

# Chile's Experience in the ESG Market



**Gobierno  
de Chile**

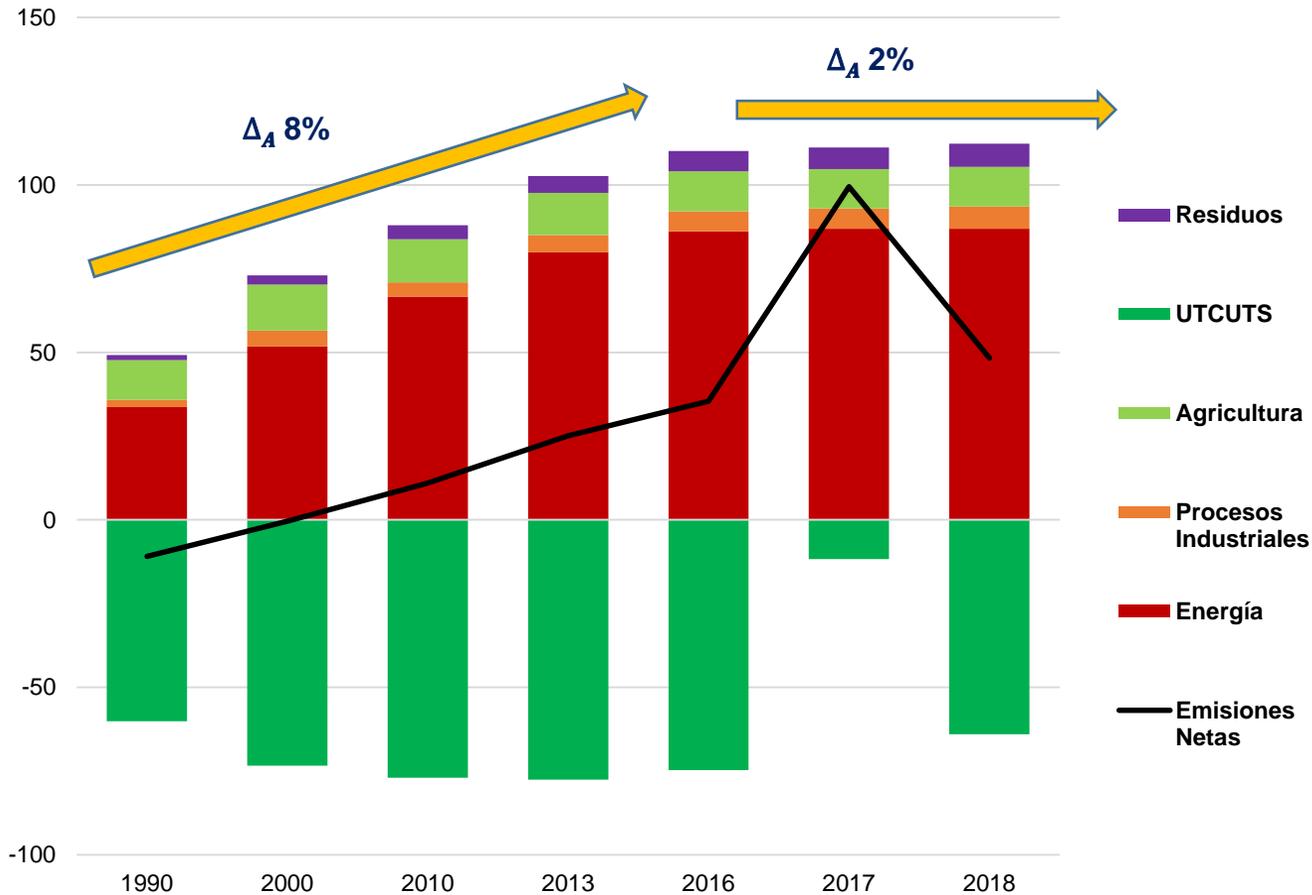
Ministerio de Hacienda

**Public Debt Management Office  
Ministry of Finance**

**April, 2022**

# ...substantial evolution of pollution in Chile has worsened global warming and we are suffering the effects of climate change

GHG emissions by sector (MtCO<sub>2</sub>e)



# ... Chile is well committed to face Climate Change

## Regulatory Framework

- **Law of Climate Change Framework** (Ley Marco de Cambio Climático): targets, institutions and tools
- **Energy Efficiency Law:** industrial, mining and transport sector, with the goal of reducing emissions 2% annually

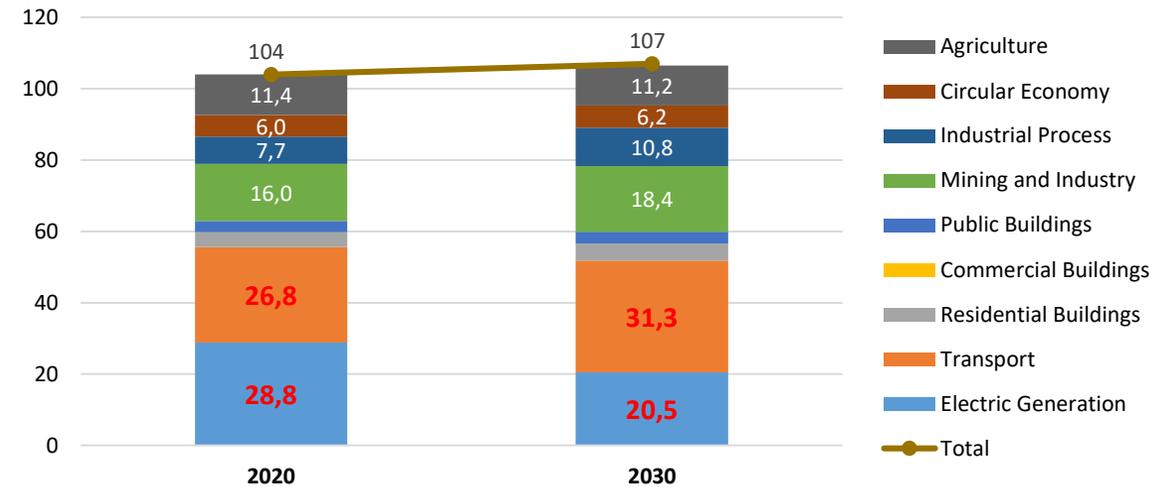
## Targets and Goals

- **NDC 2020**
  - Chile is committed to a gross carbon budget not higher than 1,100 MtCo2eq for the 2020-2030 period, reaching a peak in 2025, and a **level of 95 MtCO2eq in 2030**
  - Others: to reduce at least 25% of carbon emissions by 2030, sustainable management and recovery of 100 thousand native forestry hectares by 2030, to create marine protected areas
- **Long Term Climate Strategy**, with 2050 targets

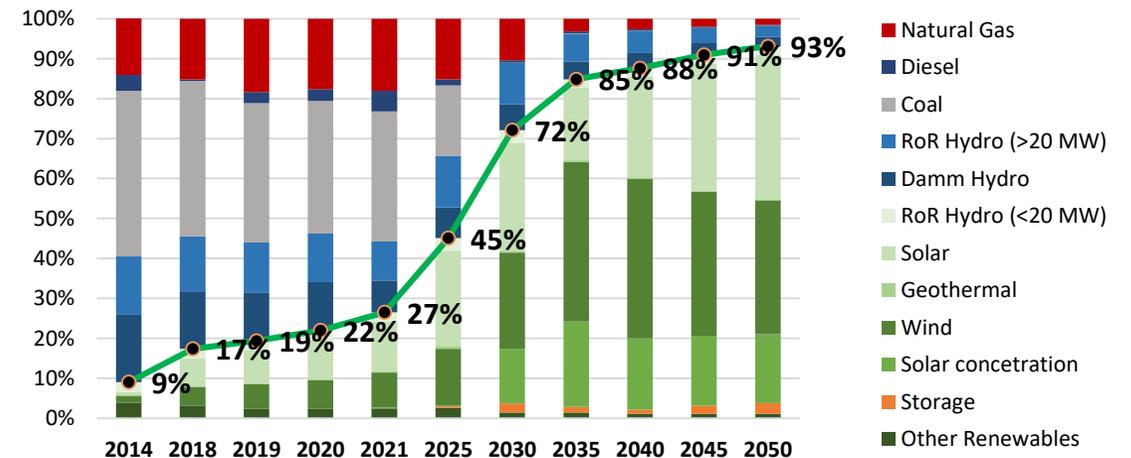
## Policy Action

- **Long Term Energy Planification:** Every 5 years, in order to forecast energy scenarios (30 years)
- **National Electromobility Law**
- **Green Hydrogen National Strategy:**
  - (i) Domestic consumption
  - (ii) Export and transportation

Base Scenario (forecasts) for GHG emissions by 2030



Energy Matrix and NCRE



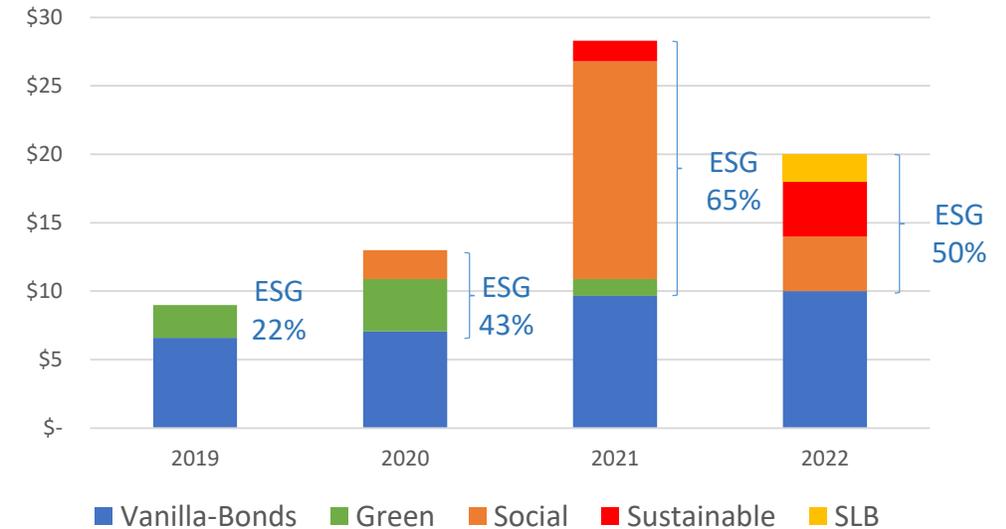
Source: Ministry of Environment and Ministry of Energy

# Contribution of the Government's Financing Strategy to address Climate Change and Sustainable Growth

- Labelled bonds have become fundamentals for financing of Chile, and they are totally incorporated into the general strategy of debt management
- Formally, since 2018, Chilean PDMO seeks to promote the development of ESG green asset class (green/social/sustainability bonds) to attract foreign investment and support the country's sustainable infrastructure needs, while diversifying the investor base
- Chile has taken a leadership in the ESG market:
  - In 2019, being the first country in the Americas to issue Green Bonds
  - In 2022, issuing the first SSLB. This format especially brought increased investor interest, and made the notes the first-ever SLB from a Sovereign issuer anywhere in the world
  - This transaction opens a new path for other countries to link their funding activities in the capital markets with their ESG commitments

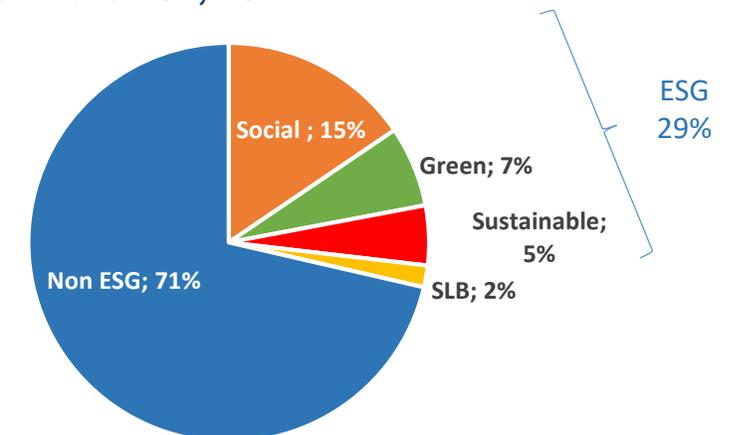
## Historical Issuances

Billion of US dollars



## Stock as of March 31, 2022

% of total



# Frameworks and Labelled bonds issuances

**Green Bond Framework**  
June 2019



2019

**First Green Bond Issuance**

- EUR-2031 €861 MM
- USD-2050 US\$ 1,418 MM

**Sustainable Bond Framework**  
December 2020



2020

**Green Bond Issuances**

- EUR-2031 (R) €694 MM
- EUR-2040 €1,269 MM
- USD-2032 US\$ 750 MM
- USD-2050 (R) US\$ 900 MM

**First Social Bond Issuances**

- CLP-2028 \$1,040,000 MM
- CLP-2033 \$560,000 MM

2021

**Green Bond Issuances**

- EUR-2031 (R) €400 MM
- USD-2032 (R) US\$750 MM

**Social Bond Issuances**

- In pesos: CLP-2024 and CLP-2028 totaling \$2,561,000 MM
- In euros: EUR-2027, EUR-2029, EUR-2036 and EUR-2051 totaling € 3,918 MM
- In US dollars: USD-2033, USD-2041, USD-2061 and USD-2071 totaling US\$ 7,950 MM

**First Sustainable Bond Issuances**

- Formosa USD-2053 US\$ 1,500 MM

**SLB Framework**  
February 2022



2022

**Sustainable Bond Issuances**

- USD-2027 US\$ 1,500 MM
- USD-2034 US\$ 1,500 MM
- USD-2052 US\$ 1,000 MM

**First SLB Issuance**

- USD-2042 US\$ 2,000 MM

# Green and Social projects

## Green Projects:

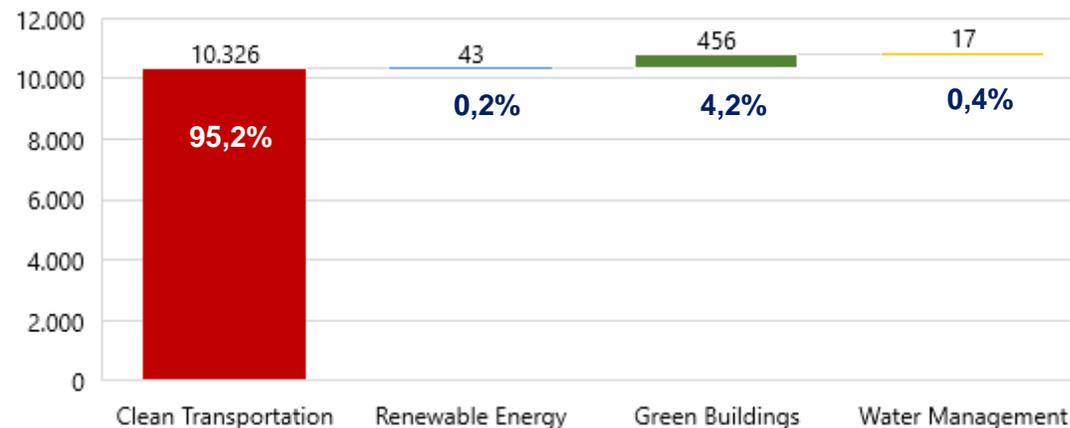
- The green projects are certified by Climate Bond Initiative (CBI), which provides to the market a high degree of confidence
- Since its beginning, Chile has certified US\$10.8 billion, mainly in the Clean Transportation sector
- The last certification was performed on February, 2022, which totalized US\$ 1.7 billion, mainly in Clean Transportation Sector, but also with other amounts for renewable energy in vulnerable sectors
- Categories are full aligned with Chile’s priorities, focused on clean transportation, clean energies and green buildings

## Social Projects:

- Social sectors aligned to ICMA recommendations and linked to particular SDGs
- The social sectors included in the framework are:
  - Support for the elderly or people with special needs in vulnerable situation
  - Support for low-income families
  - Access to Affordable Housing
  - Support for the community through job creation
  - Access to education
  - Food security
  - Access to essential health services
  - Social programs designed to prevent and/or alleviate unemployment derived from socioeconomic crisis, including through the potential effect of financing SMEs and micro-finances

## Total CBI Certified Portfolio

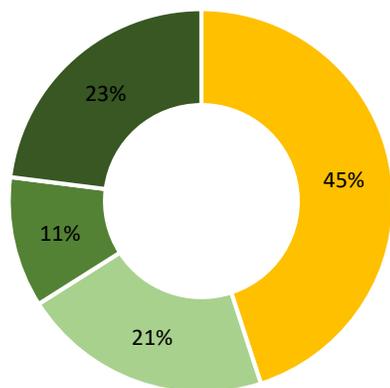
Million of US dollars



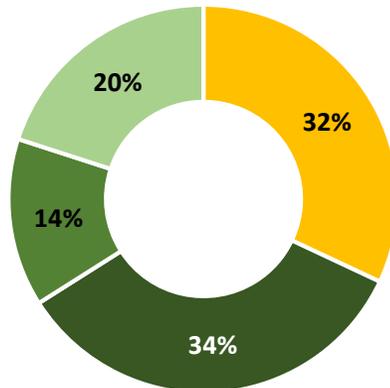
# Sustainability-Linked Bonds

- On February, 2022 Chile published its SLB Framework, which sets the guidelines for the issuance of SLB
- SLB Framework aligned with the SLB Principles of ICMA
- With the SLBs, Chile seeks to expand its ESG instruments, including instruments that do not contemplate a specific use of proceeds in projects, but rather that the financial cost of the instrument (coupon step-up) depends on sustainability performance targets (SPTs) are achieved. This implies “aligning efforts to meet goals, otherwise a financial penalty will have to be paid”.**
- In its SLB Framework, Chile established targets (SPTs) based on:
  - Achieve annual GHG emissions of 95 MtCO<sub>2</sub>e by 2030 (SPT1a)
  - Achieve a maximum GHG budget of 1,100 MtCO<sub>2</sub>e between 2020 and 2030 (SPT1b)
  - Achieve 60% electricity generation derived from non-conventional renewable sources by 2032 (SPT2)
- On March, 2022 Chile issued its first SLB, US\$2 billion dollar denominated with maturity on 2042 (20yrs)**
- Coupon Step-Up: 12.5 or 25 bps if one or two SPTs are not satisfied, respectively (8yrs fully accrued payment; equivalent to potential total penalty of 200 bps)
- IPTs: T+240bp area; Final Spread: T+200bp; NIC: 15bp; Final Orderbook: \$5.75bn

**SRI Investors Density by Number of Accounts**



**SRI Investors Density of Allocation**

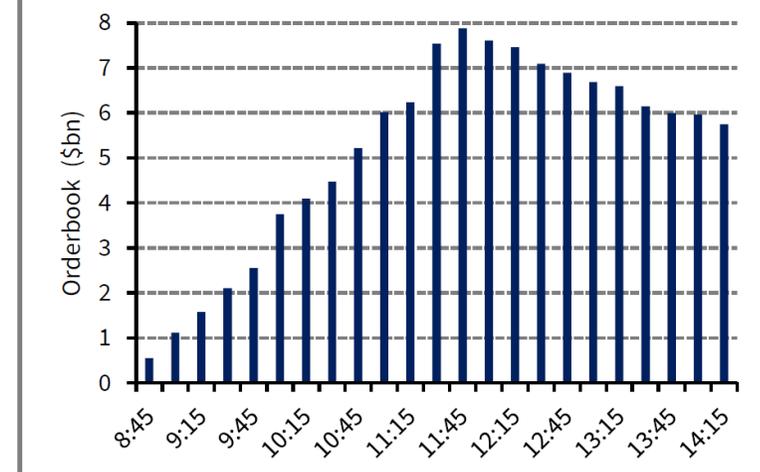


• 55% of accounts where SRI inv. 68% of allocation went to SRI inv.

■ Not SRI ■ Dark ■ Medium ■ Light

■ Not SRI ■ Dark ■ Medium ■ Light

**Orderbook Over Time**



# Reporting, Verification & SPO

## Reporting

- Chile will publish an annual “SLB Report,” including information on KPI evolution, progress against the SPTs, and other material information for investors regarding KPI progress
  - Information regarding KPI 1 will be produced biennially, in line with current NDC protocol and similar to other countries’ reporting cycles
  - Information regarding KPI 2 will be produced annually

## Verification

- As part of the NDC process, KPI 1 performance will be reviewed and verified by the Technical Team of Experts (TTE) of the UN Framework Convention on Climate Change (UNFCCC)
- KPI 2 performance will be reviewed and approved by Chile’s National Electrical Coordinator, an independent technical body
- A report on the verification of KPI 1 and KPI 2 will be publicly available on the Public Debt Office’s website

## Second Party Opinion (SPO) - Sustainalytics

- In its SPO, Sustainalytics establishes that “the Sustainability-Linked Bond Framework...is aligned with the five core components of the SLBP”
- Sustainalytics believes that the Framework “is aligned with Chile's climate change and renewable energy policies, commitments and laws”
  - Help to meet carbon neutrality goal
  - “Well-position” the country to issue green instruments

KPI	SPT	Strength of KPI	Ambitiousness of SPT
KPI 1: Absolute GHG Emissions (MtCO2e)	SPT 1a: Achieve annual GHG emissions of 95 MtCO2e by 2030 SPT 1b: A maximum GHG budget of 1,100 MtCO2e between 2020 and 2030	<b>Very Strong</b>	<b>Ambitious</b>
KPI 2: Share of Non-Conventional Renewable Energy Generation in the National Electric System	SPT 2a: Achieve 50% electricity generation derived from non-conventional renewable sources by 2028 SPT 2b: Achieve 60% electricity generation derived from non-conventional renewable sources by 2032	<b>Strong</b>	<b>Highly Ambitious</b>

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