

# Republic of Cyprus

Sustainable Finance Framework

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1.  
Introduction



# 1. Introduction

The Republic of Cyprus (“Cyprus” or “the Republic”) ratified the Paris Agreement on 4 January 2017, and the present Sustainable Finance Framework must be understood in the context of the Republic’s longstanding recognition of the importance of combating climate change. Beginning with its ratification of the UN Framework Convention on Climate Change in 1997, followed by its ratification of the Kyoto Protocol and subsequently the Paris Agreement, Cyprus has supported the international community in each progressive step of recognizing not only the devastating impact of human activities on the environment but also the risks posed to people and the environment globally if significant efforts are not made in the areas of climate change mitigation and adaptation.

The publication of this Framework represents a significant step by Cyprus to align its national strategy for combatting climate change with its international debt capital markets funding strategy. As a well-known, seasoned borrower in the international bond markets, Cyprus has demonstrated the strength of its credibility as a borrower raising more than €10 billion in the eurobond market between 2018 and 2022. By taking the step of publishing this Sustainable Finance Framework, Cyprus intends to signal not only its own strong commitments to advancing environmental sustainability and social objectives, but also its recognition that investors are increasingly seeking opportunities to support credible sovereign borrowers advance their sustainability agendas through green, social and sustainable bond issuances and sustainable lending.

## 1.1. PARIS AND BEYOND: STRATEGIC PLANS FOR GREEN TRANSITION AND SOCIAL RESILIENCY

### Cyprus endorses the objective of achieving a climate-neutral EU by 2050, in line with the objectives of the Paris Agreement

The core objective of the Paris Agreement is for the international community to take collective action order to limit global warming to well below 2 degrees and pursue efforts to limit global warming to 1.5 degrees Celsius compared to pre-industrial levels. In order to advance this objective, the European Union has set binding climate and energy targets for 2030 which include reduction of greenhouse gas emissions, increasing energy efficiency, increasing the share of renewable energy sources in the EU’s energy mix, and facilitating electricity inter-connection between EU Member States.

In its National Energy and Climate Change Plan (NECP) published in January 2020<sup>1</sup>, Cyprus included the following targets:

- Reducing greenhouse gas emissions by at least 20.9% compared to 2005 in sectors not covered by the EU Emissions Trading System and by 24.9% in ETS sectors

- Emissions from land use, land use change or forestry are offset by at least an equivalent removal of CO<sub>2</sub> from the atmosphere
- By 2030, reducing final energy consumption by 13% and primary energy consumption by 17% as compared to 2007 levels
- Increasing the share of renewable energy sources in energy consumption, specifically:
  - Share of RES in gross final energy consumption to reach 23%
  - Share of RES in gross final electricity consumption can reach at least 26%
  - Share of RES in heating and cooling to reach 39%
  - Share of RES in the transport sector to reach 14%

<sup>1</sup> Under Article 9(1) of Regulation EU 2018/1999 on the Governance of the European Union and Climate Action, each EU Member State is required to submit a 10-year Integrated National Energy and Climate Change Plan (NECP) setting out its strategy for reaching its nationally defined targets. Cyprus’ Integrated National Energy and Climate Plan, available at: [https://energy.ec.europa.eu/system/files/2020-01/cy\\_final\\_necp\\_main\\_en\\_0.pdf](https://energy.ec.europa.eu/system/files/2020-01/cy_final_necp_main_en_0.pdf)

## Cyprus has placed sustainability at the heart of its Recovery and Resilience Plan 2021-2026

As part of the European Union's response to the devastating impact of COVID-19, the EU Recovery and Resilience Facility ("RRF") was established in order to help EU Member States cope with the economic and social consequences of the global pandemic and transition towards sustainable, resilient green economies in line with Europe's goal of achieving climate neutrality by 2050<sup>2</sup>. Cyprus has given central importance to sustainability in its national Recovery and Resilience Plan 2021-2026, and, in September 2021, the European Commission announced an initial disbursement to Cyprus from the RRF of €157 million to kick-start implementation of the initiatives in its Plan, with a total of €1.2 billion expected to be received by Cyprus during the lifetime of the plan.

In assessing Cyprus's Recovery and Resilience Plan, the European Commission concluded that the plans put forward by Cyprus are "expected to have a deeply transformative effect on Cyprus' economy and society"<sup>3</sup>, with a particular focus on green transition and social resiliency. Key highlights of Cyprus's Recovery and Resilience Plan include:

- Support schemes to assist households, enterprises, municipalities, and the wider public sector to implement energy efficiency and renewable energy investments – including technical, legal and capacity-building support as well as financial incentive schemes (e.g. thermal insulation of roofs of public buildings, installation of photovoltaic systems and energy efficiency in public building lighting)
- Investments related to the energy upgrade of public buildings and other public infrastructure, including in the water treatment sector and the rollout of smart grids and mass installation of smart metering for energy efficiency

- Incentives for the reduction of greenhouse gas emissions in agriculture, industries, businesses and other organisations
- Introduction of accessible and smart transport by accelerating the replacement of conventional rolling stock with zero and low emission vehicles and accompanied necessary infrastructure
- Initiatives to reduce energy poverty in households with disabled people
- Smart and sustainable water management, targeting both water supply and demand (incentivizing in the installation of low-water-consuming technology and smart water saving systems)
- Promoting resilience and effectiveness in the public health system
- Public educational system modernisation, upskilling and retraining
- Initiatives to encourage broader labour market participation
- Reform of the social welfare system and expansion of benefits to promote social protection, social welfare and inclusion

The Republic intends for sustainable borrowing under Green, Social and/or Sustainable Instruments issued pursuant to this Framework to complement the resiliency initiatives it has articulated in its Recovery and Resilience Plan.

<sup>2</sup> [https://ec.europa.eu/info/business-economy-euro/recovery-coronavirus/recovery-and-resilience-facility\\_en](https://ec.europa.eu/info/business-economy-euro/recovery-coronavirus/recovery-and-resilience-facility_en)

<sup>3</sup> [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_21\\_4624](https://ec.europa.eu/commission/presscorner/detail/en/ip_21_4624)

## 1.2. ADDRESSING ENVIRONMENTAL AND SOCIAL VULNERABILITIES AND ADVANCING SDGS

The initiatives which Cyprus has prioritized in both its National Energy and Climate Change Plan and its Recovery and Resilience Plan 2021-2026 reflect a commitment by the Republic to address critical environmental and social vulnerabilities and advance the UN Sustainable Development Goals.

### Environmental

#### *Climate Change Risks*

From an environmental perspective, Cyprus faces a variety of challenges from the threat of ongoing climate change. As noted by the Republic in its periodic reporting under the United Nations Framework Convention on Climate Change, Cyprus is expected to see relatively strong impact due to global warming:

- Likely increase in extreme climate conditions
- Increase in droughts and hot weather conditions in the near future<sup>4</sup>
- Higher temperatures and reduced mean summer precipitation, which combined with high concentrations of particulates from desert dust negatively impacting air quality during increasingly common heat waves
- Negative impact on biodiversity due to decreased rainfall and increased temperature, droughts, fluctuations in intensified precipitation, sea level rise and increased atmospheric CO<sub>2</sub>
- Destruction of flora and fauna that is adapted to the republic's current climactic conditions and the proliferation of exotic or alien species.

#### *Energy Security*

- A key challenge Cyprus faces in attaining its transition goals has been energy security. Cyprus has historically been the least interconnected and most isolated country in the European Union, which has fundamentally limited the share of renewable energy in the Republic's grid and, by extension, its ability to drive down emissions by a shift to renewable energy sources.
- Following the signing of a Memorandum of Understanding between Cyprus, Greece and Israel in March 2021, Cyprus has secured over €650 million in funds for the creation of the EuroAsia Interconnector – a submarine HVDC cable project (the longest and deepest in the world) that will link Cyprus to the national grids of Israel and Greece. The EuroAsia Interconnector project has been included in the EU's list of Projects of Common Interest given the strategic importance of the connection not only for Cyprus's own energy security and renewable energy mix, but because the interconnection scheme will allow Europe access to Israel's vast renewable energy resources and therefore facilitate transition within the EU more broadly.

<sup>4</sup> [https://unfccc.int/sites/default/files/resource/92680315\\_Cyprus-NC7-BR3-1-CYP.pdf](https://unfccc.int/sites/default/files/resource/92680315_Cyprus-NC7-BR3-1-CYP.pdf)

## Social

### *Responding to Social Vulnerabilities*

From a social perspective, the link between climate change and social outcomes is most clear with respect to the anticipate impact on public health, food security and water resources resulting from climate change.

Cyprus expects that climate change will not only impact public health directly (e.g. through injuries resulting from floods, landslides or fires), but also indirectly (e.g. through an increase of respiratory disease associated with worsening air quality, and the spread of water-, food- and vector-borne disease resulting from extreme weather events). According to the Climate Change Risk Assessment run by the Department of Environment, it is those already vulnerable groups in society (those affected by poverty, poor health and disabilities, or the elderly) who will experience disproportionate negative effects from climate change, whether from higher risk outdoor working conditions or insecurity with respect to basic needs resulting from higher food and water prices.<sup>5</sup>

Cyprus has also been one of hardest hit countries within the European Union with respect to the migrant crisis, with Cyprus shouldering four times the European Union national average of asylum seekers, and migrant flows expected only to increase as a result of the devastating effects of climate change globally.

### *Advancing UN SDGs*

- In 2015, Cyprus committed to the 2030 Agenda for Sustainable Development and the related 17 Sustainable Development Goals (“SDGs”) – a call on UN Member States to act in partnership to end economic deprivation, improve based social outcomes, and promote growth while addressing climate change and the imperative of protecting the environment.<sup>6</sup>

- In order to coordinate the advancement of the UN SDGs, Cyprus has established an Intergovernmental Commission under the oversight of the Ministry of Finance (Directorate General for European Programmes, Coordination and Development – DGEPCD). According to its most recent Voluntary National Review, reported to the UN in June 2021:<sup>7</sup>
- Going into the COVID-19 pandemic, Cyprus had enjoyed five years of continuous high economic growth, showing progress in most SDG indicators
- Key areas of strength for Cyprus have been in reducing poverty, high tertiary educational attainment and access to affordable energy
- Key areas of improvement for Cyprus include overall access to quality education, women in leadership positions, and most environmental SDGs, in particular sustainable agriculture, clean water and sanitation (attributed to climate change driven extended drought), responsible consumption and production, and climate action
- Cyprus has prioritized green transition through, amongst other things, the adoption of a new National Governance System for the implementation of the EU Green Deal in Cyprus, which oversaw the publication of Cyprus’s NECP.
- Cyprus has also prioritized social inclusion with initiatives such as the Strategic Action Plan for the integration of migrants (including vocational training and facilitation of labour market participation), the adoption of a National Action Plan for Equality between Men and Women, and the rollout of a General Health System focused on providing a modern and universal healthcare system with equal access to high quality healthcare services for all.
- This Sustainable Finance Framework is designed with a view to identifying project categories which Cyprus expects will mitigate the environmental and social vulnerabilities that it has identified and have a material positive impact on the attainment of different UN SDGs.

<sup>5</sup> [http://www.moa.gov.cy/moa/environment/environmentnew.nsf/276491E82F8428E1C22580C30034ABF2/\\$file/Evidence-Report-v1\\_final.pdf](http://www.moa.gov.cy/moa/environment/environmentnew.nsf/276491E82F8428E1C22580C30034ABF2/$file/Evidence-Report-v1_final.pdf)

<sup>6</sup> <https://sdgs.un.org/2030agenda>

<sup>7</sup> [https://sustainabledevelopment.un.org/content/documents/282512021\\_VNR\\_Report\\_Cyprus.pdf](https://sustainabledevelopment.un.org/content/documents/282512021_VNR_Report_Cyprus.pdf)

### 1.3. POLICY AND REGULATORY LANDSCAPE

Taking into consideration the environmental and social vulnerabilities Cyprus has identified, as well as its commitments to advance a green transition, social inclusion, and attainment of the UN SDGs, Cyprus has taken a variety of steps to lay the foundation for green and social progress in its national laws and regulations.

#### Combatting Climate Change

Cyprus's National Energy and Climate Plan is supported by strategic plans within each ministry which are mapped to the three-year period covered by the Republic's Medium Term Financial Framework and revised annually as part of the budget process per the Fiscal Responsibility and Budgetary System Law (Law No. 20(I)/2014).

In addition, Cyprus has developed various laws and regulations designed to support transition. Examples include:

- "SAVE" subsidy scheme, overseen by the Ministry of Energy, Commerce and Industry and aimed at subsidizing extensive energy upgrades of Cypriot homes, including the enabling of solar PV systems, energy storage, home automation and other efficiency upgrades
- "Polluter pays" laws, such as the Law on Fluorinated Greenhouse Gases (Law N.62(I)/2016), which requires emitters of fluorinated greenhouse gases to take responsibility for the recovery of f-gases and their recycling, reclamation or destruction

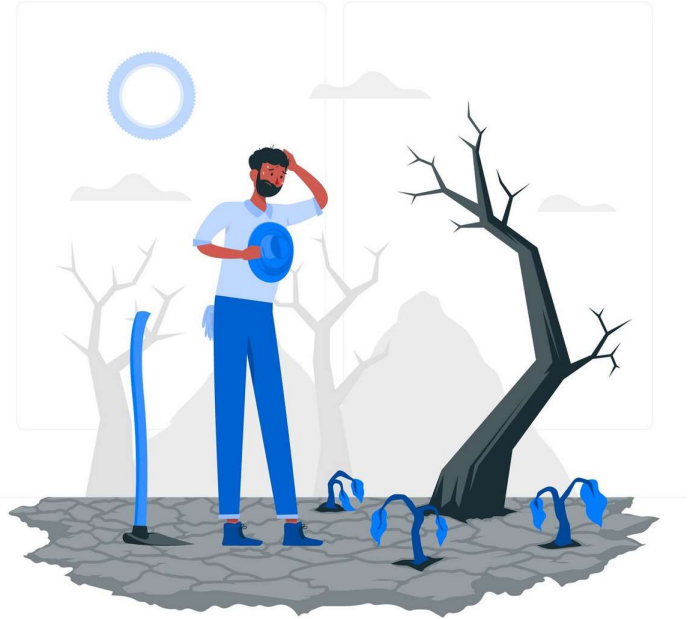


- Amendments to the Motor Vehicles and Road Traffic Law (Law N.100(I)/2013) which, as of 29 March 2019, incentivizes the transition to low- or zero-emission vehicles by imposing a higher charge on vehicles emitting more than 120 gCO<sub>2</sub>e/km
- Regulations supporting access to information and public awareness of climate issues, such as the Environmental Information Regulations (Law N.119(I)/2004), which give the public access rights to environmental information held by a public authority in response to information requests, including information related to climate change
- Laws designed to finance and promote renewable energy technologies and energy efficiency measures, such as the Renewable Energy Directive (Law N.112(I)/2013), which established the RES and Energy Efficiency National Fund and an energy usage-based fee paid by energy consumers to support RES transition and energy efficiency measures by power producers
- The River Basin Management Plan and Water Policy, drafted to implement the EU Water Framework Directive
- The Flood Risk Management Plan, drafted to implement the EU the Floods Directive
- The Nearly Zero Energy Buildings Action Plan, drafted to implement the Energy Performance of Building Directive



## Water Scarcity and Drought

Cyprus has a semi-arid climate with a frequent occurrence of prolonged droughts and limited water resources, drawing namely from low and evenly distributed rainfall. Risk of drought is expected to worsen due to climate change, and in response Cyprus has developed a Sustainable Water Resources Management Strategy with the dual objectives of satisfying national water demands in a sustainable way while protecting scarce water resources and the environment. Water infrastructure projects focus on essential water infrastructure buildout in order to secure a continuous water supply to residences and industry, desalination projects to support a reliable supply of drinking water, and water recycling projects aimed at allowing the replenishment of groundwater aquifers with a rebalancing of agricultural crop irrigation towards recycled sources and a related saving of fresh water resources for the drinking water and other essential use. Investments are being made in water system infrastructure upgrades, including the installation of new metering systems, improved irrigation networks, and replacement of old piping, which are collectively designed to minimize water loss in the system.



In addition to programs aimed at enhancing water supply and ensuring water adequacy, improving operational efficiency and minimizing water loss, Cyprus is making significant investment in wastewater treatment and sewage infrastructure, smart water and sewerage networks monitoring, and flood protection and adaptation measures (including upgraded flood channels and municipal anti-flood measures, as well as anti-flood dams). These programs promote alignment with key EU water related directives, including the Water Framework Directive (WFD) 2000/60/EC, the Floods Directive 2007/60/EC, the New Drinking Water Directive 2020/2184, and the Waste Water Treatment Directive 91/271/EEC.

## Wildlife Conservation

Cyprus's initiatives around combatting climate change are complemented by a robust commitment to nature and wildlife conservation. Cyprus participates in the "Natura 2000" European Ecological Network – a wide European network of protected natural areas for species of flora, fauna, birds and habitats.<sup>8</sup>

According to the LIFE Database maintained by the European Commission, Cyprus is ranked in the top five EU countries within the Natura network in terms of own land area covered by the network (28.8%). Cyprus has specified 63 marine and terrestrial Sites of Community Importance ("SCIs"), covering 1,789 km<sup>2</sup> of land area. This has led Cyprus to host 48 habitat types included in Annex I of the EU Habitats Directive, including 13 priority habitats, and 38 species included in Annex II of the EU Habitats Directive, of which 14 are priority species. These designations mean that Cyprus manages these areas in accordance with the ecological needs of the habitats and species living there in order to protect them from threat.



In addition to its participation in the Natura 2000 network, Cyprus's commitment to protecting biodiversity is entrenched in national law and regulation. Following its ratification of the Convention on Biological Diversity in 1995, Cyprus built its commitment to biodiversity into national legislation through the Convention on Biological

Diversity (Regulatory) Act of 1996, which lay the foundation for laws targeting the advancement of the Convention's aims. For example, the Forestry Law of 2012 established a Forest Advisory Board in order to promote a National Forestry Policy with respect to conservation, protection, sustainable management and development of forests and woodlands.

<sup>8</sup> The Natura 2000 initiative is the cornerstone of EU policy for the protection of the environment and biodiversity and aims to protect and manage vulnerable species and habitats in all their natural area stretching across Europe, regardless of the national or political boundaries.

## Promoting Social Welfare

Following severe economic and financial crisis, Cyprus successfully implemented an EU-IMF macroeconomic adjustment programme during the period 2013-16, undertaking major reforms in the areas of public finances, the financial sector, the labour market and other structural reforms in key sectors of the economy, which resulted in stabilising and successfully turning the economy into positive growth territory from 2015 onwards. Nevertheless, as of September 2022, Cyprus had one of the highest unemployment rates relative to other European countries and the EU average<sup>9</sup>, underscoring the need for a robust and inclusive social programme within the country.

As such, the Guaranteed Minimum Income and Social Benefits Law plays a critical role in maintaining the social welfare of Cypriots struggling to meet their basic needs, protect vulnerable groups, and ensure adequate social protection during and in the aftermath of economic downturn.

The GMI scheme supports a basic income level of €480 per month and provides top-up benefits to all eligible receivers, up to the €480 per month threshold, meaning that benefits taper as income increases. The threshold is sized based on a reference basket which is constructed based on the food, clothing, health, personal care, household, transport, communication and social needs of the recipient.<sup>10</sup>

Cyprus' GMI scheme is largely aligned with the mechanics of other prevailing European Minimum income schemes, and the IMF has characterised Cyprus' GMI scheme as a "simple and comprehensive scheme open to all with insufficient means to support themselves". For 2022, Cyprus has budgeted €225 million to fund the GMI scheme and €210 million for the current budget for 2023.



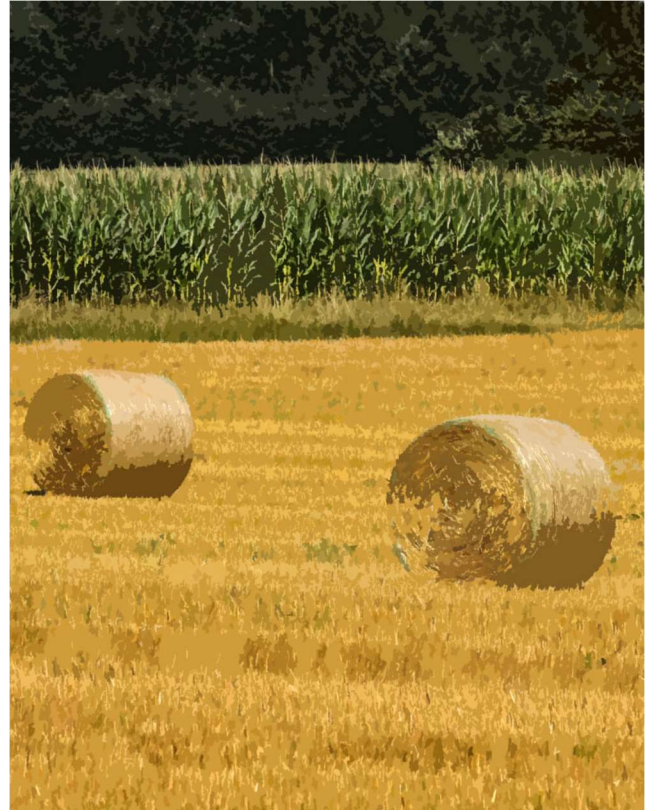
<sup>9</sup> [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Unemployment\\_statistics](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Unemployment_statistics)

<sup>10</sup> <https://www.imf.org/en/Publications/WP/Issues/2021/07/02/Guaranteed-Minimum-Income-Schemes-in-Europe-Landscape-and-Design-461341>

### Strategic Focus on Agriculture

A major challenge facing the agricultural sector is the ageing farming population and acute need for generational renewal. According to the most recent EU Farm Structure Survey in 2016, only 11% of farmers in the European Union are under the age of 40 and the problem of an ageing farmer workforce is especially acute in Cyprus where only 3.3% of farmers are under the age of 40. The Ministry of Agriculture, Rural Development and Environment has stated that support for young farmers is a key priority.

Following €485 million of EU funds invested in Cyprus's agricultural sector according to the Common Agricultural Policy (CAP) from 2014-2020, the updated CAP for 2021-2027 includes specific subsidies to support the entry into the farming workforce of new farmers under the age of 40. This is designed not only to mitigate the challenge of youth unemployment, but also promote sustainability in the agricultural sector workforce and Cypriot food security. Subsidies target not only new workforce entry but also the promotion of sustainable farming in response to the challenges of climate change and increased farm productivity in order to promote a competitive agricultural sector.



#### 1.4. RATIONALE FOR PURSUING SUSTAINABLE FINANCE

In its NECP, Cyprus acknowledged the need to step up global climate action in light of the latest available science on climate change, and reflected on not only the significant opportunities that come with the transition to a green economy (such as potential for economic growth, for new business models and markets, for new jobs and technological development) but also the serious challenges which must be overcome in order to achieve the aims of the Paris Agreement.

Facilitating transition will require significant investments from both the public and private sectors. Support for green and social expenditures in the Republic's budget through the issuance of sustainable (including green or social) debt in bond or loan format (together, "**Sustainable Instruments**") under this Framework will be key to making this transition possible.

In addition to using Sustainable Instruments to help meet basic budgetary requirements and enable the realization of green and social projects earmarked for financing in the national budget, Cyprus hopes that the pursuit of sustainable debt finance under this Framework will also:

- Reinforce the commitment Cyprus has made to advancing environmental sustainability objectives, in particular climate change mitigation, climate change adaptation, promotion of biodiversity, natural resource conservation and pollution prevention and control

- Promote higher social welfare goals in the Republic, driving positive social outcomes and helping mitigate the social issues that may threaten, hinder or damage the well-being of particular populations in society or the public at large
- Provide sustainable impact focused investors the opportunity to further diversify their portfolios with a well-known and credible eurobond issuer
- Facilitate continued increasing of liquidity and depth in sustainable debt markets
- Encourage the development of sustainable finance frameworks by both Cypriot domestic issuers and other sovereign issuers
- Promote adherence to best market practice by sustainable debt issuers by setting an example of a robust processes for project evaluation and selection, management of proceeds and ongoing reporting

2.  
Key Components of the  
Framework



## 2. Key components of the Framework

### 2.1. USE OF PROCEEDS

Cyprus will allocate an amount equal to the net proceeds from the issuance of Green, Social or Sustainable Instruments to exclusively finance and/or to refinance, in whole or in part, Green and/or Social government expenditures that meet the eligibility criteria set out in this Framework (**“Eligible Expenditures”**).

The scope of Eligible Expenditures includes (but is not limited to) subsidies and taxes foregone, tax expenditures, operational expenditures and investment expenditures. To the extent possible, intangible expenditures, such as administrative costs, are only included if they are deemed relevant and necessary for the realisation of tangible projects overseen by the agency or office whose administrative costs are the subject of the allocation. The lookback period for Eligible Expenditures is limited to government expenditures that occurred no earlier than three calendar years prior to the year of issuance.

Cyprus’s Sustainable Finance Framework is aligned with the June 2021 versions (with June 2022 updates) of the Green Bond Principles (**“GBP”**)<sup>11</sup>, Social Bond Principles (**“SBP”**)<sup>12</sup>, and Sustainability Bond Guidelines (**“SBG”**)<sup>13</sup>, each as published by the International Capital Market Association (**“ICMA”**), as well as the February 2021 version of the Green Loan Principles (**“GLP”**)<sup>14</sup> and April 2021 version of the Social Loan Principles (**“SLP”**)<sup>15</sup> published by the Loan Markets Association (**“LMA”**). This Framework has been prepared in accordance with the core components and key recommendations of the aforementioned guidelines.

#### Core Components:

- Use of Proceeds
- Process for Project Evaluation and Selection
- Management of Proceeds
- Reporting

#### Key Recommendations:

- Sustainable Finance Framework
- External Review

In addition, Cyprus has also taken into consideration the developing EU Taxonomy on environmentally-sustainable economic activities in developing the criteria for eligible expenditures under this Framework.

This framework may be amended from time to time to reflect market developments, including changes to relevant environmental and social taxonomies, and the ICMA Principles, with the aim of adapting to, and aligning with, best market practices.

<sup>11</sup> Available at <https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/green-bond-principles-gbp/>

<sup>12</sup> Available at <https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/social-bond-principles-sbp/>

<sup>13</sup> Available at <https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/sustainability-bond-guidelines-sbg/>

<sup>14</sup> Available at <https://www.lsta.org/content/green-loan-principles/>

<sup>15</sup> Available at <https://www.lsta.org/content/social-loan-principles-slp/>



Eligible Green Expenditures: Clean Transportation

**Key EU Environmental Objectives<sup>16</sup>**

- Climate change mitigation
- Pollution prevention & control

**Eligibility criteria**

- Measures related to electric vehicles (e.g. expanding charging infrastructure)<sup>18</sup>
- Enlarging and improving bicycle infrastructure
- Infrastructure (e.g. pavements, bike lanes) dedicated to personal mobility devices whose propulsion comes from the physical activity of the user and/or zero-emission motor
- Related R&D activities<sup>19</sup>

**Examples of EU Taxonomy sustainable activities<sup>17</sup>**

- 6.3. Urban and suburban transport, road passenger transport
- 6.4. operation of personal mobility devices, cycle logistics
- 6.15. Infrastructure enabling low-carbon road transport and public transport
- 7.4 Installation, maintenance and repair of charging stations for electric vehicles in buildings (and parking spaces attached to buildings)

**Example projects:** Replacement of car fleets used by government ministries with fully electric (zero-emission) vehicles; building of bicycle roads and related cycling infrastructure in Nicosia in order to improve bike accessibility and reducing road traffic emissions; construction of charging infrastructure for electric buses in order to promote electrified mass transit.

**SDG Mapping**



Eligible Green Expenditures: Renewable Energy



**Key EU Environmental Objectives**

- Climate change mitigation

**Eligibility criteria**

- Expenditures related to production, acquisition, operation or distribution of renewable energy (e.g. solar, biomass<sup>20</sup>)
- Connection of renewable energy to the grid
- Transmission of renewable energy
- Related R&D activities

**Examples of EU Taxonomy sustainable activities**

- 4.1. Electricity generation using solar photovoltaic technology
- 4.2. Electricity generation using concentrated solar power (CSP) technology
- 4.8. Electricity generation from bioenergy
- 7.6. Installation, maintenance and repair of renewable energy technologies

**Example projects:** Installation of solar panels on government buildings and public housing in order to increase renewable energy sources in mix of energy consumed.

**SDG Mapping**



<sup>16</sup> The six environmental objectives are climate change mitigation, climate change adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, and protection and restoration of biodiversity and ecosystems.

<sup>17</sup> Mapping generally refers to respective activities in both Annex 1 and Annex 2 of the EU Taxonomy unless otherwise stated.

<sup>18</sup> Electric vehicle charging infrastructure excludes expenditures related to the construction of parking areas.

<sup>19</sup> As used in this Framework, “R&D activities” refer to research and development expenditure focused in the specified Eligible Green Expenditure category

<sup>20</sup> Biomass/feedstock must be sourced from sustainable feedstock and excludes sources that compete with food production, that are grown in areas with currently or previously high biodiversity or that are expected to decrease carbon pools in soil. Any wood feedstock would be limited to sources subject to third-party certification (e.g. The Forest Stewardship Council and the Programme for the Endorsement of Forest Certification).





Eligible Green Expenditures: Energy Efficiency<sup>21</sup>

**Key EU Environmental Objectives**

- Climate change mitigation

**Eligibility criteria**

- Support for energy efficient solutions for commercial, public and industrial sectors (including smart grids)
- Residential energy efficiency programmes (including heating, retrofit and insulation)
- Reduction of energy use in industrial processes
- Related R&D activities

**Examples of EU Taxonomy sustainable activities**

- 7.2. Renovation of existing buildings
- 7.3 Installation, maintenance and repair of energy efficiency equipment
- 7.5 Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings
- 9.1. Close to market research, development and innovation
- 9.3. Professional services related to energy performance of buildings

**Example projects:** Refurbishment of government buildings targeting energy efficiency gains resulting in >30% reduction in primary energy demand and the attainment EPC “A” rating; subsidies for private homeowners and commercial developers to undertake building refurbishments (including insulation upgrades and installation of PV infrastructure) subject to pre-and post-refurbishment EPC rating verification under “SAVE” subsidy scheme.

**SDG Mapping**



Eligible Green Expenditures: Pollution prevention and Control



**Key EU Environmental Objectives**

- Pollution prevention and control

**Eligibility criteria**

- Identification and remediation of contaminated sites
- Measures supporting the development of waste management activities such as waste prevention, waste reduction and recycling
- Projects and R&D on resource efficiency and environmentally friendly waste management including the avoidance, re-use, reduction and recycling of waste

**Examples of EU Taxonomy sustainable activities**

- 5.5 Collection and transport of non-hazardous waste in source segregated fractions
- 5.9 Material recovery from non-hazardous waste

**Example projects:** Remediation of illegal landfill sites in Nicosia and Limasol; environmental restoration at abandoned Amiantos asbestos mine in the Troodos National Forest Park.

**SDG Mapping**



<sup>21</sup> Energy efficiency expenditures will be eligible where the modelled or measured impact of the implementation of the energy efficiency measures is an improvement of at least 30% in energy performance.



**Eligible Green Expenditures: Biodiversity conservation and environmentally sustainable management of living natural resources and land use**

**Key EU Environmental Objectives**

- Pollution prevention and control
- Transition to a circular economy
- Pollution prevention and control
- Protection and restoration of biodiversity and ecosystems

**SDG Mapping**



**Eligibility criteria**

- Protection and enhancement of terrestrial and marine biodiversity, ecosystems and natural capital
- Protection of wetlands
- Conservation, restoration and rehabilitation of land to maintain or improve the habitat, including through the establishment of protected land or national parks
- Environmental protection measures in agriculture<sup>22</sup>
- Sustainable forest management, including afforestation, rehabilitation, and conservation

**Examples of EU Taxonomy sustainable activities**

- 1.1. Afforestation
- 1.2. Rehabilitation and restoration of forests
- 1.3. Forest management
- 1.4. Conservation forestry
- 2.1 Restoration of wetlands

**Example projects:** Bonelli eagle and “LIFE with Vultures” conservation and management initiatives to protect endangered native populations of eagles and griffon vultures (including, but not limited to, protection of nesting sites, anti-poisoning measures, marking of high voltage power lines and isolation of electric poles in designated areas); funding of LIFE IP PHYSIS fund to support conservation of species and habitats of community importance identified for protection as part of the “Natura 2000” European Ecological Network; mapping and management of Posidonia oceanica meadows and other marine habitats listed under Annex I of the EU Habitats Directive (92/43/ECC); deep-sea bathymetric and geological mapping of projected habitats in the Eratosthenes seamount; protection of monk seals and other marine species and habitats in sea caves of Halavro; initiatives for satellite tagging and protection of loggerhead turtles and green turtles.

<sup>22</sup> Cyprus will not consider eligible under this Framework any agricultural activities related to the production of conventional palm oil, genetically modified plants or animals, or non-certified energy-crop based biofuels (1st generation).



Eligible Green Expenditures: Sustainable water and wastewater management

**Key EU Environmental Objectives**

- Sustainable use and protection of water and marine resources
- Pollution prevention and control

**SDG Mapping**



**Eligibility criteria**



Programmes designed to preserve water assets, improve the ecological status and quality of water, sanitation and wastewater treatment, such as:

- Building supply, purification and sewage treatment infrastructure, excluding fossil fuel operations
- Construction, operation, maintenance and upgrades of own infrastructures for the management of water resources, increasing water recycling and wastewater treatment facilities
- Actions aimed at promoting the efficient use of water and improving the quality of the water environment

**Examples of EU Taxonomy sustainable activities**

- 5.1. Construction, extension and operation of water collection, treatment and supply systems
- 5.2. Renewal of water collection, treatment and supply systems
- 5.3. Construction, extension and operation of waste water collection and treatment
- 5.4. Renewal of waste water collection and treatment
- 5.6. Anaerobic digestion of sewage sludge
- 5.7. Anaerobic digestion of bio-waste
- 5.8. Composting of bio-waste
- 5.9. Material recovery from non-hazardous waste

**Example projects:** Replacement of obsolete water system infrastructure in order to limit water loss and promote uninterrupted water supply to the regions of Larnaca and Farnagusta, including installation of new pumping station in Tersefanou, installation of new pipe networks and replacement of old asbestos cement piping; construction of new sewage collection and treatment infrastructure in Solea Complex, Kokkinochoria Complex, and Larnaca, including replacement of obsolete septic tanks and absorption pit systems; buildout of water recycling infrastructure for reuse of treated wastewater in Larnaca and Western Nicosia (Anthoupoli).

Eligible Green Expenditures: Climate change adaptation 	
<p><b>Key EU Environmental Objectives</b></p> <ul style="list-style-type: none"> <li>• Climate change adaptation</li> </ul>	<p><b>Eligibility criteria</b></p> <ul style="list-style-type: none"> <li>• Extreme weather events observation and monitoring systems</li> <li>• Flood and forest fire protection, resilience and other risk mitigation programmes</li> <li>• Data driven climate monitoring solutions</li> <li>• Engineering activities and technical consultancy dedicated to adaptation to climate change</li> </ul> <p><b>Examples of EU Taxonomy sustainable activities</b></p> <ul style="list-style-type: none"> <li>• 9.1. Engineering activities and related technical consultancy dedicated to adaptation to climate change (Annex 2 only)</li> <li>• 9.2. Close to market research, development and innovation (Annex 2 only)</li> </ul> <p><b>Example projects:</b> Construction of coastal defence structures using naturally occurring stone and designed to battle erosion of the Cypriot coastline; climate risk prevention and precaution investments in forest fire resiliency infrastructure, including monitoring stations, truck and plane fleet buildout to reduce reaction time and mitigate forest loss due to fire.</p>
<p><b>SDG Mapping</b></p> 	

Eligible Green Expenditures: Circular economy adapted products, production technologies and processes 	
<p><b>Key EU Environmental Objectives</b></p> <ul style="list-style-type: none"> <li>• Natural resource conservation</li> <li>• Climate change mitigation</li> </ul>	<p><b>Eligibility criteria</b></p> <ul style="list-style-type: none"> <li>• Expenditures related to the promotion of a circular economy, such as:</li> <li>• Collection, treatment and recycling of municipal waste</li> <li>• Projects supporting the use of sustainable production and sustainable consumption practices</li> </ul> <p><b>Examples of EU Taxonomy sustainable activities</b></p> <p><i>This category represents an area of future focus for the Republic of Cyprus</i></p>
<p><b>SDG Mapping</b></p>  	



Eligible Green Expenditures: Green buildings

**Key EU Environmental Objectives**

- Climate change mitigation
- Natural resource conservation

**Eligibility criteria**

- New buildings and the relevant renovation works of existing buildings which have received or are expected to receive a recognized green building certifications<sup>23</sup>, including:
  - LEED “Gold” or above
  - BREEAM “Excellent” or above
  - EPC “A”
- Other local equivalent standards

**SDG Mapping**



**Examples of EU Taxonomy sustainable activities**

- 7.1. Construction of new buildings
- 7.2. Renovation of existing buildings

**Example projects:** Construction and renovation of public school buildings and daycare centres to EPC “A” standards including in Psevdas, Traxoni, Paphos, Kiperouna, Deftera, Ipsonas, Latsia, and Yeri.

<sup>23</sup> In each case excluding any industrial facilities that are used or intended to be used in fossil fuel activities, hard to abate sectors or which otherwise have a negative environmental and social impact.

Eligible Social Expenditures: Affordable basic infrastructure



SDG Mapping



**Sub-categories and expenditures**

Develop and provide access to basic infrastructure, including in the following areas:

**Water & Sanitation**

- Increase the percentage of the total population with access to drinking water
- Optimize water-quality monitoring processes
- Improve waste management processes

**Energy**

- Expenditures to ensure access to affordable, reliable, sustainable and modern energy for all
- Improvement in electrical supply, with a view to expand geographical coverage, in particular in rural areas<sup>24</sup>

**Transportation**

- Strengthening of the transportation infrastructure in order to increase connectivity, especially for rural areas and populations or other underserved areas

**Target populations:** Population at large, but especially low-income households, people with disabilities, migrants and/or displaced persons, undereducated, underserved owing to a lack of quality access to essential goods and services, unemployed, women and/or sexual and gender minorities, aging populations and vulnerable youth and other vulnerable groups, including as a result of natural disasters

**Examples of activities**

**Water & Sanitation**

- *Creation, management, and extension of the sewage system*
- *Treatment and sanitation of solid urban wastes and mud*
- *Rehabilitation and maintenance of pump systems in water networks*

**Energy**

- *Subsidised final price of electricity for needy or low-income households<sup>25</sup>*
- *Improvement in the reliability of the existing electrical grid<sup>26</sup>*

**Transportation**

- *Accessibility, development, and maintenance of rural roads*
- *Maintenance and upgrade of unpaved and/or non-asphalted roads*

<sup>24</sup> As used in this Framework, “rural areas” are those areas appearing on the list of rural areas not connected to any urban development plans per a register of rural areas maintained by the Ministry of Agriculture, Rural Development and Environment.

<sup>25</sup> As used in this Framework, “low-income” is defined with reference to those eligible to receive Guaranteed Minimum Income under Cyprus’s Social Benefits Law – i.e. any person whose income and other financial resources are insufficient to satisfy his or her basic and specific needs as defined by law 109 (I)/2014.

<sup>26</sup> Excluding infrastructure expenditures targeting increased connection to dedicated fossil fuel power generation



### SDG Mapping



### Sub-categories and expenditures

Providing access to essential healthcare infrastructure and services for all populations by:

- Extending healthcare capacities
- Improving the quality of the existing healthcare
- Preventive and curative action to deal with pandemic and other natural catastrophes
- Increasing the number of post-graduate healthcare workers
- Improving the quality of healthcare services
- Improving the quality of disease prevention services

**Target populations:** Population at large, but especially low-income households, people with disabilities, elderly people, migrants and/or displaced persons, undereducated, underserved owing to a lack of quality access to essential goods and services, unemployed, women and/or sexual and gender minorities, aging populations and vulnerable youth and other vulnerable groups, including as a result of natural disasters

### Examples of activities

- *Construction, extension, provision of equipment to, operation and maintenance of public healthcare facilities, including hospitals and health centres*
- *Expansion of public health infrastructure, including through medical/vocational training programmes*
- *Subsidies to ensure health coverage for vulnerable populations including elders, persons with disabilities and low income households*
- *Funding of vaccine programmes and drug abuse prevention*
- *Expenditures on emergency measures (preventative and curative) to face health pandemics, including COVID-19*
- *Investments in home services to outpatients, elderly, disabled people*
- *Investments in nursing and care homes for elderly, disabled people*

Eligible Social Expenditures: Access to Essential Services/Education & Vocational Training



SDG Mapping



**Sub-categories and expenditures**

Providing access to essential educational and science infrastructure and services for all by:

- Strengthening the accessibility of pre-school education programs
- Ensuring better educational conditions for socially disadvantaged pupils
- Extending capacity within the public/free education system
- Improving the quality of the existing educational infrastructure and equipment

**Target populations:** Pre-school children, schoolchildren to 12th grade, university staff, academic staff, secondary/vocational school staff, students and scientists

**Examples of activities**

- *Construction, extension, equipment maintenance of public education facilities, research centres and libraries*
- *Funding for higher education, vocational education and STEM focused training (including scholarships, academic staff remuneration and maintenance costs)*
- *Supply of equipment for secondary and primary schools, including information and communication equipment*

Eligible Social Expenditures: Affordable Housing



SDG Mapping



**Sub-categories and expenditures**

Providing access to affordable housing to vulnerable populations by:

- Extending the social and affordable housing supply
- Improving the quality of the existing social and affordable housing
- Providing financial assistance to facilitate access to housing and ownership

**Target populations:** Low income, people living without adequate housing, households in positions of insecurity and exclusion

**Examples of activities**

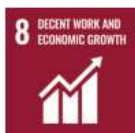
- *Expenditures and other schemes for the construction, expansion and maintenance of free or low-cost housing*
- *Direct financing to public social housing agencies*
- *Financial assistance (grants or social loans) to low-income families and individuals for accessing housing*
- *Subsidies and monetary benefits for construction or expansion of social housing capacity by real estate developers and private property owners*



Eligible Social Expenditures: Employment Generation



SDG Mapping



**Sub-categories and expenditures**

Supporting employment generation and labour market integration including, but not limited to, through:

- Employment generation and retention initiatives
- Extending capacities and improving quality of vocational education
- Initiative to support venture investment

**Target populations:** Unemployed and underemployed, NEETs (those not in education, employment or training), SMEs and persons with disabilities

**Examples of activities**

- *Subsidies to support actions taken by independent or SMEs for hiring jobseekers*
- *Subsidies to support programmes initiated by social enterprises for hiring young unemployed people*
- *Subsidies to support people for creating a self-employed activity*
- *Funding of job training programmes, technical training*
- *Support for employers offering apprenticeships and training opportunities*
- *Support for creation of business incubators*
- *Subsidies to employers for making workplace adjustments to accommodate persons with disabilities*

**Example projects:** Grants offered to youth and female entrepreneurs under the New Entrepreneurship Scheme, supporting the establishment of new businesses in the manufacturing, services, tourism and e-commerce sectors, as well as grants offered to SMEs under the “THALIA” scheme for the enhancement of SMEs competitiveness in the manufacturing sector and other specific economic activities<sup>27</sup>

<sup>27</sup> As at the time of publication of this Framework, New Entrepreneurship Scheme applicants can receive grants covering up to 70% of their business plan over a three year period with a cap of up to EUR 84,000 p.a. (depending on the age of the applicant). The THALIA scheme provides up to 60% financing capped at EUR 200,000 over a 3 year period to small and medium term enterprises meeting the definition of “SME” per the EU recommendation 2003/361 (employing less than 250 persons and turnover not exceeding EUR 50 million or balance sheet exceeding EUR 43 million). Cyprus does not consider eligible under this category any grants made to businesses operating in sectors listed in the “Exclusions” section of this Framework.

Eligible Social Expenditures: Socioeconomic Advancement and Empowerment



SDG Mapping



**Sub-categories and expenditures**

Providing equitable access to and control over assets, services, resources, and opportunities, and promoting equitable participation and integration into the market and society, including reduction of income inequality

**Target populations:** Low-income, vulnerable youth, non-profit organisations, people with disabilities

**Examples of activities**

- Social rehabilitation programmes for vulnerable youth
- Grants to Non-profit organisations operating in the field of social promotion programs, projects and actions
- Solidarity pension programmes for people who do not benefit from employment-based pension schemes

**Example projects:** Guaranteed Minimum Income payments for those whose income and other financial resources are deemed insufficient to satisfy his or her basic and specific needs pursuant to Cyprus’s Social Benefits Law; social benefits paid to persons with recognised disabilities to cover care services, personal assistance, support in communication, mobility and independent living; grants to NGOs registered under local law as providing services and support to disabled persons according to statutorily recognised categories.

Eligible Social Expenditures: Food Security and Sustainable Food Systems



SDG Mapping



**Sub-categories and expenditures**

Supporting physical, social, and economic access to safe, nutritious, and sufficient food that meets dietary needs and requirements and reducing impacts from food production, including through:

- Programmes to promote resilient agricultural practices
- Programmes targeting reduction of food loss and waste
- Initiatives to promote improved productivity of small-scale producers
- Development of short circuits/local food systems
- Expansion of organic farming in line with the EU’s Common Agricultural Policy and pursuant to EU regulation<sup>28</sup>

**Target population:** Population at large, farmers (especially farmers in disadvantaged areas)<sup>29</sup>

**Examples of activities**

- Subsidies for projects promoting organic primary agricultural production
- Subsidies for deployment of infrastructure enabling local producers to benefit from processing, transformation, storage, logistics, promotion, distribution services

<sup>28</sup> In particular, Cyprus defines “organic” farming for this purpose as farming meeting the organic labelling requirements set out in Regulation (EU) 2018/848 of the European Parliament and of the Council of 30 May 2018 on organic production and labelling of organic products.

<sup>29</sup> The Cyprus Ministry of Agriculture sets criteria for what constitutes “disadvantaged” farming based on a number of criteria including terrain (mountainous regions and semi-mountainous regions), elevation and temperature where traditional farming techniques and/or machinery cannot be effectively used.

### Exclusions

Cyprus explicitly excludes from Eligible Expenditures the financing of:

- Nuclear power generation
- Exploration, production/refining and/or storage of fossil fuels, fossil fuel power generation and infrastructure dedicated to the transport of fossil fuels
- Alcohol, gambling and tobacco
- Weapons and defense-related goods and expenditures
- Child labour or forced labour
- Any activity that is illegal according to laws or regulations of Cyprus or which contravenes the international agreements and conventions to which the Republic is party

The PDMO will also exclude any expenditures financed and/or refinanced by Green or Social financing instruments issued by other government agencies and public sector entities or the European Union in order to ensure suitable oversight and avoid double-counting.

## 2.2. PROCESS FOR PROJECT EVALUATION & SELECTION

The Public Debt Management Office has set up an interministerial Sustainable Finance Working Group (“SFWG”) which, together with relevant line ministries and government agencies responsible for project budgeting and implementation, forms a key component of the governance around project evaluation and selection under the Republic’s Sustainable Finance Framework.

The SFWG is chaired by the Public Debt Management Office senior lead for sustainable debt finance, and also includes representatives from the following ministries:

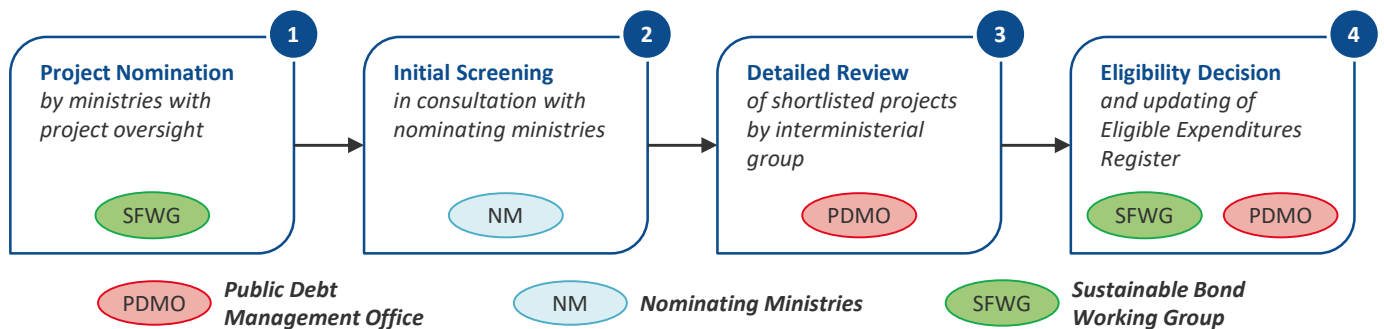
- Ministry of Finance (officials responsible for budget planning)
- Ministry of Agriculture, Rural Development and Environment

- Ministry of Energy, Commerce and Industry
- Ministry of Labour and Social Insurance/Deputy Ministry of Social Welfare
- Ministry of Transport, Communications and Works

The composition of the SFWG may be adjusted over time, under the oversight of the Public Debt Management Office, in order to ensure that key stakeholders whose projects have received, or are expected to receive, material allocations under this Framework are integrated into the project evaluation and selection process and related sustainable finance governance.

### Initial Project Evaluation & Selection – Compilation of Eligible Expenditure Register

Below is an illustration of the initial project evaluation and selection process and related governance:



#### 1 Project Nomination

All ministries of the Republic have been provided with the project eligibility criteria under this Framework and are invited to flag to the PDMO potentially eligible expenditures for further consideration for allocations. Ministries are requested to make submissions at least annually in connection with their ordinary course budgetary planning cycle, but may also nominate projects for consideration on an ad hoc basis throughout the year.

The submission by nominating ministries of potential projects for allocations under this Framework should not only indicate which eligible Green and Social categories they consider the nominated projects to fall into, but also indicate any material environmental or social risks associated with the project, how they were assessed and what are key mitigants. This includes a consideration of whether projects which may impact local communities (e.g. infrastructure projects) required an environmental impact assessment or community consultation and if any potential controversies have been identified together with potential mitigants.

#### 2 Initial Screening

The PDMO will be responsible for the initial screening of nominated projects against the eligibility criteria under this Framework and will follow up with nominating ministries to diligence any questions around eligibility criteria which are not apparent from the nominating ministry’s submission before shortlisting them for further consideration by the SFWG.

**3 Detailed Review**

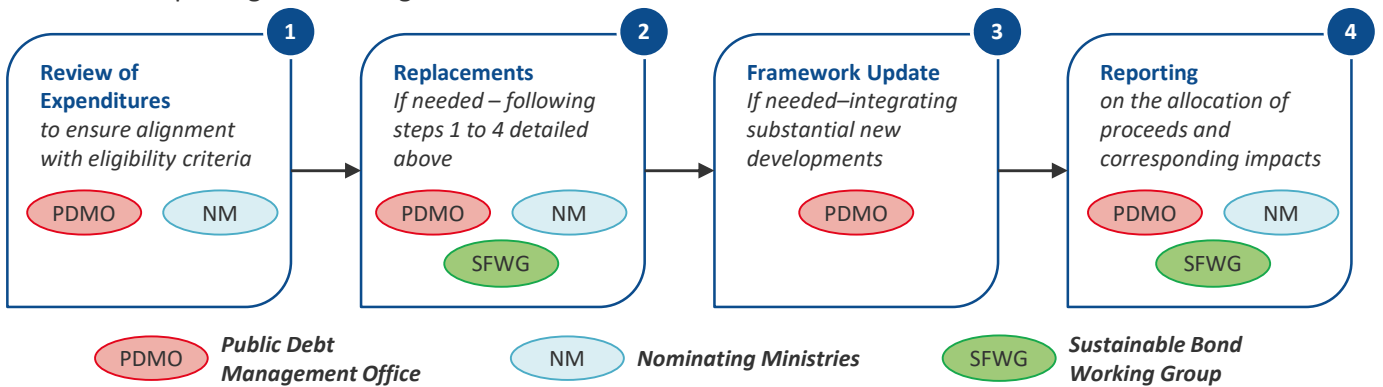
The PDMO will share the nominated project shortlist with the SFWG in order for the interministerial Working Group to consider not only whether the technical criteria for project eligibility under this Framework have been met, but also what environmental and social risks associated with each project may require further diligence with nominating ministries, together with potential mitigants.

**4 Eligibility Decision**

Where a project has been determined by the SFWG following the screening described above to be an eligible Green or Social project, it will confirm to the PDMO that it can add the screened project to the register of eligible Green and Social projects which is maintained by the PDMO for purposes of proceeds tracking (the “**Eligible Expenditures Register**”). The PDMO will inform the nominating ministry that its project has been added to the Eligible Expenditures Register and will confirm with the nominating ministry what impact metrics it expects to be able to feed through to the PDMO for compilation of its annual allocation and impact report during the upcoming annual reporting cycle.

**Ongoing Review and Preparation for Annual Reporting**

Below is an illustration of the governance process for ongoing review of eligible projects and compliance with Framework reporting undertakings



**5 Review of Expenditures**

Prior to the preparation of annual allocation and impact reports, the PDMO will reach out to nominating ministries in order to reconfirm that projects against which proceeds have been or will be allocated have not changed materially and remain in compliance with the technical eligibility criteria under this Framework.

**6 Replacements**

Where the consultation with nominating ministries indicates that a project previously included on the Eligible Expenditures Register no longer meets the eligibility criteria under this Framework, the PDMO will flag this to the SFWG, and proceeds will be re-allocated to eligible projects as soon as possible, on a best efforts basis.

**7 Framework Update**

The PDMO will review this Framework on an annual basis in order to check whether there are any substantial changes in relevant legislation, the sustainable finance market or the Republic’s green or social budget priorities which might merit integration into an updated Framework. If Framework updates are determined by the PDMO to be required, these will be flagged to the SFWG prior to Framework amendments and the PDMO will confirm with the existing second party opinion provider any updates to the SPO which may be required.

**8 Reporting**

Prior to the preparation of annual allocation and impact reports, the PDMO will reach out to nominating ministries to confirm final project spend and collate impact KPIs. The PDMO will compile the draft allocation and impact report and share with the external reviewer (detailed below for review). Following external reviewer input, the PDMO will present the draft allocation and impact reports to the SFWG for comment, following which the PDMO will coordinate report publication.

### 2.3. MANAGEMENT OF PROCEEDS

The Republic of Cyprus may use proceeds from the issuance of any Sustainable Instruments issued under this Framework for general budgetary purposes or such other use as may be specified in the applicable offering document for such issuance. An amount equivalent to the net proceeds of any Sustainable Instrument issuance under this Framework will be applied to Eligible Expenditures per the eligibility criteria set out in section 2.1 above.

The Eligible Expenditures Register managed by the PDMO will reflect the working list of eligible expenditures based on the screening process described above, and will indicate the expenditures against which proceeds from any Sustainable Instrument issuance have been matched. The Eligible Expenditures Register will therefore reflect the net proceeds from each Sustainable Instrument issuance, the amount of proceeds matched against specified eligible expenditures, and the amount of proceeds remaining to be allocated for each Sustainable Instrument series.

The Republic will endeavour to fully match the net proceeds from any Sustainable Instrument issuance to Eligible Expenditures within two budget years from the date that the relevant Sustainable Instrument has been issued and will manage proceeds from any Sustainable Issuance accordingly on a per-issuance basis. In the event that amounts raised from Sustainable Instruments are not immediately and fully allocated to Eligible Expenditures, the PDMO will manage unallocated proceeds in line with its normal cash management guidelines and will ensure that its cash accounts maintain a balance that is no less than the amounts unallocated under any Sustainable Instrument issuances outstanding.

## 2.4. REPORTING

The Republic of Cyprus is committed to report on any Sustainable Instrument issuance under this Framework in line with best market practice, including both allocation and impact reporting annually until such time as the net proceeds from each Sustainable Instrument issued have been fully allocated against Eligible Expenditures. The PDMO will assume primary responsibility for the Republic’s annual allocation and impact reports which will be subject to review by the SFWG prior to publication.

### Allocation Reporting

Cyprus undertakes to publish annual allocation reports. It will make publicly available on its website no later than the end of the calendar year after any Sustainable Instrument issuance an allocation report which includes at least the following details:

- Total net proceeds from any Sustainable Instrument (listed by ISIN) which have been allocated to Eligible Expenditures and the total net proceeds from any Sustainable Instrument issuance which remains to be allocated
- Breakdown of the allocation of the net proceeds of Sustainable Instrument issuances between each of the Eligible Green and Social Expenditure categories set out in this Framework
- Split of allocations between past expenditures receiving allocations in reliance under the refinancing lookback period under the Framework vs. new expenditures made post-issuance
- Breakdown of the allocation of the net proceeds of Sustainable Bond issuances by ICMA category
- Breakdown of the allocation of the net proceeds of Sustainable Bond issuances by UN SDG
- Breakdown of the allocation of the net proceeds of Sustainable Bond issuances by geography

In addition, to the above data, the allocation report will confirm:

- That the Eligible Expenditures Register is up to date
- That PDMO has maintained cash in line with its normal cash management guidelines that cover at least the amount of unallocated net proceeds from any Sustainable Instrument issuance
- With respect to previously reported allocations, that proceeds remain applied to expenditures which meet the eligibility criteria set out in the Framework or, alternatively, that suitable replacement allocations have been made where required based on changes to underlying expenditure eligibility

## Impact Reporting

Cyprus will also use its best efforts to provide annual reporting on the expected impacts of the Green and Social Expenditures receiving allocations from Sustainable Instruments issued under this Framework. Cyprus expects its annual impact reporting to be integrated with its allocation reporting described above, and will reflect the recommendations contained in ICMA's June 2022 Harmonised Frameworks for impact reporting for green and social bonds<sup>30</sup>.

The impact reports published by Cyprus will contain, where relevant and feasible, information addressing the positive environmental and social impacts of Eligible Green and Social Expenditures receiving allocations from Sustainable Instruments issued under this Framework, and may include case studies or summaries of eligible projects against which proceeds have been matched.

The table below outlines the impact metrics that Cyprus intends to use, as applicable and to the extent feasible given the data available to it, in its annual impact reports. This list should be considered non-exhaustive, and Cyprus may update these metrics or provide additional metrics in the future.

<sup>30</sup> Available at [https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Harmonised-Framework-for-Impact-Reporting-Green-Bonds\\_June-2022-280622.pdf](https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Harmonised-Framework-for-Impact-Reporting-Green-Bonds_June-2022-280622.pdf) and [https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Harmonised-Framework-for-Impact-Reporting-Social-Bonds\\_June-2022-280622.pdf](https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Harmonised-Framework-for-Impact-Reporting-Social-Bonds_June-2022-280622.pdf)



## Republic of Cyprus

Green Expenditure Categories	Sample KPIs
<b>Renewable energy</b> 	<ul style="list-style-type: none"> <li>• Output of additional renewable energy in MWh p.a.</li> <li>• Additional capacity of renewable energy plant(s) and installations constructed, refurbished or subsidized in MW</li> </ul>
<b>Energy efficiency</b> 	<ul style="list-style-type: none"> <li>• Annual greenhouse gas emissions reduced/avoided in tons of carbon dioxide equivalent (CO2 e)</li> <li>• Annual energy savings in MWh or GJ</li> </ul>
<b>Pollution prevention and control</b> 	<ul style="list-style-type: none"> <li>• Absolute in tons or % reduction in pollutants</li> <li>• Amount of waste that is prevented in % of total waste and/or in absolute amount in tonnes p.a.</li> <li>• Amount of waste recycled (tonnes or in % of total waste)</li> <li>• Change in maximum daily leachate production quantity in m3</li> <li>• Volume of recoverable landfill gas (CO2 / methane) in m3</li> </ul>
<b>Environmentally sustainable management of living natural resources and land use</b> 	<ul style="list-style-type: none"> <li>• Increase of area under certified land management (ha)</li> <li>• Area conserved in square kms or hectares</li> <li>• Share of utilised agricultural area (UAA) under supported commitments to reduce emissions or to maintain or enhance carbon storage</li> <li>• Share of livestock units (LU) under supported commitments to improve environmental sustainability</li> <li>• Share of utilised agricultural area (UAA) covered by income support and subject to conditionality</li> <li>• Share of utilised agricultural area (UAA) under substantiated commitments for soil management to improve soil quality and biota</li> <li>• Share of utilised agricultural area (UAA) under supported commitments for the quality of water bodies</li> <li>• Number of operations contributing to environmental sustainability and the mitigation of climate mitigation and adaptation zones in rural areas</li> <li>• Number of actions taken as a result of environmental surveys</li> </ul>
<b>Terrestrial and aquatic biodiversity conservation</b> 	<ul style="list-style-type: none"> <li>• Area of restored peatlands, wetlands to their natural state, allowing ecosystem functions to fully recover</li> <li>• Area or km of coastline with protected ecosystems</li> <li>• Area or km of artificial reefs created</li> <li>• Number of turtles tagged</li> <li>• Reduction in the number of invasive species (absolute / per sq km)</li> <li>• Number of successful nests per annum</li> <li>• Number of eaglets fledging per successful nests</li> <li>• Total number of territorial pairs of birds</li> <li>• Increase in the number or area (sq km) of Natura 2000 areas identified under the Birds and Habitats Directives</li> <li>• Number of projects for the protection and restoration of marine biodiversity and ecosystems</li> </ul>
<b>Clean transportation</b> 	<ul style="list-style-type: none"> <li>• Annual greenhouse gas emissions reduced/avoided in tonnes of carbon dioxide equivalent (CO2 e)</li> <li>• Accumulated amount of electrified rail infrastructure (kilometres)</li> <li>• Annual passenger-kilometres of rail transport</li> <li>• Annual tonne-kilometres of rail transport</li> <li>• % share of non-fossil fuel goods transported</li> <li>• Number of electric vehicle charging stations installed</li> </ul>
<b>Sustainable water and wastewater management</b> 	<ul style="list-style-type: none"> <li>• Absolute reduction in water pollutants (nitrogen, phosphor)</li> <li>• Annual absolute and % amount of wastewater treated, reused in m3 p.a.</li> <li>• Additional population connected to sewage and drinking water infrastructure</li> <li>• Kilometres of drinking water infrastructure established</li> <li>• Kilometres of drinking water infrastructure renovated</li> <li>• Annual volume of clean drinking water supplied in m3 p.a. for human consumption</li> <li>• Absolute volume of water transferred in m3</li> <li>• Reduction in the following contaminants: BOD5 (mg/L), COD (mg/L), SS (mg/L), TN (mg/L) or TP (mg/L)</li> </ul>
<b>Climate change adaptation</b> 	<ul style="list-style-type: none"> <li>• Number of climate change adaptation/resilience projects supported</li> <li>• Number of additional citizens protected from floods</li> <li>• Area protected from floods</li> </ul>
<b>Circular economy adapted products, production technologies and processes</b> 	<ul style="list-style-type: none"> <li>• Amount of waste diverted from landfill</li> <li>• Monetary value of products (recycled materials, etc.) created from waste processing / products containing a high proportion of recycled materials</li> </ul>
<b>Green buildings</b> 	<ul style="list-style-type: none"> <li>• Estimated ex-ante annual energy savings (in MWh)</li> <li>• Annual GHG emissions in tons of CO2 equivalent saved</li> <li>• Reduction of annual primary energy consumption in public buildings</li> <li>• Surface area of energy refurbished buildings owned/used by the central government</li> </ul>

# Republic of Cyprus

Social Expenditure Category	Output	Outcome	Impact
<b>Affordable basic infrastructure</b> 	<ul style="list-style-type: none"> <li>Number of beneficiaries</li> <li>Number of water infrastructure projects built/upgraded</li> <li>Number of new household water connections</li> <li>Number of people provided with adequate and equitable sanitation</li> <li>Number of residents benefitting from basic infrastructure new/upgraded which is otherwise not accessible.</li> <li>number of new household power connections</li> </ul>	<ul style="list-style-type: none"> <li>Share of people with broadband network</li> <li>%/size of populations provided access to clean water and/or sanitation</li> <li>Decreased number of hospitalisations linked to water related diseases</li> <li>Reduction rate in the incidence of sanitation related diseases</li> <li>Reduced % of water-borne diseases in community</li> <li>Increase % of rural areas/households with access to electricity (clean &amp; affordable)</li> </ul>	<ul style="list-style-type: none"> <li>Number of women/youth supported</li> <li>Increased access to clean, affordable water &amp; sanitation</li> <li>Improved health outcomes for community</li> <li>Improvement in sustainable/eco-friendly/low carbon mobility.</li> </ul>
<b>Access to essential services (health, education etc.)</b> 	<ul style="list-style-type: none"> <li>Number of hospital and other healthcare facilities built/upgraded</li> <li>Number of health checks provided</li> <li>Number of residents benefitting from healthcare which is otherwise not accessible</li> <li>Number of educational institutions funded, location and type</li> <li>Number of students supported</li> <li>Number of people provided with skill development and/or vocational training</li> </ul>	<ul style="list-style-type: none"> <li>Increased hospital bed capacity and/or decreased density</li> <li>Reduced cost of treatment or reduction in avoidable hospitalisation for acute conditions</li> <li>Reduction in care avoided due to affordability issues</li> <li>Cost reduction for standard treatments and medicines</li> <li>Decreased distance to healthcare facilities in a region</li> <li>Improved timeliness or promptness of care</li> <li>Reduced average time between diagnosis and Treatment</li> <li>Increased % of girls or gender parity in school</li> </ul>	<ul style="list-style-type: none"> <li>Improvement in quality of life</li> <li>Increase in life expectancy</li> <li>Morbidity reduction</li> <li>Reduced mortality</li> <li>Improved health equity</li> <li>Improved healthcare accessibility</li> <li>Improved healthcare affordability</li> <li>Improved responsiveness of healthcare system</li> <li>Increased literacy rate</li> <li>Decrease youth unemployment rate</li> </ul>
<b>Employment generation</b> 	<ul style="list-style-type: none"> <li>Number and value of loans to MSMEs</li> <li>Number and value of loans to women/minority-owned MSMEs</li> <li>Number of jobs supported/created/retained</li> <li>Number of disabled people employed</li> <li>Number of people provided with access to financial services</li> <li>Income support to people in disadvantaged areas for agricultural purposes</li> </ul>	<ul style="list-style-type: none"> <li>Reduced unemployment</li> <li>Number of people benefitting through improved employment</li> <li>Rate of employment of people with disabilities.</li> <li>Increased income</li> <li>Increased savings</li> <li>Increased share of utilised agricultural area (UAA) covered by income support and subject to conditionality</li> <li>Increased percentage of additional support per hectare in areas with higher needs (compared to average)</li> </ul>	<ul style="list-style-type: none"> <li>Increase in GDP</li> <li>Enhanced financial resilience</li> <li>Increased demographic dividend</li> <li>Improved quality of life by easing the burden of housing expenses for low-income families.</li> </ul>
<b>Affordable housing</b> 	<ul style="list-style-type: none"> <li>Participation (rate) of tenants in community activities</li> <li>Share of under-served tenants</li> <li>Number of individuals/families benefitting from subsidised housing</li> <li>Number of dwellings</li> <li>Disabled people with access to well-equipped dwellings</li> </ul>	<ul style="list-style-type: none"> <li>Improved access to affordable housing or housing loans</li> <li>Reduction in number of people experiencing poor housing and homelessness.</li> <li>Rental costs compared to the national/regional rent index</li> <li>Increase in women's ownership of property and housing</li> </ul>	<ul style="list-style-type: none"> <li>Improved safety and shelter outcomes</li> </ul>
<b>Food security and sustainable food systems</b> 	<ul style="list-style-type: none"> <li>Number of people benefiting from agricultural projects and using improved farming technology</li> <li>Number of people provided with access to affordable, safe, nutritious, and sufficient food</li> <li>Farmers provided with training (Hectares of land cultivated, which use has improved, i.e. replanted, reforested, landscaped)</li> </ul>	<ul style="list-style-type: none"> <li>Reduced number of food insecure people</li> <li>Reduced malnourishment</li> <li>Increased production of Fair-Trade certified products</li> <li>Improved yield</li> <li>Reduced wastage</li> <li>Improved soil quality</li> <li>Improved water efficiency</li> <li>Increased production with organic/sustainability standards</li> </ul>	<ul style="list-style-type: none"> <li>Reduction in malnutrition rates</li> <li>Increased rates of agricultural productivity</li> <li>Share of target population with adequate food supply</li> <li>Reduced rates of poverty for farmers</li> <li>Increased rates of economic, social and environmental resilience for farmers</li> <li>Reduction in per capita food waste</li> </ul>

3.  
External Verification



## 3. Key components of the Framework

### 3.1. SECOND PARTY OPINION

Cyprus has obtained a Second Party Opinion in line with international market practice from ISS Corporate Solutions, Inc. to confirm the alignment of this Sustainable Instrument Framework with the ICMA Green Bond Principles, Social Bond Principles, and Sustainability Bond Guidelines, as well as with the LMA Green Loan Principles and Social Loan Principles.

Cyprus will review this Framework on a regular basis, including its alignment to updated versions of the above principles as and when they are released, with the aim of adhering to best practice. Such review may result in this Framework being updated and amended and any material updates are expected to be covered by an updated Second Party Opinion.

### 3.2. ANNUAL REPORTING

Cyprus will engage an independent third party to provide assurance in connection with each annual report confirming the amount of proceeds matched to Eligible Expenditures and the amount remaining to be matched, as well compliance with the eligibility criteria set out in this Framework.

The annual reports published by Cyprus, together with the external assurance report, will be made public on the website of the PDMO.

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**No assurance can be given that the use of proceeds from the Sustainable Instruments of the Republic of Cyprus for any Eligible Green or Social Expenditures will satisfy, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required or intended to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates, in particular with regard to any direct or indirect environmental impact of any projects or uses, the subject of or related to, any Eligible Green or Social Expenditures.**

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