Second-Party Opinion

Chile's Sustainability-Linked Bond Framework

Second-Party Opinion
Reviewed by:
MORNINGSTAR | SUSTAINALYTICS

Evaluation Summary

Evaluation Date[2]	June 23, 2023
Issuer Location	Santiago, Chile

Sustainalytics is of the opinion that Chile's Sustainability-Linked Bond Framework aligns with the Sustainability-Linked Bond Principles 2023. This assessment is based on the following:

- **Selection of Key Performance Indicators** Chile's Sustainability-Linked Bond Framework includes three KPIs: i) Absolute GHG emissions, ii) Share of non-conventional renewable energy in the National Electric System, and iii) Percentage of women in board member positions at companies that report to the Financial Market Commission (CMF) (see Table 1). Sustainalytics considers KPI 1 and KPI 3 to be very strong, and KPI 2 to be strong, based on their materiality, relevance, scope of applicability and comparability to external benchmarking.
- **Calibration of Sustainability Performance Targets** Sustainalytics considers the SPTs to be aligned with Chile's sustainability strategy. Sustainalytics considers SPT 1 to be ambitious based on its improvement over past performance and its alignment with a slightly below 2°C scenario; SPT 2 to be highly ambitious based on it being consistent with efforts to limit global temperature increases to below 1.5°C; and SPT 3 to be highly ambitious based on past performance and its performance against countries in the same region.
- **Bond Characteristics** Chile will link the bond's financial characteristics to the achievement of the SPTs, such as a coupon step-up or a premium payment in case an SPT, including an intermediate SPT, is not met at the target observation date. In the event that more than one SPT is not met, the premium paid will be cumulative.
- **Reporting** Chile commits to report on its progress on the KPIs on an annual basis via an SLB report. Information regarding KPI 1 will be produced biennially,[1] consistent with the UNFCCC's requirements. While the SLBP state that up-to-date information on KPI progress should be reported on an annual basis, Sustainalytics recognizes that Chile follows the guidance set by the UNFCCC for developing economies, and therefore finds it to be in alignment with the Sustainability-Linked Bond Principles 2023.
- **Verification** Chile commits to have external verification conducted on its progress towards each SPT for each KPI at least once a year, which is aligned with the Sustainability-Linked Bond Principles 2023.

The SPTs contribute to the following SDGs:

[1] Chile follows the UNFCCC's Biennial Update Report guidelines for Non-Annex I Parties, which requires biennial update reports of national GHG inventories from non-Annex I Parties. UNFCCC, "National Reports from non-Annex I Parties", at: https://unfccc.int/national-reports-from-non-annex-i-parties

[2] This document is an update to the Second-Party Opinion originally provided in February 2022 and revised in June 2023.

Overview of KPIs and SPTs

KPI	Baseline	SPT	Strength of KPI	Ambitiousness of SPT
KPI 1: Absolute GHG emissions ($MtCO_2e$)	109.46 (2018)	SPT 1a: Achieve annual GHG emissions of 95 $MtCO_2e$ by 2030 SPT 1b: A maximum of 1,100 $MtCO_2e$ between 2020 and 2030	Very Strong	Ambitious
KPI 2: Share of non-conventional renewable energy in the National Electric System (%)	27% (2021)	SPT 2a: Achieve 50% of electricity generated from non-conventional renewable sources by 2028 SPT 2b: Achieve 60% electricity generation derived from non-conventional renewable sources by 2032	Strong	Highly Ambitious
KPI 3: Percentage of women in board member positions at companies that report to the CMF (%)	14.0% (2022)	SPT 3: Achieve at least 40% of women representation in boards of directors at companies to CMF by 2031	Very Strong	Highly Ambitious

Table of Contents

Scope of Work and Limitations

The Government of Chile has engaged Sustainalytics to review its Sustainability-Linked Bond Framework dated June 2023 (the "Framework") and provide an opinion on its alignment with the Sustainability-Linked Bond Principles 2023 (SLBP).[3]

Sustainalytics' Second-Party Opinion reflects Sustainalytics' independent[4] opinion on the alignment of the Framework with the SLBP, as administered by ICMA.

As part of this engagement, Sustainalytics exchanged information with various members of the Public Debt Office of the Ministry of Finance of Chile to understand the country's climate goals, initiatives to advance gender equality and SPTs, as well as the reporting and verification processes of aspects of the Framework. Government of Chile's representatives have confirmed that:

(1) They understand it is the sole responsibility of issuer to ensure that the information provided is complete, accurate and up to date;

(2) They have provided Sustainalytics with all relevant information; and

(3) Any provided material information has been duly disclosed in a timely manner.

Sustainalytics also reviewed relevant public documents and non-public information. This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with the Framework. Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and the Government Chile. Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated SPTs of KPIs but does not measure KPI performance.[5] The measurement and reporting of the KPIs is the responsibility of the issuer. No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument either in favour or against the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that Chile has made available to Sustainalytics for the purpose of this Second-Party Opinion.

The Second-Party Opinion is valid for issuances aligned with the respective Framework for which the Second-Party Opinion was written and aligned with the methodology to calculate the KPI performance outlined in the Second-Party Opinion up to 24 months from the evaluation date or until one of the following occurs:

(1) A material change to the external benchmarks[6] against which targets were set;

(2) A material action by the Government of Chile which has a bearing on the achievement of the SPTs or the materiality of the KPIs.

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[3] The Sustainability-Linked Bond Principles were updated by ICMA in June 2023. They are administered by ICMA and are available at: https://www.icmagroup.org/assets/documents/Sustainable-finance/2023-updates/Sustainability-Linked-Bond-Principles-June-2023-220623.pdf

[4] When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics' hallmarks is integrity, another is transparency.

[5] Sustainalytics has provided an opinion based on the understanding that the financial characteristics of instruments issued under the Framework will be tied to the achievement of SPTs corresponding to each of the KPIs included in the Framework.

[6] Benchmarks refers to science-based benchmarks.

Introduction

The Republic of Chile ("Chile") is a country located on the west coast of South America, bordered by Argentina and Bolivia to the east and Peru to the north. Chile had an estimated population of over 19.4 million as of 2021, with more than 88% of the population living in urban areas.[7] The greater metropolitan area of Santiago, the capital of Chile and country's largest city, has an estimated population of 6.8 million people.

The Government of Chile intends to issue sustainability-linked bonds where the financial characteristics are tied to the achievement of sustainability performance targets for three KPIs: i) Absolute GHG emissions, ii) Share of non-conventional renewable energy in the National Electric System, and iii) Percentage of women in board member positions at companies that report to the Financial Market Commission (CMF).

The Government of Chile has engaged Sustainalytics to review the Framework and provide an opinion on the alignment of the Framework with the Sustainability-Linked Bond Principles 2023. The Framework will be published in a separate document.[8]

Chile has defined the following KPIs and SPTs:

Table 1: KPI Definitions

KPI	Definition
KPI 1: Absolute GHG emissions ($MtCO_2e$)	The KPI measures the absolute GHG emissions emitted in Chile, quantified using IPCC Guidelines for National GHG Inventories.[9] Emissions sources include those from Chile's energy, industrial processes and product use, agriculture and waste sectors. Quantified emissions consist of CO_2, methane, NOx, hydrofluorocarbons, perfluorocarbons, sulphur hexafluoride and nitrogen trifluoride. The KPI excludes emissions from land use, land use change and forestry.[10]
KPI 2: Share of non-conventional renewable energy in the National Electric System (%)	The KPI measures electricity generated from non-conventional renewable energy (NCRE) as a percentage of the total electricity generated in Chile's National Electric System (SEN). NCRE is defined by the Government of Chile under Law 20,257 (2008) as coming from sources that include geothermal, wind, solar, tidal and small hydroelectric plants (<20 MW).[11] The KPI is calculated using the formula (Σ NCRE gross generation)/(Σ gross generation)×100.
KPI 3: Percentage of women in board member positions at companies that report to the CMF	The KPI measures the percentage of women's representation in boards of directors at companies that report to the CMF under General Regulation No. 386 and No. 461.[12] This is calculated as the ratio of the number of women in boards of directors across all companies against the total number of board directors reported by companies.

[7] Banco Mundial, "Población total – Chile", at: https://datos.bancomundial.org/indicator/SP.POP.TOTL?locations=CL
[8] The Chile's Sustainability-Linked Bond Framework will be available at: https://hacienda.cl/english/work-areas/international-finance/public-debt-office/esg-bonds/sustainability-linked-bonds
[9] IPCC, "2019 Refinement to the 2006 IPCC Guidelines for National Greenhouse Gas Inventories", at: https://www.ipcc.ch/report/2019-refinement-to-the-2006-ipcc-guidelines-for-national-greenhouse-gas-inventories/
[10] The land use, land use change and forestry sector is the sector absorbing GHG in Chile and has been consequently recorded as a sink in the GHG emissions registry data since 1990. Government of Chile, Ministry of the Environment, "Tendencia Nacional", at: https://snichile.mma.gob.cl/resultados-principales/
[11] IEA, "Non-conventional renewable energy law (Law 20.257)", at: https://www.iea.org/policies/4853-non-conventional-renewable-energy-law-law-20257
[12] CMF issued General Regulation No. 386 and No. 461 which required companies in scope to report on ESG as an integral part of their annual reports, including information on the number of women and men at different hierarchical levels of the organization. Norma de Carácter General Nr. 386, at: https://www.cmfchile.cl/normativa/ncg_386_2015.pdf; CMF, "CMF issues regulation incorporating sustainability and corporate governance requirements in Annual Reports", at: https://www.cmfchile.cl/portal/principal/613/w3-article-49809.html

Table 2: SPTs and Past Performance

KPI	2018	2019	2020	2021	2022	2028	2030	2031	2032
KPI 1: Absolute GHG emissions ($MtCO_2e$)	109.46 (baseline)	111.03	105.55	-	-	-	95.00	n.a.	n.a.
KPI 2: Share of non-conventional renewable energy in the National Electric System	17%	19%	22%	27% (baseline)	33%	50%	n.a.	n.a.	60%
KPI 3: Percentage of women in board member positions at companies that report to the CMF	-	10.6%	10.5%	12.7%	14.0% (baseline)	-	-	40%	n.a.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Alignment of Chile's Sustainability-Linked Bond Framework with the Sustainability-Linked Bond Principles

Sustainalytics is of the opinion that Chile's Sustainability-Linked Bond Framework aligns with the five core components of the Sustainability-Linked Bond Principles 2023.

Selection of Key Performance Indicators

Relevance and Materiality of KPIs

In its assessment of materiality and relevance, Sustainalytics considers: i) whether an indicator speaks to a material impact of the issuer's activities on environmental or social issues, and ii) to what extent the KPI is applicable.

Sustainalytics considers KPI 1 – Absolute GHG Emissions ($MtCO_2e$), and KPI 2 – Share of non-conventional renewable energy generation in the National Electric System, to be material and relevant given the following:

- To limit global warming to 1.5°C above pre-industrial levels in accordance with the commitments of the Paris Agreement, global CO_2 emissions need to reach net zero by approximately 2050. Accordingly, the UN Sustainable Development Goals identify the integration of climate change measures into national policies, strategies and planning as a target for achieving SDG 13: Take urgent action to combat climate change and its impacts.[13] Climate change is a material issue for Chile, which has a high vulnerability to physical climate risks such as higher temperatures and heatwaves, decreased precipitation and droughts, forest fires, storms and flooding, decreased flows and receding glaciers, rising sea levels and loss of biodiversity.[14] In this context, Chile has committed to mitigating climate change in its Nationally Determined Contribution (NDC)[15] and has deployed a series of actions to address climate change.[16]

[13] UN Department of Economic and Social Affairs, Sustainable Development, "13 – Take urgent action to combat climate change and its impacts", at: https://sdgs.un.org/goals/goal13
[14] World Bank Group, "Climate risk country profile – Chile", (2021), at: https://climateknowledgeportal.worldbank.org/sites/default/files/2021-07/15916-WB_Chile%20Country%20Profile-WEB%20%281%29.pdf
[15] Government of Chile, "Chile's Nationally Determined Contribution – Update 2020", at: https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Chile%20First/Chile%27s_NDC_2020_english.pdf
[16] United Nations Climate Change, "Chile. Biennial update report (BUR). BUR5", (2022), at: https://unfccc.int/documents/624735

- Electricity accounts for approximately 20% of the total final energy consumption and for more than one-third of all energy-related CO_2 emissions globally in 2021.[17] A fully decarbonised electricity sector is essential for the transition to a net zero energy system[18] and renewable energy is the key to reducing emissions from electricity supply.[19] In Chile, the energy sector accounted for 75% of the country's total emissions in 2020 and therefore the transition towards emission-free energy plays a central role in achieving Chile's climate change objectives.[20]
- The focus of KPI 2 on NCRE is particularly relevant as close to 50% of the country's energy comes from hydroelectric sources, which are uniquely vulnerable to climate impacts in Chile.[21] Increased demand for Chile's water resources as well as changing water availability and hydrological changes due to climate change are expected to reduce the country's hydroelectric generation capacity by 11% by 2050.[22] Reduced hydroelectric generation capacity during times of drought has historically been addressed through increased fossil fuel use, which is likely to increase as the above described factors accelerate.[23] Given this context, making the energy sector more reliant on renewable energy other than hydropower is an essential part of the country's climate adaptation.

In terms of applicability, Sustainalytics notes that KPI 1 – Absolute GHG emissions, addresses the full scope of emissions originating in Chile. For KPI 2 – Share of non-conventional renewable energy in the National Electric System, Sustainalytics notes that electricity generation accounted for more than 39% of Chile's total GHG emissions[24] and NCRE is expected to at least partially displace fossil fuels as the primary source of energy generation.[25] In this context, the KPIs are considered to be highly applicable to Chile's emissions reduction goals.

Regarding KPI 3 – Percentage of women in board member positions at companies that report to the CMF, Sustainalytics considers this KPI to be material and relevant, based on the following:

- Gender gap in leadership roles is an important issue globally. The World Economic Forum's Global Gender Gap Report[26] estimated that the global average gender gap will take 132 years to achieve parity assuming the current rate of progress.[27] The World Economic Forum also identifies female representation in leadership as a top indicator to increase the proportion of women at all levels in the workforce.[28] However, women held a global average of 19.7% of board seats in 2021 with a slow progress (2.8%) compared to 2019[29] and occupied less than 30% of senior management roles in business globally.[30,31]
- The Government of Chile identifies the higher representation of women in board of directors as a material issue for the country and has adopted initiatives to promote gender diversity. The government introduced a gender quota programme on the boards of state-owned companies starting in 2014 with the goal of

[17] IEA, "Outlook for electricity", (2022), at: https://www.iea.org/reports/world-energy-outlook-2022/outlook-for-electricity
[18] IEA, "Electricity sector", (2022), at: https://www.iea.org/reports/electricity-sector
[19] IEA, "Net zero by 2050: A roadmap for the global energy sector", https://iea.blob.core.windows.net/assets/deebef5d-0c34-4539-9d0c-10b13d840027/NetZeroby2050-ARoadmapfortheGlobalEnergySector_CORR.pdf
[20] Government of Chile, Ministry of the Environment, "Tendencia Nacional", at: https://snichile.mma.gob.cl/resultados-principales/
[21] World Bank Group, "Climate Risk Profile – Chile" (2021), at: https://climateknowledgeportal.worldbank.org/sites/default/files/2021-07/15916-WB_Chile%20country%20Profile-WEB%20%281%29.pdf
[22] Government of Chile, Ministry of Energy, "Energía 2050 Política Energética de Chile", at: https://www.energia.gob.cl/sites/default/files/energia_2050_-_politica_energetica_de_chile.pdf
[23] World Bank Group, "Climate Risk Profile – Chile" (2021), at: https://climateknowledgeportal.worldbank.org/sites/default/files/2021-07/15916-WB_Chile%20country%20Profile-WEB%20%281%29.pdf
[24] Government of Chile, Ministry of the Environment, "Informe del Inventario Nacional de Chile 2020", at: https://unfccc.int/sites/default/files/resource/7305681_Chile-BUR4-1-2020_IIN_CL.pdf
[25] From October 2021 to September 2022, electricity generation derived from wind and solar (27.5%), coal (26.5%), hydro (21.8%) and gas (18.9%) in Chile. EMBER, "Wind and solar overtake coal in Chile", (2022), at: https://ember-climate.org/insights/research/wind-and-solar-overtake-coal-in-chile/
[26] The Global Gender Gap Index benchmarks the current state and evolution of gender parity across four key dimensions i) economic participation and opportunity, ii) educational attainment, iii) health and survival, and iv) political empowerment. At: https://www3.weforum.org/docs/WEF_GGGR_2022.pdf
[27] World Economic Forum, "Global Gender Gap Report 2022", (2022), at: https://www3.weforum.org/docs/WEF_GGGR_2022.pdf
[28] World Economic Forum, "The key to closing the gender gap? Putting more women in charge", (2017), at: https://www.weforum.org/agenda/2017/11/women-leaders-key-to-workplace-equality-closing-the-gender-gap/
[29] Deloitte, "Women in the boardroom: A global perspective", at: https://www2.deloitte.com/sg/en/pages/risk/articles/women-in-the-boardroom-global-perspective-seventh-edition.html
[30] The World Economic Forum's report identifies women representing only 27% of all managerial positions in 2020. World Economic Forum, "Global Gender Gap Report 2021", at: https://www.weforum.org/reports/global-gender-gap-report-2021
[31] As of 2020, women occupied only 29% of senior management roles in business globally. Grant Thornton, "Women in Business report 2020", (2020), at: https://www.grantthornton.global/globalassets/1.-member-firms/global/insights/women-in-business/2020/women-in-business-2020_report.pdf

reaching 40% of women representation in the boards by 2020. This programme surpassed the goal and in 2021, this was codified into law.[32] However, in private companies, women accounted for only 11.9% at the level of board of directors in 2022, which combined with state-owned companies brought the national level of women in boards of directors to 14.0%.[33]

In terms of applicability, Sustainalytics notes that KPI 3 applies to companies that report to the CMF, which covers publicly listed companies, stock companies issuing debt securities, banks and financial institutions, third-party funds other than pension funds, and the applicable state-owned companies. In 2020, Chilean market capitalization accounted for 73% of its nominal GDP.[34] Given that the economic importance of the companies in scope and the expected effect this can have for other companies in Chile, Sustainalytics considers this KPI to be highly applicable in scope and have an elevated scope of influence.

KPI Characteristics

In its assessment of the KPI's characteristics, Sustainalytics considers: i) whether it uses a clear and consistent methodology, ii) whether it follows an externally recognized definition, iii) whether the KPI is a direct measure of the issuer's performance on the material environmental or social issue, and iv) if applicable, whether the methodology can be benchmarked against an external contextual benchmark.[35]

KPI 1 – Absolute GHG emissions ($MtCO_2e$)

Sustainalytics considers Chile's definition and methodology to calculate KPI 1 to be clear and consistent with market practice given that it follows IPCC guidelines for national GHG inventories, which supports its ability to be benchmarked against external carbon trajectories. The KPI is also viewed as a direct measure of performance in that it addresses all of Chile's GHG emissions.

KPI 2 – Share of non-conventional renewable energy in the national electric system (%)

Sustainalytics considers Chile's definition and methodology for calculating KPI 2 to be clear and consistent based on its replicability. The methodology uses data from Chile's unified National Electric System (SEN) which allows for distinctions between conventional and NCRE sources. Electricity generation calculations are made by each generating company and consistency is ensured via monthly data reviews by Chile's National Electrical Coordinator (CEN). Sustainalytics considers KPI 2 to be indirectly linked to Chile's performance on GHG emissions reduction and views its calculation methodology to support benchmarking against science-based targets, such as the IEA's net zero emissions by 2050 scenario (NZE).[36]

KPI 3 – Percentage of women in board member positions at companies that report to the CMF

Sustainalytics considers Chile's definition and methodology to calculate KPI 3 to be clear and consistent based on this being measured as the total number of women board members compared to the total number of board of director positions across all companies that report to the CMF under regulation No. 386 and No. 461, and considers the KPI highly material and directly linked to the country's performance on a key social parameter related to gender parity. Chile ranks #47 out of 146 countries assessed and #12 in Latam and the Caribbean out of 22 countries by the Global Gender Gap Index. Sustainalytics considers that this KPI is of particular relevance in order to contribute to closing the gender gap in the country.

Overall Assessment

Sustainalytics considers KPI 1 – Absolute GHG emissions ($MtCO_2e$) to be very strong given its direct relationship to performance and high relevance to the material issue of GHG emissions reduction.

Sustainalytics considers KPI 2 – Share of non-conventional renewable energy in the National Electric System to be strong based on its material impact on GHG emission reductions in Chile, it being an indirect measure of performance on a highly material issue, and having a clear and consistent methodology.

[32] Ley 21,356, (2021), at: https://www.bcn.cl/leychile/navegar?idNorma=1162243
[33] Government of Chile, Ministry of Finance, "Cuarto Reporte De Indicadores de Género en Las Empresas En Chile 2022", at: https://www.economia.gob.cl/wp-content/uploads/2023/03/original-cuarto-reporte-indicadores-genero-2022-digital.pdf
[34] The World Bank, "Market capitalization of listed domestic companies (% of GDP) – Chile", at: https://data.worldbank.org/indicator/CM.MKT.LCAP.GD.ZS?locations=CL
[35] External contextual benchmarks provide guidance on alignment with ecological system boundaries. This criterion is not applied to social KPIs or impact areas for which such contextual benchmarks are not available.
[36] IEA, "Net zero by 2050: A roadmap for the global energy sector", at: https://iea.blob.core.windows.net/assets/deebef5d-0c34-4539-9d0c-10b13d840027/NetZeroby2050-ARoadmapfortheGlobalEnergySector_CORR.pdf

Sustainalytics views KPI 3 – Percentage of women in board of directors at companies that report to the CMF to be very strong given that it directly measures a highly relevant and material social issue with a high scope of applicability. KPI 3 follows a clear and consistent methodology and a credible reference from the Global Gender Gap Index.

KPIs	Strength of KPIs			
KPI 1: Absolute GHG emissions ($MtCO_2e$)	Not Aligned	Adequate	Strong	Very strong
KPI 2: Share of non-conventional renewable energy in the national electric system (%)	Not Aligned	Adequate	Strong	Very strong
KPI 3: Percentage of women in board member positions at companies that report to the CMF	Not Aligned	Adequate	Strong	Very strong

Calibration of Sustainability Performance Targets

Alignment with Chile's Sustainability Strategy

Chile has set the following SPTs for its KPIs:

- SPT 1a: Achieve annual GHG emissions of 95 $MtCO_2e$ by 2030
- SPT 1b: Achieve a maximum of 1,100 $MtCO_2e$ between 2020 and 2030
- SPT 2a: Achieve 50% of electricity generated from non-conventional renewable sources by 2028
- SPT 2b: Achieve 60% of electricity generated from non-conventional renewable sources by 2032
- SPT 3: Achieve at least 40% of women representation in boards of directors at companies that report to the CMF by 2031

Sustainalytics considers the SPTs to be aligned with Chile's sustainability mandate. Please refer to Section 2 for an analysis of the credibility of Chile's sustainability strategy.

- Regarding SPT 1a and 1b, Chile's NDC sets out its medium-term target for 2030 to achieve the long-term goal of GHG neutrality by 2050. The 2030 target enshrines both components of SPT 1: i) achieve an absolute GHG emissions level of 95 $MtCO_2e$ by 2030, and ii) do so without exceeding a maximum total of 1,100 $MtCO_2e$ between 2020 and 2030.[37] Supporting this, Chile has developed a Long-Term Climate Strategy (LTCS) which establishes more than 400 measures in key sectors to lead the country to carbon neutrality by 2050, including maximum emissions targets for each economic sector to meet the national emissions budget of 1,100 $MtCO_2e$.[38] In this context, SPT 1a and 1b are aligned with Chile's climate goals.
- Related to SPT 2a and 2b, the Government of Chile has developed national policies to both reduce emissions and improve the emissions profile of the country's energy mix. In 2021, Chile's National Energy Policy 2050 (PEN) outlined the goals of achieving 100% zero-emission energy by 2050 and achieving 80% renewable energy by 2030.[39] Chile's LTCS further sets out targets to phase out 65% of coal-fired power generation from the national grid by 2025 and completely converting or close coal-fired plants by 2040.[40] NCRE is highlighted as comprising a specific subset of Chile's overall renewable energy goals, as it is distinguished from energy generated by large hydroelectric projects, which have been controversial in the country in the past.[41] Further, hydroelectric power poses an additional risk of unreliability, given the increased prevalence of drought and other hydrological changes in the country as a result of climate

[37] Government of Chile, "Chile's Nationally Determined Contribution – Update 2020", at: https://unfccc.int/sites/default/files/NDC/2022-06/Chile%27s_NDC_2020_english.pdf
[38] Government of Chile, "Environment, Science and Energy Ministries launch Long-Term Climate Strategy that sets out the path to carbon neutrality", at: https://www.gob.cl/en/news/environment-science-and-energy-ministries-launch-long-term-climate-strategy-sets-out-path-carbon-neutrality/
[39] Government of Chile, Ministry of Energy,, "Anteproyecto Política Energética Nacional Actualizada Y Su Eae", at: https://energia.gob.cl/consultas-publicas/anteproyecto-politica-energetica-nacional-actualizada-y-su-eae
[40] Government of Chile, "Chile's long-term climate strategy", (2021), at: https://unfccc.int/sites/default/files/resource/CHL_LTS_2021_EN_0.pdf
[41] Natural Resource Defense Council, "The Rise of Chile's River Protectors", at: https://www.nrdc.org/stories/rise-chiles-river-protectors

change.[42] Chile has incorporated the target of achieving 20% NCRE by 2025 in Law No. 20698[43] and set the targets of 50% and 60% NCRE in the Long-term Energy Plan 2023-2027 (PELP)[44]. Therefore, SPT 2a and 2b are aligned with Chile's renewable energy goals.

- As for SPT 3, the Government of Chile has taken on international and national initiatives to address gender inequality. Chile has ratified the Convention on the Elimination of All Forms of Discrimination Against Women in 1989,[45] adopted the Beijing Platform for Action in 1995[46] and the ILO Centenary Declaration for the Future of Work in 2019,[47] thus committing to achieve gender equality at work in terms of opportunity and treatment. In its 2023-2026 strategic plan, the government prioritizes strategic objectives and actions for gender equality such as equal participation and economic empowerment. In addition, Chile has been promoting the presence of women in boards of directors at state-owned companies since 2014.[48] This policy was subsequently established in a 2021 law that mandates a minimum of 40% women representation in boards of directors of state-owned companies.[49] Given the achievement of the 40% threshold at state-owned companies,[50] the government is now considering establishing a mandatory quota for companies under the scope of the CMF.[51] In this context, SPT 3 is fully aligned with Chile's strategy to promote gender equality and diversity.

Strategy to Achieve the SPTs

Chile intends to achieve SPT 1 and SPT 2 through the following strategies:

- Climate Change Law – Chile adopted its Climate Change Law in 2022, internalizing the 2050 carbon neutrality target and NDC targets into domestic law, and establishing a governance framework and regulatory instruments for implementing targets to tackle climate change effects.[52]
- National policy for decommissioning coal – The Government of Chile has established a plan for decommissioning the country's coal-power plants, bringing that will see 50% of total coal plants offline and partially replaced by NCRE sources by 2025. Chile aims to have all of its coal plants decommissioned by 2040 or earlier.[53,54]
- Energy Storage Law – Chile has adopted the Energy Storage Law which supports the participation of energy from NCRE sources in the National Electric System, allowing their storage and avoiding the waste of generated power. [55]
- Green hydrogen strategy – The Government of Chile has identified green hydrogen as a key player in its decarbonization goals and aims to have green hydrogen make up 20% of the country's fuel mix by 2040.[56]

[42] World Bank Group, "Climate Risk Profile – Chile" (2021), at: https://climateknowledgeportal.worldbank.org/sites/default/files/2021-07/15916-WB_Chile%20country%20Profile-WEB%20%281%29.pdf
[43] Ley 20698, at: https://www.bcn.cl/leychile/navegar?idNorma=1055402
[44] Government of Chile, Ministry of Energy, "Planificacion Energetica de Largo Plazo", (2021), at: https://energia.gob.cl/sites/default/files/documentos/pelp2023-2027_informe_preliminar.pdf
[45] United Nations, "Convention on the Elimination of All Forms of Discrimination against Women", at: https://www.ohchr.org/en/instruments-mechanisms/instruments/convention-elimination-all-forms-discrimination-against-women
[46] UN Women, "The Beijing Platform for Action", at: https://beijing20.unwomen.org/en/about
[47] ILO, "ILO Centenary Declaration for the Future of Work", at: https://www.ilo.org/global/about-the-ilo/mission-and-objectives/centenary-declaration/lang--en/index.htm
[48] Government of Chile, Ministry of Finance, "Cuarto Reporte De Indicadores de Género en Las Empresas En Chile 2022", at: https://www.economia.gob.cl/wp-content/uploads/2023/03/original-cuarto-reporte-indicadores-genero-2022-digital.pdf
[49] Ley 21356, at: https://www.bcn.cl/leychile/navegar?idNorma=1162243
[50] Government of Chile, Ministry of Finance, "Cuarto Reporte De Indicadores de Género en Las Empresas En Chile 2022", at: https://www.economia.gob.cl/wp-content/uploads/2023/03/original-cuarto-reporte-indicadores-genero-2022-digital.pdf
[51] Government of Chile, Ministry of the Economy, Development and Tourism, "Proyecto 'Más Mujeres en Directorios' inicia su discusión en la Cámara de Diputados", at: https://www.economia.gob.cl/2022/12/01/proyecto-mas-mujeres-en-directorios-inicia-su-discusion-en-la-camara-de-diputados.htm
[52] Climate Law, "Chile adopts new climate change framework law: a paradigm shift", (2022), at: https://blogs.law.columbia.edu/climatechange/2022/06/22/chile-adopts-new-climate-change-framework-law-a-paradigm-shift/
[53] Government of Chile – Ministry of Energy, "Estrategia de Transición Justa en el sector Energía", at: https://energia.gob.cl/sites/default/files/documentos/estrategia_transicion_justa_2021.pdf
[54] Chile is contemplating to strengthen the coal phase-out plan to advance the decommissioning by 2030. Climate Action Tracker, "Chile", at: https://climateactiontracker.org/countries/chile/
[55] Ley 21505, at: https://www.bcn.cl/leychile/navegar?idNorma=1184572&idParte=10380151
[56] Government of Chile, "Environment, Science and Energy Ministries launch Long-Term Climate Strategy that sets out the path to carbon neutrality", at: https://www.gob.cl/en/news/environment-science-and-energy-ministries-launch-long-term-climate-strategy-sets-out-path-carbon-neutrality/

In 2020, the Chilean government published a Green Hydrogen National Strategy that outlines ambitions to develop a competitive green hydrogen industry by 2025 and become a global market leader by 2030.[57]

- Electromobility strategy – The Government of Chile's National Electromobility Strategy sets a goal to have only new zero-emission light and medium vehicles, public transport and large mobile machinery sold in the country by 2035.[58]
- Green taxes – Three GHG emissions taxes have been implemented under Chile's Financial Strategy on Climate Change: i) on the sale of light vehicles according to their urban emissions performance, specifically NOx, ii) on fixed sources of NOx, particulate matter and SO_2 emissions, and iii) a direct carbon tax on fixed emission sources.[59]
- Energy efficiency law – Chile's Law No. 21305 on Energy Efficiency (including in the primary energy consumption sectors, including buildings, products and vehicles) establishes and updates the country's National Energy Efficiency Plan, including a registry of consumer energy management capacity and implementation regulations for energy management systems, energy rating of buildings, and energy efficiency standards of vehicles. According to the law, the Ministry of Energy must prepare a national energy efficiency plan every five years, with the first plan aiming to reduce energy intensity by at least 10% by 2030 from a 2019 baseline.[60,61]
- Quota obligation – Chile's Law No. 20257 and No. 20698 establishes a quota obligation for electricity sales to incorporate an incrementally increasing share of NCRE towards 20% by 2025.[62] In addition, there is a bill under discussion in Congress, which aims to establish an annual quota of 60% of power from NCRE and 40% during individual time blocks for energy producers by 2030.[63]
- Favourable conditions for NCRE generation – By accelerating electric transmission projects across the country, the Government of Chile has facilitated an increase in the number of private actors participating in energy generation and access the grid, which has created pathways for more NCRE projects to be developed. Chile's Development Zone programme also promotes regional networking of electricity grids, making new NCRE projects more easily connectable with consumer bases.[64,65]
- Fiscal and financial tools – Chile has imposed a carbon tax on emissions from power plants of 50 MW or more and provided fiscal support to renewables such as subsidies for pre-investment or feasibility studies.[66] The Government of Chile's only commercial bank, BancoEstado, has a series of unique lending instruments designed to promote green financing. Some of these instruments include specialized financing for renewable energy projects, and loans for small and medium-sized companies to improve their energy efficiency. Additionally, as a member of the UN Framework Convention on Climate Change (UNFCCC), Chile participates in the Green Climate Fund (GCF).[67]
- Technology-specific support – In the specific cases of geothermal and solar, law No. 19657 provides a regulatory framework for geothermal exploration and development, including subsidies for concentrated solar power projects and solar roofs in public buildings.[68]

Chile intends to achieve SPT 3 through the following strategies:

- The Government of Chile has taken measures to increase gender diversity in public companies and by March 2022, 50% of the 94 new board members of public were women. The government has initiated

[57] Gobierno de Chile, "Estrategia Nacional de Hidrógeno Verde", (2020), at: https://energia.gob.cl/sites/default/files/estrategia_nacional_de_hidrogeno_verde_-_chile.pdf
[58] Government of Chile, "National Electromobility Strategy Launch: Government announces that only electric vehicles will be sold in Chile by 2035", (2021), at: https://www.gob.cl/en/news/national-electromobility-strategy-launch-government-announces-only-electric-vehicles-will-be-sold-chile-2035/
[59] Government of Chile, Ministry of Finance, "Chile: Financial Strategy on Climate Change" (2019), at: https://cambioclimatico.mma.gob.cl/wp-content/uploads/2020/12/Financial-Strategy-on-Climate-Change-Chile-EN.pdf
[60] IEA, "Energy Efficiency Law", (2022), at: https://www.iea.org/policies/12870-energy-efficiency-law
[61] International Bar Association, "Chile's new Energy Efficiency Law", (2021), at: https://www.ibanet.org/chile-energy-efficiency-law
[62] IRENA, "Renewable Energy Policy Brief: Chile", (2015), at: https://www.irena.org/-/media/Files/IRENA/Agency/Publication/2015/IRENA_RE_Latin_America_Policies/IRENA_RE_Latin_America_Policies_2015_Country_Chile.pdf?la=en&hash=304E17839F669D9E62CD40C68391A31364F97892
[63] Bnamericas, "Chile renewable energy bill advances in congress", (2023), at: https://www.bnamericas.com/en/news/chile-renewable-energy-bill-advances-in-congress
[64] Javier G. M., (2016), "Renewable energy financing: the case of Chile", at: https://www.oecd.org/env/researchcollaborative/RE_finance_Chile_formatted.pdf
[65] IRENA, "Renewable Energy Policy Brief: Chile", (2015), at: https://www.irena.org/-/media/Files/IRENA/Agency/Publication/2015/IRENA_RE_Latin_America_Policies/IRENA_RE_Latin_America_Policies_2015_Country_Chile.pdf?la=en&hash=304E17839F669D9E62CD40C68391A31364F97892
[66] Ibid.
[67] Green Climate Fund, "Governance", at: https://www.greenclimate.fund/about/governance
[68] Ibid.

the "Energía + Mujer" programme to promote diverse management and leadership in the sectors historically dominated by men, such as energy sector.[69]

- In addition, Chile intends to establish a mandatory quota for women's representation in boards of directors at all companies, both public and private, under the scope of CMF. The bill is under discussion in the Chilean congress. If adopted, it would establish a quota of 20% for the first three years and increase the quota to 40% in the fourth and fifth year. In the first five years upon adoption, companies that do not comply would have to explain the reason for this. In the sixth year, the quota would be mandatory and non-compliant companies would be sanctioned by the CMF.[70]

Ambitiousness, Baseline and Benchmarks

To determine the ambitiousness of the SPTs, Sustainalytics considers whether the SPTs are in line or go beyond past performance and how the SPTs compare with credible climate trajectories or science-based targets.[71]

For SPT 1, Chile has set the baseline at 2018 to align with its commitments under its NDC. For SPT 2, Chile has set the baseline at 2021. For SPT 3, the baseline year is 2022.

SPT 1: Sustainalytics was able to use past performance and credible international climate trajectories as benchmarks to assess the ambitiousness of the SPTs.

Sustainalytics considers the SPT to go beyond historical performance on emissions reductions. As part of Chile's GHG emissions reduction plan, emissions will follow an upward trajectory before peaking in 2025, and then decrease to 95 $MtCO_2e$ by 2030.[72] Chile's GHG emissions target by 2030 received a "very high" rating from the Climate Change Performance Index 2022 when compared to a well-below 2°C benchmark, placing Chile as the sixth best performing country assessed.[73]

Additionally, Chile's SPT commits the country to limiting its cumulative GHG emissions between 2020 and 2030 to 1,100 $MtCO_2e$, which will be a significant contribution towards limiting global warming, as the extent to which global temperature will rise over the coming decades is greatly dependent on cumulative GHG emissions.[74] Many emissions reduction scenarios focus primarily on targets for emissions to be met in 2050, while total emissions may grow significantly leading up to that point. Chile's cumulative emissions goal for the decade of 2020-2030 exemplifies a commitment to more immediate progress on the issue and supports its alignment with science-based GHG emission targets.

Based on this context, Sustainalytics considers SPT 1 to be ambitious. Nonetheless, Sustainalytics notes that per the Climate Action Tracker's "Fair Share Target" approach[75] the absolute emission target of 95 $MtCO_2e$ is rated as "insufficient" given that if "all countries were to follow Chile's approach, warming would reach over 2°C and up to 3°C".[76]

SPT 2: Sustainalytics was able to use the Government of Chile's past performance and alignment with energy sector decarbonization trajectories.

Between 2018 and 2022 Chile improved the contribution of NCRE towards the national electricity mix from 17% to 33%, representing an annual average growth rate of 18%. Chile will now look to move the country's electricity mix to 50% NCRE by 2028, and then 60% by 2032. These targets represent an average annual growth of NCRE's share of Chile's electricity mix of 7.1% (from 2022 to 2028) and 6.1% (from 2022 to 2032). While achieving the SPT requires an annual growth below past performance, Sustainalytics considers that the percentage growth achieved in earlier stages can be substantially higher given the low baseline. Thus, Sustainalytics views SPT 2 to be aligned with Chile's past performance.

[69] Government of Chile, Ministry of Energy, "Energía + Mujer", at: https://energia.gob.cl/Energ%C3%ADam%C3%A1sMujer
[70] Ministerio de Economia, Fomento y Turismo, "Proyecto "Más Mujeres en Directorios" inicia su discusión en la Cámara de Diputados", at: https://www.economia.gob.cl/2022/12/01/proyecto-mas-mujeres-en-directorios-inicia-su-discusion-en-la-camara-de-diputados.htm
[71] We refer here to contextual benchmarks that indicate the alignment of targets with ecosystem boundaries.
[72] Government of Chile, "Chile's Nationally Determined Contribution – Update 2020", at: https://unfccc.int/sites/default/files/NDC/2022-06/Chile%27s_NDC_2020_english.pdf
[73] Climate Change Performance Index, "Chile", at: https://ccpi.org/country/chl/
[74] WRI, "Chile's Enhanced Climate Plan Sets an Example for Other Countries", (2020), at: https://www.wri.org/insights/chiles-enhanced-climate-plan-sets-example-other-countries
[75] CAT's "Fair Share Target" approach evaluates the level of effort of a government's target or policies against what could be considered a "fair share" contribution to the global effort in reducing greenhouse gas emissions based on (1) historical responsibility for past emissions, (2) the capacity to pay for emissions reductions, (3) potential for reducing emissions, (4) sharing emissions on an equal per capita basis, and (5) the need for sustainable development. For more information please visit: https://climateactiontracker.org/documents/874/CAT_2021-09_RatingMethodology_FullDescriptionNewSystem.pdf
[76] Climate Action Tracker, "Chile", at: https://climateactiontracker.org/countries/chile/

The IEA's Roadmap to Net Zero 2050 outlines a target of 61% of global electricity sourced from renewable power by 2030. The roadmap's intermediate target for 2030 is consistent with the pathway of limiting the global temperature rise to 1.5°C.[77] When broken down by projected energy source, the roadmap estimates that 45% of this total will come from non-hydroelectric renewable electricity sources, which, in the absence of a direct comparison, can be used as an approximate equivalent to Chile's NCRE. Chile's targets of 50% NCRE by 2028 and 60% NCRE by 2032 are well above this IEA global target of 45% non-hydroelectric renewable electricity by 2030. When considered alongside Chile's total renewable electricity goal of 80% by 2030, this represents a clear overall trajectory that is significantly above the IEA roadmap 2030 target. In this context, Sustainalytics considers SPT 2 to be highly ambitious based on it being well beyond a threshold that is consistent with a 1.5°C scenario.

SPT 3: Sustainalytics was able to assess ambitiousness using past performance and peer performance.

Between 2019 and 2022, the percentage of women representation in board of directors increased by an average of 9.7% per annum from 10.6% in 2019 to 14.0% in 2022. To achieve SPT 3, the ratio of women needs to have an average annual increase of 12.4% from 2022 to 2031, which is above past performance.

Sustainalytics conducted an analysis of different measures being implemented to advance women in boards of directors in Latin America. While there have been programmes and incentives to increase the share of women in state-owned companies in some countries, there have been limited attempts by governments in the region to broaden the scope to include private sector companies. In this context, Sustainalytics notes that setting a target of 40% of women in boards of directors of all companies reporting to the CMF, including the private sector, to be best in class for the region.

Overall Assessment

Sustainalytics considers the SPTs to align with Chile's sustainability strategy and SPT 1 to be ambitious given its improvement against past performance and its trajectory consistent with science-based targets for GHG emissions for limiting global warming to 2°C.

Sustainalytics considers Chile's SPT 2 to be highly ambitious given that it is aligned with past performance and is above science-based targets that would lead to a net-zero energy sector by 2050 consistent with a patch way to limiting global temperature rise to 1.5°C.

Sustainalytics views Chile's SPT 3 as highly ambitious given that it is above the historical performance and is a regional outperformer.

SPTs	Ambitiousness of SPTs			
SPT 1a: Achieve annual GHG emissions of 95 $MtCO_2e$ by 2030 SPT 1b: Achieve a maximum of 1,100 $MtCO_2e$ between 2020 and 2030	Not Aligned	Moderately Ambitious	Ambitious	Highly Ambitious
SPT 2a: Achieve 50% of electricity generated from non-conventional renewable sources by 2028 SPT 2b: Achieve 60% of electricity generated from non-conventional renewable sources by 2032	Not Aligned	Moderately Ambitious	Ambitious	Highly Ambitious
SPT 3: Achieve at least 40% of women in boards of directors at companies that report to the CMF by 2031	Not Aligned	Moderately Ambitious	Ambitious	Highly Ambitious

Bond Characteristics

Chile has disclosed that the financial characteristics of the instruments issued under the Framework will be tied to the achievement of the SPTs. Chile will incur a coupon step-up or a premium payment if it fails to meet the applicable SPTs at the respective SPT event observation date or to comply with the reporting and verification obligations.

[77] IEA, "Net Zero by 2050 A Roadmap for the Global Energy Sector", at: https://iea.blob.core.windows.net/assets/4719e321-6d3d-41a2-bd6b-461ad2f850a8/NetZeroby2050-ARoadmapfortheGlobalEnergySector.pdf

Chile has confirmed that if more than one SPT is not met, including any intermediate SPT, the premiums paid will be cumulative. Sustainalytics notes positively the cumulative nature of the financial premium for failure to achieve more than one SPTs.

Reporting

Chile commits to report on its progress on the KPIs on an annual basis via an SLB report. Information regarding KPI 1 will be produced biennially, consistent with the UNFCCC's requirements.[78] Information regarding KPI 2 and 3 will be produced annually to contain information for the closing of the prior year. Additionally, the SLB Report may include other relevant information enabling investors to monitor the progress on the KPI or the positive sustainability impacts of the performance improvement.

While the Sustainability-Linked Bond Principles state that up-to-date information on KPI progress should be reported on an annual basis, Sustainalytics recognizes that Chile follows the guidance set by the UNFCCC for developing economies, and therefore finds it to be in alignment with the requirements of the SLBP.

Verification

Chile commits to have external verification conducted on its KPIs performance. Progress on KPI 1 will be reviewed and verified as part of the NDC process and a summary verification report will be available on the UNFCC website, and made available on Chile's Public Office website. KPI 2 data is reviewed and approved by the National Electrical Coordinator, a technical and independent body; this data will be then collected and reported by Chile on its Public Debt Office website. Performance of KPI 3 will be published in the annual Gender Indicator of Chilean Companies Report, based on data provided by companies and reviewed by CMF.

Section 2: Assessment of Chile's Sustainability Strategy

Chile's Sustainability Mandate

Since its return to democracy in 1990, Chile has achieved political stability and rapid economic growth, with an average annual GDP growth rate of 13.6% from 2000 to 2019.[79] This has resulted in Chile being classified by the World Bank as a high-income country as of 2022.[80] Chile's economic growth has significantly reduced poverty from 36% in 2000 to 10.8% in 2020.[81]

In 2015, Chile adopted the 2030 Agenda for Sustainable Development and implementation of the 2030 Agenda is a state policy.[82] Further, Chile has created the National Council for the Implementation of Agenda 2030 as the main body of Chilean governance for the implementation of policies to achieve the SDGs.[83]

Climate change is a material issue for Chile due to the country's high vulnerability to physical climate risks such as higher temperature, storms, floods, droughts, forest fires, tidal waves, decreased flows and glaciers, and loss of biodiversity.[84] In this context, Chile has deployed a series of actions to address climate change and promote NCRE generation.[85] In 2022, Chile signed the Escazú Agreement as a commitment to combat the climate, biodiversity and global contamination crisis.[86] In the same year,

[78] Chile follows the UNFCCC's reporting guidelines for Non-Annex I Parties, which requires biannual update reports of national GHG inventories. UNFCCC, "National Reports from non-Annex I Parties", at: https://unfccc.int/national-reports-from-non-annex-i-parties
[79] World Bank Group, "Chile", https://data.worldbank.org/country/chile
[80] World Bank Group, "World Bank country and Lending Groups", at: https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups
[81] World Bank Group, "Poverty headcount ratio at national poverty lines (% of population) – Chile", at: https://data.worldbank.org/indicator/SI.POV.NAHC?locations=CL
[82] Sustainable Development Goals Knowledge Platform, "Chile", at: https://sustainabledevelopment.un.org/memberstates/chile
[83] Government of Chile, "2º Informe Nacional Voluntario Chile 2019, Agenda 2030", at: https://sustainabledevelopment.un.org/content/documents/23507Informe_Nacional_Voluntario_CHILE_Junio_2019_final_1.pdf
[84] Ibid.
[85] Ibid.
[86] Government of Chile, "INFORME LOS OBJETIVOS DE DESARROLLO SOSTENIBLE Y LA PANDEMIA POR COVID-19 EN CHILE 2022", (2022), at: https://www.chileagenda2030.gob.cl/recursos/1/documento/ODS_Chile-Diagnostico-Inicial-2022_online-V2-FINAL.pdf

Chile enacted Law No. 21,455 as a regulatory and legislative framework for domestic climate action in accordance with the international obligations adopted in the 2015 Paris Agreement.[87]

Chile ratified the Paris Agreement in 2017[88] and subsequently in 2020 updated its National Determined Contribution (NDC), which set an unconditional goal of reducing absolute GHG emissions (excluding emissions from land use, land-use change and forestry) to 95 $MtCO_2e$ by 2030. In addition, Chile has committed to peak its GHG emissions in 2025 and to limit cumulative GHG emissions to 1,100 $MtCO_2e$ over the period 2020-2030.[89] Also, in its updated NDC, Chile commits to a more ambitious goal of reducing up to 45% of its net GHG emissions from 2016 levels by 2030, conditional on international support.[90]

At a national level, in 2021, Chile issued a Long-Term Climate Strategy (LTCS) which sets transition and transformation goals in key sectors to achieve carbon neutrality, such as a reduction of emissions from industry and mining by 70% by 2050 and taking 65% of its coal-powered generation offline by 2025.[91] Chile has set forth a goal of achieving 80% of power generation from renewable sources by 2030 and is committed to having the country's energy matrix be 100% zero emission by 2050.[92] In 2022, Chile published the Climate Change Framework Law, which sets a carbon neutrality goal for 2050 and includes Chile's NDC targets, LTCS, Climate Change Financial Strategy and sectoral mitigation and adaptation plans.[93]

With respect to gender diversity and women empowerment, the economic recovery plan of Chile's Government Program 2022-2026 identified supporting women in the labour market as a strategy.[94] In Chile, 83.3% of legal frameworks under the SDG indicator are in place to promote, enforce and monitor gender equality.[95] In 2016, Chile's Ministry of Women and Gender Equality of Chile launched a Gender Parity Accelerator with the support from the World Economic Forum and the Inter-American Development Bank, creating a national public-private collaboration platform to close gender gaps in labour force participation, wages, and leadership; the accelerator now has more than 180 companies on board and that have employed 130,000 women, or 7% of salaried employees in Chile's private sector.[96]

Sustainalytics is of the opinion that the Framework is aligned with Chile's climate change, renewable energy and gender equality goals. In view of the above, Sustainalytics considers Chile to be well-positioned to issue sustainability-linked financing instruments.

Chile's Environmental and Social Risk Management

Sustainalytics acknowledges that while the SPTs defined under the Framework are impactful, activities associated with achieving them may bear environmental and social risks related to land use and biodiversity issues associated with large-scale development, emissions, effluents and waste generated in construction, human and labour rights, occupational health and safety, and corruption.

Sustainalytics comments below on Chile's ability to mitigate such potential risks.

- Chile has been a signatory to the 1992 Convention on Biological Diversity since 2003[97] and the United Nations Convention to Combat Desertification since 1997.[98] The Chilean Constitution enshrines the right to live in a pollution-free environment and the duty of the state to ensure the preservation of nature.[99] To ensure such constitutional right, Chilean legislations establish mechanisms, such as environmental licensing requirements and an environmental impact assessment system (SEIA)[100] that require projects causing significant environmental impact, such as real estate of a certain scale or in certain regions, infrastructure or projects in protected areas, to have an environmental impact

[87] Carrasco, E. et al. "The Environment and Climate Change Law Review: Chile", LawReviews, (2023), at: https://thelawreviews.co.uk/title/the-environment-and-climate-change-law-review/chile
[88] UNFCCC. "Chile", at: https://unfccc.int/node/61037
[89] Government of Chile, "Chile's Nationally Determined Contribution (NDC) Update 2020", (2020), at: https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Chile%20First/Chile%27s_NDC_2020_english.pdf
[90] Climate Action Tracker, "Chile", (2022), at: https://climateactiontracker.org/countries/chile/
[91] COP25 Chile, "Chile delivers long-term climate strategy to the UN Executive Secretary of Climate Change", (2021), at: https://cop25.mma.gob.cl/en/chile-delivers-long-term-climate-strategy-to-the-executive-secretary-of-un-climate-change/
[92] COP25 Chile, "Chile delivers long-term climate strategy to the UN Executive Secretary of Climate Change", (2021), at: https://cop25.mma.gob.cl/en/chile-delivers-long-term-climate-strategy-to-the-executive-secretary-of-un-climate-change/
[93] International Carbon Action Partnership, "Chile publishes Climate Change Framework Law, paving the way for market-based policy", (2022), at: https://icapcarbonaction.com/en/news/chile-publishes-climate-change-framework-law-paving-way-market-based-policy
[94] United Nations, "Government Program 2022-2026 of Chile", at: https://observatorioplanificacion.cepal.org/es/planes/programa-de-gobierno-2022-2026-de-chile
[95] UN Women, "Chile", at: https://data.unwomen.org/country/chile
[96] World Economic Forum, "Chile", at: https://initiatives.weforum.org/accelerators-network/chile
[97] Convention on Biological Diversity, "country Profiles", at: https://www.cbd.int/countries/?country=cl
[98] United Nations Convention to Combat Desertification, "Knowledge Hub - Chile", at: https://knowledge.unccd.int/countries/chile
[99] Constitute, "Chile 1980 (rev.2021)", at: https://www.constituteproject.org/constitution/Chile_2021?lang=en
[100] Carrasco, E. et al. "The Environment and Climate Change Law Review: Chile", LawReviews, (2023), at: https://thelawreviews.co.uk/title/the-environment-and-climate-change-law-review/chile

assessment declaration or an environmental impact study.[101] Once approved, the project holder must strictly comply with the conditions or requirements stated in the environmental license issued by Chile's Environmental Assessment Commission.[102] In addition, Chile's Law on Protection of Urban Wetlands regulates works and activities that may impact biotic components of wetlands located entirely or partially in urban areas.[103]

- Chile has incorporated the concept of just transition[104] as an enabler for the implementation of the country's updated NDC, where the challenges and needs of the most vulnerable are analyzed and the rights of the most vulnerable are protected in the process of decarbonization of the power generation matrix.[105]
- Chile has ratified a number of international conventions on human rights, including the International Covenant on Civil and Political Rights, the International Covenant on Economic, Social and Cultural Rights, and the Convention 169 of the International Labour Organization on Indigenous and Tribal Peoples.[106,107] Chile has a series of laws and regulations on different aspects of human rights, such as a law that creates an intersectoral protection system for children,[108] a law on protection of vulnerable individuals and families,[109] and a law establishing measures against discrimination[110]. In addition, Chile's National Human Rights Plan contains specific commitments related to the actions of companies[111] in the context of the National Action Plan for Human Rights and Business in 2017,[112] and an Undersecretariat for Human Rights is in charge of promoting and protecting human rights in public policy design and development.[113] Notwithstanding these developments, the Office of the UN High Commissioner for Human Rights reported that Chile's national police and army failed to adhere to international human rights norms and standards during the mass protests and state of emergency in 2019.[114] Sustainalytics notes that public accountability and institutions can be further strengthened to uphold Chile's human rights commitments and address non-fulfilment of economic and social rights which is a core area of concern of several UN human rights mechanisms.[115]
- With respect to labour rights, Chile has been a member of the ILO since 1919[116] and has signed nine out of ten fundamental ILO conventions, such as the Forced Labour Convention and the Worst Forms of Child Labour Convention and 52 out of the 176 ILO technical conventions, such as the Hours of Work (Industry) Convention and Unemployment Convention.[117]

[101] Ibid.
[102] Ibid.
[103] Ibid.
[104] The UN Principles for Responsible Investment has summarized just transition as "focuses attention on the need to anticipate the social implications of the shift to a low-carbon economy and the increasing physical impacts of climate change.", available at: https://unfccc.int/sites/default/files/NDC/2022-06/Chile%27s_NDC_2020_english.pdf
[105] Government of Chile, "Chile's Nationally Determined Contribution Update 2020", at: https://unfccc.int/sites/default/files/NDC/2022-06/Chile%27s_NDC_2020_english.pdf
[106] United Nations Human Rights Treaty Bodies, "UN Treaty Body Database", at: https://tbinternet.ohchr.org/_layouts/15/TreatyBodyExternal/Treaty.aspx?countryID=35&Lang=EN
[107] Government of Chile, "2º Informe Nacional Voluntario Chile 2019, Agenda 2030", at: https://sustainabledevelopment.un.org/content/documents/23507Informe_Nacional_Voluntario_CHILE_Junio_2019_final_1.pdf
[108] Ministry of Planning, Law 20.379, (2009), at: https://www.bcn.cl/leychile/navegar?idNorma=1006044
[109] Ministry of Social Development, Law 20.595, (2012), at: https://www.bcn.cl/leychile/navegar?idNorma=1040157
[110] Ministry General Secretariat of Government, Law 20.609, (2012), at: https://www.bcn.cl/leychile/navegar?idNorma=1042092
[111] Government of Chile, "2º Informe Nacional Voluntario Chile 2019, Agenda 2030", at: https://sustainabledevelopment.un.org/content/documents/23507Informe_Nacional_Voluntario_CHILE_Junio_2019_final_1.pdf
[112] National Action Plans on Business and Human Rights, "Chile", at: https://globalnaps.org/country/chile/
[113] Government of Chile, "2º Informe Nacional Voluntario Chile 2019, Agenda 2030", at: https://sustainabledevelopment.un.org/content/documents/23507Informe_Nacional_Voluntario_CHILE_Junio_2019_final_1.pdf
[114] United Nations Human Rights Office of the High Commissioner, "UN Human Rights Office report on Chile crisis describes multiple police violations and calls for reforms", (2019), at: https://www.ohchr.org/en/NewsEvents/Pages/DisplayNews.aspx?NewsID=25423&LangID=E
[115] United Nations Human Rights Office of the High Commissioner, "Report of the Mission to Chile 30 October – 22 November 2019", at: https://www.ohchr.org/Documents/Countries/CL/Report_Chile_2019_EN.pdf
[116] International Labour Organization, "NORMLEX – Chile", at: https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:11110:0::NO::P11110_COUNTRY_ID:102588
[117] International Labour Organization, "NORMLEX – Ratifications for Chile", at: https://www.ilo.org/dyn/normlex/en/f?p=1000:11200:0::NO:11200:P11200_COUNTRY_ID:102588

- Chile has introduced regulations on equal pay for men and women,[118] working hours and remuneration of domestic workers,[119] workplace harassment and sanctions,[120,121] maternity protection,[122] inclusion of disabilities,[123] and rights of commercial workers.[124,125]
- With regard to risks associated with occupational health and safety, Chile has established a legal system to protect occupational health and safety,[126] including the law on work accidents and occupational diseases,[127] qualification and evaluation of work accidents and diseases,[128] basic sanitary and environmental conditions in workplaces,[129] and safety of workers in situations of risk and emergency.[130] Chile has adopted regulations on work accidents and professional illnesses that eliminate the distinction between employees and workers.[131]
- Chile has ratified the United Nations Convention against Corruption and has several laws and regulations to combat corruption and increase citizen participation and government transparency. Among other legislation, Chile has laws on probity in public function and prevention of conflicts of interest,[132] lobbying,[133] access to public information,[134] association and citizen participation in public management,[135] and transparency of democracy.[136] The Ministry General Secretariat of the Presidency is the main body for overseeing the integrity and transparency issues.[137] Furthermore, Chile is ranked 27th out of 180 countries in Transparency International's Corruption Perceptions Index with a score of 67 in 2022.[138]

Based on these policies, standards and assessments, Sustainalytics is of the opinion that Chile has implemented adequate measures and is well-positioned to manage and mitigate environmental and social risks commonly associated with expenditures related to the achievement of the SPTs.

Section 3: Impact of the SPTs

Importance of reducing GHG emissions to accelerate the transition towards a low-carbon economy

As of 2020, Chile's total CO_2 emissions were reported at 105.55 MtCO2e, representing an increase of 116% from 1990. The use of fossil fuels as the largest source for primary energy generation, makes the energy sector the largest contributor of GHG emissions in Chile, accounting for 51% of total emissions as of 2020. The agriculture sector is second (7%), followed by industrial processes and product use (4%) and waste (5%).[139]

[118] Government of Chile, Ministry of Labour and Social Security, Law 20348, (2009), at: https://www.bcn.cl/leychile/navegar?idNorma=1003601
[119] Government of Chile, Ministry of Labour and Social Security, Law 20786, (2014), at: https://www.bcn.cl/leychile/navegar?idNorma=1068531
[120] Government of Chile, Ministry of Labour and Social Security, Law 20005, (2005), at: https://www.bcn.cl/leychile/navegar?idNorma=236425
[121] Government of Chile, Ministry of Labour and Social Security, Law 20607, (2012), at: https://www.bcn.cl/leychile/navegar?idNorma=1042709
[122] Government of Chile, Ministry of Labour and Social Security, Law 20545, (2011), at: https://www.bcn.cl/leychile/navegar?idNorma=1030936
[123] Government of Chile, Ministry of Social Development, Law 21015, (2017), at: https://www.bcn.cl/leychile/navegar?idNorma=1103997
[124] Government of Chile, Ministry of Labour and Social Security, Law 20823, (2015), at: https://www.bcn.cl/leychile/navegar?idNorma=1076001
[125] Government of Chile, Ministry of Labour and Social Security, Law 20828, (2015), at: https://www.bcn.cl/leychile/navegar?idNorma=1076449
[126] ILO, "Chile, Occupational safety and health", at: https://www.ilo.org/dyn/natlex/natlex4.listResults?p_lang=en&p_country=CHL&p_classification=14
[127] Government of Chile, Ministry of Labour and Social Security, Law 16.744, (1968), at: https://www.bcn.cl/leychile/navegar?idNorma=28650
[128] Government of Chile, Ministry of Labour and Social Security, Law 21.012, (2017), at: https://www.bcn.cl/leychile/navegar?idNorma=1103798
[129] ILO, "Chile, Occupational safety and health, Decree No. 594", (1999), at: https://www.ilo.org/dyn/natlex/natlex4.detail?p_lang=en&p_isn=59815&p_country=CHL&p_classification=14
[130] ILO, "Chile. Occupational safety and health, Decree No. 63", (1978), at: https://www.ilo.org/dyn/natlex/natlex4.detail?p_lang=en&p_isn=12973&p_country=CHL&p_classification=14
[131] Government of Chile, Ministry of Labour and Social Security, Law 21054, (2017), at: https://www.bcn.cl/leychile/navegar?idNorma=1112814
[132] Government of Chile, Ministry General Secretariat of the Presidency, Law 20.880, (2016), at: https://www.bcn.cl/leychile/navegar?idNorma=1086062
[133] Government of Chile, Ministry General Secretariat of the Presidency, Law 20.730, (2014), at: https://www.bcn.cl/leychile/navegar?idNorma=1060115
[134] Government of Chile, Ministry General Secretariat of the Presidency, Law 20.285, (2008), at: https://www.bcn.cl/leychile/navegar?idNorma=276363
[135] Government of Chile, Ministry General Secretariat of Government, Law 20.500, (2011), at: https://www.bcn.cl/leychile/navegar?idNorma=1023143
[136] Government of Chile, Ministry General Secretariat of the Presidency, Law 20.900, (2016), at: https://www.bcn.cl/leychile/navegar?idNorma=1089342
[137] Government of Chile, "2º Informe Nacional Voluntario Chile 2019, Agenda 2030", at: https://sustainabledevelopment.un.org/content/documents/23507Informe_Nacional_Voluntario_CHILE_Junio_2019_final_1.pdf
[138] Transparency International, "Corruption Perceptions Index: Chile", (2022), at: https://www.transparency.org/en/cpi/2022/index/chl
[139] Government of Chile has shared the SLB report 2022 with Sustainalytics.

As a signatory to the Paris Agreement, Chile has committed to achieve absolute GHG emissions of 95 $MtCO_2e$ by 2030, and to achieve carbon neutrality by 2050 under its most recent NDC.[140] According to the Climate Action Tracker, if Chile implements currently planned policies such as an early coal phase-out by 2030, the country could be on track to being 1.5°C compatible.[141] In 2022, Chile adopted a Framework Law on Climate Change, which turns Chile's Long Term Climate Strategy into law, mandating more than 400 measures to meet targets to reduce GHG emissions in all sectors,[142] in addition to internalizing the country's NDC and setting rules on financial guidelines to address climate change.[143]

Based on the above context, Sustainalytics is of the opinion that Chile's issuance of sustainability-linked bonds will provide financing for projects that will help to reduce its overall GHG emissions, achieving its carbon reduction targets and further facilitating a transition to a low-carbon economy.

Importance of increasing share of non-conventional renewable energy

Power demand in Chile is expected to increase by 2.25% per annum until 2040, representing a 56% increase over 2020 levels.[144] As for its energy mix, Chile's renewable energy sector accounted for 43.5% of the country's total electricity generation in 2021,[145] with absolute renewable energy capacity forecast to more than double by 2027.[146] Despite the fact that Chile still relies on fossil fuels to meet most of its energy needs, the Chilean government has identified solar and wind power as having the greatest potential impact for reaching the country's climate change goals, considering the favourable geographical conditions for non-renewable energy generation, such as in the Atacama Desert for solar energy and along the coastline for wind[147]

In 2019, the Chilean government announced its intent to close eight coal-power plants by 2024, and all coal-power plants in the country by 2040.[148] This commitment is accompanied by efforts to expand renewable energy output to contribute to its decarbonization plan and achieving the target of attaining carbon neutrality by 2050.[149] In line with its commitments, the Chilean government updated its National Energy Policy in 2022, setting a target of reaching 80% of the country's electricity generation from renewable sources by 2030 and 100% by 2050.[150,151] To support the development of distributed PV projects, Chile launched the Casa Solar programme to allow community groups to obtain solar panels at lower prices and receive co-financing from states.[152] In 2020, Chile announced its national green hydrogen strategy with an annual target of 200,000 tonnes of renewable hydrogen by 2030.[153]Finally, based on the country's ambitious plans to increase renewables-based hydrogen products, the Chilean National Development Agency issued a call to finance green hydrogen projects by awarding USD 50 million to six green hydrogen initiatives.[154]

Based on above context, Sustainalytics is of the opinion that the Framework will contribute to the country's electricity decarbonization efforts.

Importance of empowering women and gender equality

According to the World Economic Forum's Global Gender Gap Index it will take 132 years to close the gender gap and achieve gender equality worldwide in areas such as labour-force participation rate and share of women's membership in boards

[140] UNFCCC, "Chile's Nationally Determined Contribution – Update 2020", at: https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Chile%20First/Chile%27s_NDC_2020_english.pdf
[141] Climate Action Tracker, "Chile", (2022), at: https://climateactiontracker.org/countries/chile/
[142] Climate Action Tracker, "Chile", at: https://climateactiontracker.org/countries/chile/
[143] Grantham Research Institute on Climate Change and the Environment, "Framework Law on Climate Change- Chile", at: https://climate-laws.org/document/framework-law-on-climate-change-chile_dc8a
[144] Bnamericas, "Spotlight: Chile's power demand forecast for 2021 and beyond", (2021), at: https://www.bnamericas.com/en/features/spotlight-chiles-power-demand-forecast-for-2021-and-beyond#:~:text=Chile's%20power%20demand%20is%20expected,2020%20demand%20of%2071%2C253GWh
[145] Our World in Data, "Electricity production by source, World", at: https://ourworldindata.org/grapher/electricity-prod-source-stacked?tab=table
[146] IEA, "Renewables 2022", (2022), at: https://iea.blob.core.windows.net/assets/ada7af90-e280-46c4-a577-df2e4fb44254/Renewables2022.pdf
[147] IEA, "Energy Policies Beyond IEA Countries: Chile 2018 Review," (2018), at: https://iea.blob.core.windows.net/assets/8c16efa0-41b1-47be-b12a-a29483a0c635/EnergyPoliciesBeyondIEACountriesChile2018Review.pdf
[148] Gobierno de Chile, "President Piñera presented plan to close all coal-fired power plants to make Chile carbon neutral", (2019), at: https://www.gob.cl/noticias/presidente-pinera-presento-plan-para-cerrar-todas-las-centrales-energeticas-carbon-para-que-chile-sea-carbono-neutral
[149] Gobierno de Chile, "Chile's Nationally Determined Contribution Update", (2020), at: https://unfccc.int/sites/default/files/NDC/2022-06/Chile%27s_NDC_2020_english.pdf
[150] Government of Chile, "Minister Jobet announces 66 measures to guide the development of Chile's energy sector over the next decades", (2021), at: https://www.gob.cl/en/news/minister-jobet-announces-66-measures-to-guide-the-development-of-chiles-energy-sector-over-the-next-decades/
[151] Government of Chile, "Transición Energética de Chile", (2022), at: https://energia.gob.cl/sites/default/files/documentos/pen_2050_-_actualizado_marzo_2022_0.pdf
[152] IEA, "Renewables 2020", at: https://iea.blob.core.windows.net/assets/1a24f1fe-c971-4c25-964a-57d0f31eb97b/Renewables_2020-PDF.pdf
[153] REN21, "Renewables 2022 Global Status Report Chile Factsheet", at: https://www.ren21.net/wp-content/uploads/2019/05/GSR2022_Fact_Sheet_Chile.pdf
[154] IEA, "Renewables 2022", (2023), at: https://iea.blob.core.windows.net/assets/ada7af90-e280-46c4-a577-df2e4fb44254/Renewables2022.pdf

considering current pace of progress.[155] In Chile more specifically, women accounted for 38% of employment in senior and middle management roles in 2020,[156] being generally underrepresented in the wider workforce in both public and private sectors and take on greater share of unpaid care and housework.[157] In this sense, Chile's distance to meeting SDG (target) 5.5[158] in 2022 was 2.58, according to the OECD, indicating that the country made no progress or is moving away from the SDG target.[159] In 2022, the Chilean government signed collaboration agreements with UN Women to promote and develop specific programmes on women participation in the labour force,[160] in addition to a Memorandum of Understanding on Cooperation in Gender Equality and Women's Empowerment with the Government of Canada to advance, design, implement and monitor public policies for promoting gender equality.[161]

In this context, Sustainalytics is of the opinion that Chile's efforts to increase women representation in the boards of companies are aligned with its efforts towards diversity and inclusion, and are expected to contribute to improving gender equality, diversity and inclusion in the workplace in the country.

Contribution to SDGs

The Sustainable Development Goals were adopted by the United Nations General Assembly in September 2015 and form part of an agenda for achieving sustainable development by the year 2030. The sustainability-linked bonds issued under the Framework are expected to help advance the following SDG goals and targets:

KPI	SDG	SDG Target
Absolute GHG emissions ($MtCO_2e$)	13. Climate Action	13.2 Integrate climate change measures into national policies, strategies and planning
Share of non-conventional renewable energy in the National Electric System (%)	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Percentage of women in board member positions at companies that report to CMF	5. Gender Equality	5.5 Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life

[155] World Economic Forum, "Global Gender Gap Report 2022", (2022), at: https://www3.weforum.org/docs/WEF_GGGR_2022.pdf
[156] World Bank Group, "Female Share of employment in senior and middle management (%)- Chile", (2023), at: https://data.worldbank.org/indicator/SL.EMP.SMGT.FE.ZS?end=2020&locations=CL&start=1992&view=chart
[157] OECD, "Measuring distance to the SDG targets- Chile", (2022), at: https://www.oecd.org/wise/measuring-distance-to-the-SDG-targets-country-profile-Chile.pdf
[158] The full definition of UN SDG 5.5 is "ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life", available at: https://sdgs.un.org/goals/goal5
[159] OECD, "Measuring distance to the SDG targets- Chile", (2022), at: https://www.oecd.org/wise/measuring-distance-to-the-SDG-targets-country-profile-Chile.pdf
[160] UN Women, "UN Women signs agreement with ministries in Chile to promote gender equality and women's empowerment", (2022), at: https://lac.unwomen.org/en/stories/noticia/2022/06/onu-mujeres-firma-acuerdo-con-ministerios-en-chile-para-promover-la-igualdad-de-genero-y-el-empoderamiento-de-las-mujeres
[161] Government of Canada, "Canada and Chile sign Memorandum of Understanding to advance gender equality", (2022), at: https://www.canada.ca/en/women-gender-equality/news/2022/06/canada-and-chile-sign-memorandum-of-understanding-to-advance-gender-equality.html

Conclusion

Chile intends to issue Sustainability-Linked Bonds which will tie the financial characteristics to the achievements of the following SPTs:

SPT 1a: Achieve annual GHG emissions of 95 $MtCO_2e$ by 2030

SPT 1b: Achieve a maximum of 1,100 $MtCO_2e$ between 2020 and 2030

SPT 2a: Achieve 50% of electricity generated from non-conventional renewable sources by 2028

SPT 2b: Achieve 60% of electricity generated from non-conventional renewable sources by 2032

SPT 3: Achieve at least 40% of women representation in boards of directors at companies that report to the CMF by 2031

Sustainalytics considers KPI 1 to be very strong as a direct measure of performance on a material sustainability issue with a clear and consistent methodology, and a high scope of applicability. KPI 2 is considered strong based on an indirect measure of performance on a highly material issue and a high scope of impact on GHG emission reductions in Chile. Sustainalytics views KPI 3 to be very strong given that it directly measures a highly relevant and material social issue with a high scope of applicability and follows a clear and consistent methodology.

Sustainalytics considers SPT 1 to be ambitious given its improvement against past performance and its trajectory consistent with science-based targets for GHG emissions for limiting global warming to 2°C. SPT 2 is considered highly ambitious given it exceeds past performance and is above science-based targets that would lead to a net-zero trajectory by 2050. Sustainalytics considers SPT 3 as highly ambitious given that it is above the historical performance and is a regional outperformer.

Furthermore, Sustainalytics considers reporting and verification commitments to be aligned with the SLBP.

Based on the above, Sustainalytics considers the Chile's Sustainability-Linked Bond Framework to be in alignment with the five core components of the Sustainability-Linked Bond Principles 2023 and the prospective of achievement of the SPTs to be impactful.

Appendix 1: Sustainability-Linked Bonds - External Review Form

Section 1. Basic Information

Issuer name: Chile

Sustainability-Linked Bond ISIN: Not known at time of issuance

Independent External Review provider's name for second party opinion pre-issuance (sections 2 & 3): Sustainalytics

Completion date of second party opinion pre-issuance: June 23, 2023

Independent External Review provider's name for post-issuance verification (section 4): N/A

Completion date of post issuance verification: N/A

Original completion date of post issuance verification: June 19, 2023

At the launch of the bond, the structure is:

☒ a step-up structure ☐ a variable redemption structure

Section 2. Pre-Issuance Review

2-1 SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review:

☒ assessed all the following elements (complete review) ☐ only some of them (partial review):

- ☒ Selection of Key Performance Indicators (KPIs)
- ☒ Calibration of Sustainability Performance Targets (SPTs)
- ☒ Verification
- ☒ Bond characteristics (acknowledgment of)
- ☒ Reporting

☒ and confirmed their alignment with the SLBP.

2-2 ROLE(S) OF INDEPENDENT EXTERNAL REVIEW PROVIDER

- ☒ Second Party Opinion
- ☐ Verification
- ☐ Certification
- ☐ Scoring/Rating

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

2-3 EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW *(if applicable)*

Chile intends to issue Sustainability-Linked Bonds which will tie the financial characteristics to the achievements of the following SPTs:

SPT 1a: Achieve annual GHG emissions of 95 MtCO2e by 2030
SPT 1b: Achieve a maximum of 1,100 MtCO2e between 2020 and 2030
SPT 2a: Achieve 50% of electricity generated from non-conventional renewable sources by 2028
SPT 2b: Achieve 60% of electricity generated from non-conventional renewable sources by 2032
SPT 3: Achieve at least 40% of women representation in boards of directors at companies that report to the CMF by 2031

Sustainalytics considers KPI 1 to be very strong as a direct measure of performance on a material sustainability issue with a clear and consistent methodology, and a high scope of applicability. KPI 2 is considered strong based on an indirect measure of performance on a highly material issue and a high scope of impact on GHG emission reductions in Chile. Sustainalytics views KPI 3 to be very strong given that it directly measures a highly relevant and material social issue with a high scope of applicability and follows a clear and consistent methodology.

Sustainalytics considers SPT 1 to be ambitious given its improvement against past performance and its trajectory consistent with science-based targets for GHG emissions for limiting global warming to 2°C. SPT 2 is considered highly ambitious given it exceeds past performance and is above science-based targets that would lead to a net-zero trajectory by 2050. Sustainalytics considers SPT 3 as highly ambitious given that it is above the historical performance and is a regional outperformer.

Furthermore, Sustainalytics considers reporting and verification commitments to be aligned with the SLBP.

Based on the above, Sustainalytics considers the Chile's Sustainability-Linked Bond Framework to be in alignment with the five core components of the Sustainability-Linked Bond Principles 2023 and the prospective of achievement of the SPTs to be impactful.

Section 3. Detailed pre-issuance review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

3-1 SELECTION OF KEY PERFORMANCE INDICATORS (KPIS)

Overall comment on the section *(if applicable)*:
Chile's Sustainability-Linked Bond Framework includes three KPIs: i) Absolute GHG emissions, ii) Share of non-conventional renewable energy in the National Electric System, and iii) Percentage of women in board member positions at companies that report to the Financial Market Commission (CMF). Sustainalytics considers KPI 1 and KPI 3 to be very strong, and KPI 2 to be strong, based on their materiality, relevance, scope of applicability and comparability to external benchmarking.

List of selected KPIs:

- Absolute GHG emissions (MtCO2e)
- Share of non-conventional renewable energy in the National Electric System
- Percentage of women in board member positions at companies that report to the Financial Market Commission (CMF)

Definition, Scope, and parameters

☒ Clear definition of each selected KPIs
☒ Clear calculation methodology
☐ Other (please specify):

Relevance, robustness, and reliability of the selected KPIs

☒ Credentials that the selected KPIs are relevant, core and material to the issuer's sustainability and business strategy.
☒ Evidence that the KPIs are externally verifiable

☒ Credentials that the KPIs are measurable or quantifiable on a consistent methodological basis

☒ Evidence that the KPIs can be benchmarked

☐ Other (*please specify*):

3-2 CALIBRATION OF SUSTAINABILITY PERFORMANCE TARGETS (SPTs)

Overall comment on the section (*if applicable***):**
Sustainalytics considers the SPTs to be aligned with Chile's sustainability strategy. Sustainalytics considers SPT 1 to be ambitious based on its improvement over past performance and its alignment with a slightly below 2°C scenario; SPT 2 to be highly ambitious based on it being consistent with efforts to limit global temperature increases to below 1.5°C; and SPT 3 to be highly ambitious based on past performance and its performance against regional countries.

Rationale and level of ambition

☒ Evidence that the SPTs represent a material improvement

☒ Evidence that SPTs are consistent with the issuer's sustainability and business strategy

☒ Credentials on the relevance and reliability of selected benchmarks and baselines

☒ Credentials that the SPTs are determined on a predefined timeline

☐ Other (please specify):

Benchmarking approach

☒ Issuer own performance

☒ reference to the science

☐ Issuer's peers

☐ Other *(please specify):*

Additional disclosure

☐ potential recalculations or adjustments description

☒ identification of key factors that may affect the achievement of the SPTs

☒ issuer's strategy to achieve description

☐ Other (please specify):

3-3 BOND CHARACTERISTICS

Overall comment on the section (*if applicable***):**
Chile will link the bond's financial characteristics to the achievement of the SPTs, such as a coupon step-up or a premium payment in case an SPT, including an intermediate SPT, is not met at the target observation date. In the event that more than one SPT is not met, the premium paid will be cumulative.

Financial impact:

☒ Variation of the coupon

☒ Premium paid

☐ Other (*please specify*):

Structural characteristic:

☐ Other (*please specify*):

3-4 REPORTING

Overall comment on the section (*if applicable*)**:**
Chile commits to report its performance on the KPIs on an annual basis via an SLB Report. Information regarding KPI 1 will be produced biennially, consistent with the UNFCCC's requirements. While the SLBP state that up-to-date information of the KPIs should be reported on an annual basis, Sustainalytics recognizes that Chile follows the guidance set by the UNFCCC for developing economies, and therefore finds it to be in alignment with the Sustainability-Linked Bond Principles 2023.

Information reported:

☒ performance of the selected KPIs
☒ level of ambition of the SPTs
☒ verification assurance report
☐ Other (*please specify*):

Frequency:

☒ Annual
☐ Semi-annual
☐ Other (please specify):

Means of Disclosure

☐ Information published in financial report
☐ Information published in sustainability report
☐ Information published in ad hoc documents
☒ Other (please specify): SLB report
☐ Reporting reviewed *(if yes, please specify which parts of the reporting are subject to external review)*:

Where appropriate, please specify name and date of publication in the "useful links" section.

Level of Assurance on Reporting

☐ limited assurance
☒ reasonable assurance
☒ Other *(please specify)*:

USEFUL LINKS (*e.g. to review provider methodology or credentials, to issuer's documentation, etc.*)

Section 4. Post-issuance verification

Overall comment on the section (*if applicable*)**:**
Chile commits to having external verification conducted on its KPI performance against each SPT for each KPI at least once a year, which is aligned with the Sustainability-Linked Bond Principles 2023.

Information reported:

☐ limited assurance

☐ reasonable assurance

☐ Other (please specify):

Frequency:

☐ Annual

☐ Semi-annual

☐ Other (please specify):

Material change:

☐ Perimeter

☐ KPI methodology

☐ SPTs calibration

Disclaimer

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