed the level specified for class A;
   1.2. the primary non-renewable energy consumption of the building for heating, hot water supply, mechanical ventilation, cooling, lighting (applies to non- residential buildings) shall not exceed the values for class A;
   1.3. energy-consuming equipment of engineering systems installed in buildings which complies with the ecodesign requirements and at least class A of the energy label, if the corresponding energy label requirements are specified in regulatory enactments;
   1.4. in the building provided requirements set in the Regulation Nr.222 points 9., 10., 11., 12., 13., 14., 15. and 16. regarding indoor temperature conditions, ventilation air exchange, cooling system, space overheating, lighting parameter etc. requirements, as well as compliance of the requirements of construction regulatory enactments, hygiene and labor protection.;

2. a class A+ building in accordance with the Regulation No.222 (i.e. a building that meets the requirements of the technical screening criteria of the EU taxonomy delegated acts on climate change published in April 2021 since the non-renewable primary energy consumption rate for class A+ compared to class A (depending on the building type) is more than 10% below the NZEB), namely:
   2.1. the energy consumption of the building for heating does not exceed the level specified for class A +;
   2.2. the primary non-renewable energy consumption of the building for heating, hot water supply, mechanical ventilation, cooling, lighting (applies to non- residential buildings) shall not exceed the values for class A+;
   2.3. energy-consuming equipment of engineering systems installed in buildings which complies with the ecodesign requirements and at least class A+ of the energy label;
   2.4. in the building provided requirements set in the Regulation Nr.222 points 9., 10., 11., 12., 13., 14., 15. and 16. regarding indoor temperature conditions, ventilation air exchange, cooling system, space overheating, lighting parameter etc. requirements, as well as compliance of the requirements of construction regulatory enactments, hygiene and labor protection.

Green Categories	Sub-categories of eligible expenditures	Description and example of eligible Expenditures
Renewable Energy 	• Research in the field of renewable energy technologies	• Provide a research base to contribute to the development and implementation of Latvia's long-term national energy policies and to promote safe, environment-friendly and competitive energy supplies
Circular Economy 	Expenditures related to the promotion of circular economy, such as: • Collection, treatment and recycling of municipal waste • Projects supporting the use of sustainable production and sustainable consumption practices	• Support of a pilot project for the manufacturing of products based on recycled materials
Clean Transportation 	Construction, operation and maintenance of **Rail Transport** services, including: • Investments in trains with zero direct tailpipe CO2 emissions • Expenditures to develop and maintain an electrified railway infrastructure, or otherwise infrastructure where there is a plan for electrification • Multi modal infrastructure crossings between different modes of transport • Provision of passenger transport services by trains **N.B.** Rail infrastructure dedicated solely for the transportation of fossil fuels is not eligible Construction, operation and maintenance of **Sustainable Road Transport** services, including: • Subsidies or investments aimed at developing zero direct tailpipe CO_2 emission vehicles (i.e. electric vehicles) • Electric vehicle charging stations and supporting infrastructure	• Cross border Rail Baltica project connecting three Baltic states (Latvia, Estonia, Lithuania) with Central Europe[22] • Renewal of passenger electric rolling stock • Subsidies to joint stock company "Pasazieru vilciens" (state-owned passenger carrying company) to cover payments for railway infrastructure use for passenger carrying and subsidies for unprofitable regional railway routes. • Subsidies to passenger carrying companies for unprofitable regional bus routes • Subsidies to the state joint stock company "Latvijas Dzelzcels" - railway infrastructure manager, to cover the

[22] www.railbaltica.org

Green Categories	Sub-categories of eligible expenditures	Description and example of eligible Expenditures
	• Infrastructure dedicated to personal mobility devices whose propulsion comes from the physical activity of the user and/or zero-emission motor, such as pavements or bike lanes • Provision of passenger transport services by bus	costs of maintaining and renewing the passenger segments • Subsidies to the Road Traffic Safety Directorate for the management and maintenance of the national electric vehicle charging network
Sustainable Water Management 	Development, construction, operation and maintenance of water and wastewater management systems which result in significant improvement in energy efficiency and/or water quality including: • Extension, reconstruction and construction of wastewater collection and treatment infrastructure • Construction and reconstruction of sewage sludge management infrastructure • Construction and reconstruction of rainwater management infrastructure, including green infrastructure • Construction and maintenance of infrastructure (buffer strips, sedimentation ponds etc.) to reduce diffuse pollution • Operation and maintenance of polder pumping stations • Maintenance and operation of dams • Operation and maintenance of amelioration systems of national significance (water drains) • Maintenance of amelioration cadastre • Maintenance and modernization of ameliorative hydrometric items • Maintenance of ameliorative technical documentation storage facilities • Implementation of river basin management plans and flood risk management plans to achieve good surface water status	• Projects to improve the status of water bodies at risk (to reach environmental objectives) focusing on the implementation of the measures laid down in the Daugava, Gauja, Lielupe and Venta River Basin Management Plans and Flood Risk Management Plans
Land Use and Living Natural Resources	Measures and project development for the protection of living natural resources: • Promotion and support of sustainable agriculture and forestry practices	• Implementation of innovative climate change mitigation measures in management

Green Categories	Sub-categories of eligible expenditures	Description and example of eligible Expenditures
	• Support for organic farming commitments • Enforcement of forest management and utilization regulations, monitoring of forest fire safety and management of national forests • Promotion of biodiversity and preservation of living natural resources • Reduce and eliminate sources of radiation avoiding risk of soil and groundwater pollution	of nutrient-rich organic soils • State subsidies: - Development of crop production[23] - Development of collaboration by raising capacity of nongovernmental organisations - Promotion of participation in food quality schemes[24] - For the improvement of vocational educational programmes in the agriculture sector • National forest monitoring in the whole territory of the State by the Latvian State Forest Research Institute Silava • Monitoring report on quality of groundwater and soil and in the building of the former reactor
Terrestrial and Aquatic Biodiversity Conservation 	Expenditures that ensure the protection and conservation of terrestrial and aquatic biodiversity including: • Protection of the legally protected species[25] (bears, otters, fish-eating birds) as well as migratory bird species (geese, cranes) • Preservation of biological diversity, maintained specially protected nature territories • Implementation of the policies to ensure the balance between nature protection and economic interests (functions of the Nature Conservation agency)	• Restoration or increase of the natural processes of peat accumulation in the degraded sites • Demonstration of new approaches and methods for re-vegetation of open water bodies and bare peat in abandoned peat mining areas • Raising awareness on the impact of peatland use on climate change • Mire habitat restoration measures and monitoring

[23] preparation of high-quality seed, testing of selection material to introduce integrated and organic crop production technologies, monitoring of soil quality, conservation of genetically high-quality plant genetic resources of the national significance

[24] Grants for participation in organic farming, protected geographical indications, designations of origin, traditional specialities guaranteed and in the national food quality scheme

[25] Law on the Conservation of Species and Biotopes

Green Categories	Sub-categories of eligible expenditures	Description and example of eligible Expenditures
	• Implementation of complex management activities in order to improve the status of species and habitats and to reduce anthropogenic pressures • Information and education on nature protection and biodiversity issues • Measures for implementation of the Priority Action Framework 2021-2027 • Surveillance of the circulation and use of plant protection products, seeds, varieties and fertilizers as well as agronomic mapping of soils • Implementation of a surveillance and control system for phytosanitary safety • Restocking of fish resources • Support for restrictions in Natura 2000 territories	• Implementation of an internationally-applicable handbook on the restoration of degraded mire habitats • Implementation of fish resources restocking plan, research on freshwater and migratory fish stocks and providing of scientific advice, implementation of projects for fish resources restocking, conservation and control, providing of public information, • Construction of infrastructure to reduce anthropogenic pressures in Natura 2000 sites (incl. Piejūra Nature Park) • Project GrassLIFE to restore and improve EU priority grasslands and to promote their multiple use in Latvia

2.1.2 Eligible Social Categories

Social Categories	Sub-categories of eligible expenditures	Description and example of eligible Expenditures
Access to essential services: Education 	• Improving quality and providing access to essential educational infrastructure, programmes and services • Supply of fresh products supported by accompanying educational measures on: agriculture production, local products, healthy eating habits, environmental issues, food waste reduction etc., promoting healthy eating habits Target Population:	• Supply of equipment for secondary and primary schools, including information and communication equipment • Funding for higher education, vocational education and science (academic staff remuneration;

	• Pre-school children, schoolchildren to 12th grade, university staff, academic staff, secondary/vocational school staff, students and scientists	scholarships; maintenance costs) • Funding for supply of fresh products and for carrying out accompanying educational measures (e.g. contests, tasting classes, farm visits etc.) under the framework of EU scheme for supply of fruit, vegetables and milk
Access to essential services: Social Inclusion 	• Providing minimum income for population groups at risk of poverty. • Provision of public transport services at subsidised fares for certain passenger groups Target Population: • Persons[26] receiving low old-age pensions, low pensions for disabilities, low pensions in case of loss of provider[27]) or state social security benefit[28] • Passenger groups entitled to receive reduced public transport fares[29]	• Minimum income reform • Subsidies to passenger carrying companies to compensate reduced fares to certain passenger groups (trains and buses)
Affordable Basic infrastructure 	• Expenditures to ensure access to affordable, reliable, sustainable and modern energy for all Target populations: needy or low-income[30] family (person), a large family (3 and more children) or family (person) caring for a disabled child, persons with Group I disability[31]	• Subsidised final price of electricity for a needy or low-income family (person), a large family (3 and more children) or family (person) caring for a disabled child, persons with Group I disability

[26] As stated in the Law on State Pensions

[27] A person who in accordance with the law or a court ruling has an obligation to take care of his or her spouse, children, or parents – reference in the Law on Social Services and Social Assistance

[28] Law on State Social Allowances

[29] preschool children; persons with a group I or II disability; persons under the age of 18 with a disability and a person accompanying a person with a group I disability or a person under the age of 18 with a disability; orphans and children left without parental care, who are in foster care, guardianship, childcare institutions or study in general and vocational education institutions, as well as universities and colleges until the age of 24; politically repressed persons and members of the national resistance movement; learners in general primary education institutions (grades 1-9) living outside the city territory; students in general secondary education institutions living outside the city territory (full-time grades 10–12); members of large families who use the state-implemented support program "Latvian Honorary Family Certificate" 3+ Family Card.

[30] Law on Social Services and Social Assistance

[31] Electricity Market law

2.2 Process for Project Evaluation and Selection

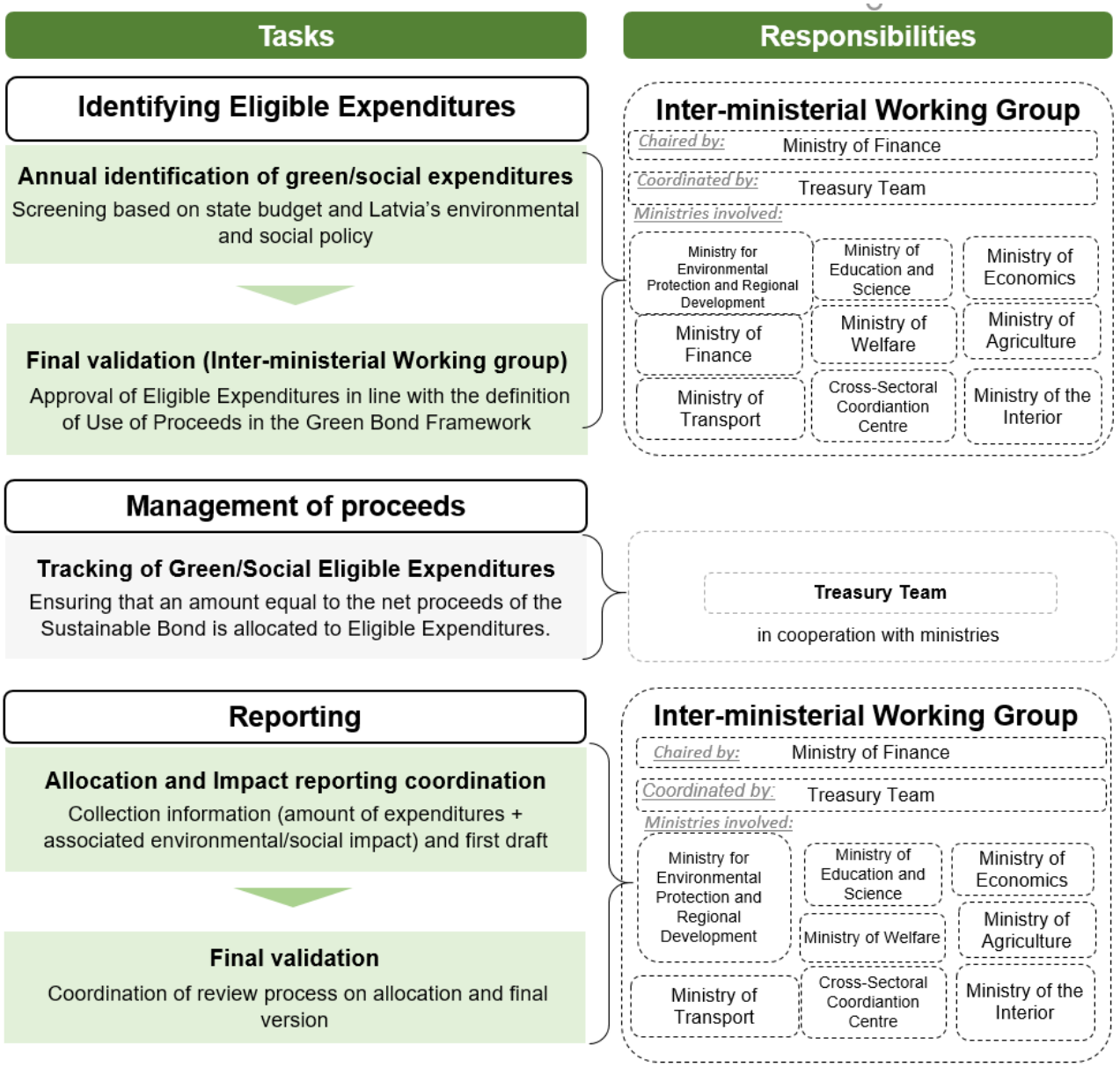
An Interministerial Working Group (IWG) has been established to oversee the implementation of the Framework. The IWG is chaired by the Ministry of Finance and coordinated by the Treasury of the Republic of Latvia (Treasury).

The Treasury is primarily responsible for all operational tasks related to the Sustainable Bond. As such, the Treasury manages the Sustainability Bond Framework on an active basis, coordinating with and gathering information from the IWG members to ensure the all Eligible Expenditures are appropriately assessed and selected.

Key responsibilities of the IWG are:

- To approve and update of the Sustainability Bond Framework, if necessary
- To identify Eligible Green and Social Expenditures and check that it complies with the eligibility criteria of the Framework as set out above in section 2.1. Use of Proceeds
- To select and approve the Eligible Expenditures to be allocated to the respective Green, Social and/or Sustainability Bond
- To approve the Annual Allocation Reports referred to in Section 2.4 (Reporting) below, which will detail the allocation of an amount equal to the net proceeds of the Bond to the Eligible Expenditures
- To approve the Impact Report referred to in Section 2.4 (Reporting), which will detail the environmental and social impacts of the Eligible Expenditures

The IWG will meet at least once a year.



The members of IWG are:

- Ministry of Finance (Chair)
- Treasury (Coordinator)
- Ministry of Environmental Protection and Regional Development
- Ministry of Agriculture
- Ministry of Transport
- Ministry of Welfare
- Ministry of Economics
- Ministry of Education and Science
- Ministry of the Interior
- Cross-Sectoral Coordination Centre

Other ministries who do not currently form part of the IWG could be invited to join as required depending on identified Eligible Expenditures.

2.3 Management of Proceeds

It will be the responsibility of the Treasury of the Republic of Latvia to coordinate and ensure that an amount equal to the net proceeds of the Green, Social and/or Sustainability Bonds is allocated to finance or refinance Latvian State budget expenditures in accordance with this Framework.

Pending full allocation, the net proceeds of the Green, Social and/or Sustainability Bond issuances will be managed in accordance with the regulatory framework of the Treasury of the Republic of Latvia.

The Republic of Latvia intends to allocate the proceeds of the Green, Social and/ or Sustainability Bond at the earliest convenience and in any case commits on a best efforts basis to reach full allocation within two years of the Green, Social and/or Sustainability Bond issuance.

If for any reason some expenditures were withdrawn from the portfolio of Eligible Expenditures, the Republic of Latvia will reallocate on a best efforts basis the proceeds to other Eligible Expenditures which are compliant with the Eligibility Criteria, as soon as reasonably practicable.

2.4 Reporting

For all issuances under this Framework, the Republic of Latvia intends to produce and publish:

(i) an allocation report (Allocation Report) and
(ii) an impact report (Impact Report)

at least annually until one year following full allocation of the Green, Social and/or Sustainability Bond proceeds.

Allocation Report

With the aim of providing transparent disclosure on the allocation of net proceeds, the Allocation Report will include:

- A detailed breakdown of proceeds allocated to each of the Eligible Expenditures from the Latvian State budget
- The balance of unallocated proceeds at the end of the reporting period (if any)

Impact Report

The Impact Report will provide detailed information on the associated environmental impact metrics and outcomes of the Green and Social Eligible Expenditures, subject to the availability of suitable information and data.

Green Categories	**Example of impact indicators**
Energy Efficiency for Buildings	• Number of zero energy consumption building constructed • Estimated annual decrease of greenhouse gas emissions (tons of CO2 equivalent), • Additional power produced from renewable energy sources (MW) • Decrease of annual primary energy consumption of public buildings (kWh/year)

Green Categories	Example of impact indicators
	• Number of building subject to energy performance improvements
Renewable energy	• High level holistic research projects (number)
Climate Change Adaptation	• Number of beneficiaries • Protected population, reduced negative effects of the affected territory (in numbers) • Length of territory with engineering-technical solutions introduced (m) • Number of inhabitants that benefit from the flood protection measures • Flood-protected areas (ha) • Number of waterbodies with improved status due to implemented rehabilitations of watercourses through re-naturalisation actions • Areas where flood risks are reduced • Length of restored dams and water drains • Number of implemented projects
Circular Economy	• Volume of produced product in Latvia from recycled material (m3/year or t/year)
Clean Transportation	• Number of charging stations maintained (number) • Share of rail passengers in passenger transport • Number of railway stations and stop points where elevated platforms are constructed and accessibility requirements are provided • Number of serious railway accidents • Passenger turnover in regional bus routes (million pas./km) • Passenger turnover in regional rail routes (million pas./km) • Length of new European gauge (1435mm) railway connection main line of Rail Baltica in Latvia under construction (km) • Number of passenger electric rolling stock delivered (number)
Sustainable Water Management	• Number of waterbodies with improved status due to implemented rehabilitations of watercourses through re-naturalisation actions • Areas where flood risks are reduced (ha) • Length of restored dams and water drains • Number of implemented projects • Number of water bodies at risk in Latvia addressed by supported projects • Number of surface water bodies in high/good status in 2022 and 2027 • Volume (m^3) and proportion (% of total volume) of wastewater discharged into environment and complying with the treatment standards • Surface of flood-resilient floor space
Land Use and Living Natural Resources	• Number of beneficiaries • Forest area subject to supervision of forest management (ha) • Surface of sample plots where timber resources characterization data are measured • Number of organic farms supported • Supported organic area (ha) • Population with reduced risks from radiation in numbers • Results from radiation level monitoring in groundwater and soil not exceeding x year values

Green Categories	Example of impact indicators
	• Number of innovative climate change mitigation technologies, systems, methods and instruments implemented • Additional number of forest certificates supported • Supported forest area (ha)
Terrestrial and Aquatic Biodiversity Conservation	• Number of migratory birds protected (in thousands) • Number of area left for feeding (and compensated) • Proportion of specially protected nature territories (% of the state territory); • Tourism and nature education infrastructure objects maintained and improved in good condition (number); • Nature education classes, events and other activities organized (number). • Target audience reached through awareness-raising events / classes, etc. (number) • Surface area of habitats supported in order to attain a better conservation status • Number of species in a favourable conservation status • Area clearing of invasive species (ha) • Surface area of habitats (ha) supported to improve conservation status • Number of fish released in natural waterbodies • Number of projects implemented • Proportion of farms in which crops are grown according to integrated farming guidelines (%) • Area where soil agrochemical research has taken place over a period of five years ((% of the total area of Agricultural land) • Supported forest area - habitat surfaces (ha)

Social Categories	Example of impact indicators
Access to essential services: Education	• Number of beneficiaries • Number of computers provided
Access to essential services: Social Inclusion	• Number of passenger carrier companies receiving subsidies for reduced fares (number) • Number of beneficiaries (average and monthly) • Average amount of municipal GMI benefit per person per month • Average amount of municipal housing benefit per person per year
Affordable Basic infrastructure	• Number of beneficiaries (households)

2.5 External Review

The Republic of Latvia sought pre-issuance verification through a Second Party Opinion on the Sustainability Bond Framework (pre-issuance) as well as post-issuance reviews of the Allocation Report. These will be made available on the Treasury's website: www.kase.gov.lv.

Pre-Issuance verification of Sustainability Bond Framework

Prior to issuance, the Republic of Latvia has commissioned a Second Party Opinion provider to review Latvia's Sustainability Bond Framework and issue a Second Party Opinion on the Framework's Green and Social credentials and its alignment with the ICMA Green Bond Principles 2021, Social Bond Principles 2021 and Sustainability Bond Guidelines 2021.

Post-Issuance Review:

The Republic of Latvia will engage an independent third party to provide assurance on the Allocation Reports, confirming that an amount equal to the net proceeds of the Bond have been allocated in compliance with the criteria and objectives of this Sustainability Bond Framework.

Legal Disclaimer

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