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# Chile's Sustainable Bonds – Frequently Asked Questions

**Santiago, March 26<sup>th</sup>, 2021.** The Republic of Chile is firmly committed to climate action, as reflected by the issuance of green bonds since 2019 and social bonds since 2020. The text below provides answers to frequently asked questions on Chile's Sustainable Bonds.

## **What is a Sustainable Bond issued by the Republic of Chile and what is the Sustainable Bond Framework?**

Sustainable bonds are debt instruments that the Ministry of Finance issues as part of its regular financing strategy, characterized by financing or refinancing green, social or both projects, in accordance with the established by the document "Sustainable Bond Framework". The purpose of this document is to describe the guidelines for Chile's Social, Green and Sustainable Bonds, based on the country's general climate change strategy and social policies. The Framework establishes the obligations that the government, through its Public Debt Office (Ministry of Finance), fulfills as an issuer.

## **What type of projects can be financed with sustainable bonds?**

The Sustainable Bond Framework of the Republic of Chile establishes 6 categories of green eligible expenses, these are: (1) Clean Transportation, (2) Energy Efficiency, (3) Renewable Energy, (4) Living natural resources, Land use and Protected Marine Areas, (5) Efficient and climate resilient Water Management and (6) Green Buildings.

Likewise, it establishes 9 categories of eligible social expenses, these are: (1) Support for the elderly or people with special needs in vulnerable situation, (2) Support for low-income families, (3) Support for human rights victims, (4) Support for the community through job creation, (5) Access to affordable housing, (6) Access to education, (7) Food security, (8) Access to essential health services and (9) Social programs designed to prevent and/or alleviate unemployment derived from socioeconomic crisis, including through the potential effect of financing SMEs and micro finances.

It should be noted that each of these categories has specific requirements clearly defined in the Framework.

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## What initiatives does Chile promote towards sustainable development, in addition to sustainable bonds?

In September of 2015, along with 193 member countries of the United Nations (UN), Chile adopted the 2030 Sustainable Development Agenda, an action plan on behalf of the people, the planet and prosperity, aimed at strengthening universal peace within a broader concept of liberty. Chile made the commitment to advance the 17 goals included in this Agenda, with an emphasis in the social realm on poverty, zero hunger, gender equality, quality education and reduction of inequalities. In 2019, Chile presented its second Voluntary National Report on the 2030 Sustainable Development Agenda.

Chile has a strong commitment to climate change mitigation, adaptation and the protection of the environment. This is demonstrated by the ratification of the Paris Agreement of February 2017, through the Supreme Decree N° 30 of the Ministry of Foreign Affairs. Chile has committed through its National Determined Contributions (NDC) in reducing its CO2 emissions to 30% of GDP by 2030, regarding 2007 levels. Also, Chile is currently updating its commitments to a more ambitious NDCs, in response to higher scientific demands to avoid surpassing the increase of 1.5°C by the mid-century.

Among the local initiatives for sustainable development, is important to note that the Minister of Finance, Mr. Rodrigo Cerda, currently co-chairs the Coalition of Finance Ministers for Climate Action, in which more than 50 countries currently participate. In addition, Chile is currently leading the Conference of Parties (COP25) of the United Nations during this whole year, which reflects its strong climate commitment. All of this is backed by concrete actions, such as the agreement between the Ministry of Energy and the most relevant actors of the national energy sector to decarbonize the electric matrix, as well as the creation of the Public-Private Green Finance Roundtable between the Government, regulators and the financial sector, in order to develop a long-term agenda to identify and incorporate risks and opportunities related to climate change in the decision-making process.

## Are the Framework and reports reviewed by third parties?

The Framework and the Reports are reviewed by external institutions whose opinion is published together with the documents. In the case of the Framework, Vigeo Eiris delivered a second-party opinion favorable to the issuance, as well as the consulting firm EQA published a limited guarantee report for the resource allocation report published in 2020. Likewise, the portfolio of green projects associate to the issuance of these bonds has been certified by the Climate Bonds Initiative (CBI) according to its standards. These documents can be found in the links below:

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Second Party Opinion – Vigeo Eiris

<https://www.hacienda.cl/english/work-areas/international-finance/public-debt-office/sustainable-bonds/sustainable-bonds-framework-second-party-opinion>

Limited Assurance Report – EQA (page 39)

<https://www.hacienda.cl/english/work-areas/international-finance/public-debt-office/sustainable-bonds/reports/2019-green-bond-allocation-and-environmental-impact-report>

Certificate – CBI

<https://www.hacienda.cl/english/work-areas/international-finance/public-debt-office/sustainable-bonds/green-bonds/2021/cbi-certificate>

### **How is the Framework aligned with the Sustainable Development Goals (SDG) promoted by the United Nation's Development Program?**

The Framework explicitly contributes to 14 of the 17 SDGs with the definition of eligible categories to be financed through the issuance of Sustainable Bonds.

Each of the green sectors mentioned in the Framework document aligns with different objectives. The Clean Transportation sector contributes to the objectives of: Good Health and Well Being (N°3); Sustainable Cities and Communities (N°11); and Climate Action (N°13). The Energy Efficiency sector contributes to the objectives: Affordable and Clean Energy (N°7); N°11 and N°13. The Renewable Energy sector contributes to the objectives: N° 7; Industry, Innovation and Infrastructure (N°9); and N° 13. The Biodiversity and Marine Resources Conservation sector contributes to the objectives: No. 3; No. 13; Life Below Water (N°14); and Life and Land (N°15). The Water Management sector contributes to the objectives: Clean Water and Sanitation (N°6); and N°9. Finally, the Green Buildings sector contributes to the objectives: N°9; No. 11; and N°13.

The sector Support to vulnerable older adults, contributes to the SDGs End Poverty (N°1) and Reduced Inequalities (N°10); the sector Support for low-income families contributes to N°1 and N°10; Community support through job creation contributes to the Decent Work and Economic Growth objective (N°8); the sector Support to victims of human rights to N°10; the Access to basic housing sector contributes to N° 11; the Access to education sector contributes to the Quality Education objective (N°4) and N°10; the Food Security sector to the Zero Hunger target (N°2); the sector Access to essential health services to the objective N° 3 and, finally, the sector Programs designed to prevent and / or alleviate the effects derived from socioeconomic crises, including through the potential effect of financing SMEs and micro-finance contributes to SDGs N° 1 and N° 8.

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It should be noted that each of these categories has specific requirements clearly defined in the Framework document.

For more information on the alignment of the Framework, visit:

<https://www.hacienda.cl/english/work-areas/international-finance/public-debt-office/sustainable-bonds/chile-s-sustainable-bond-framework>

For more information on the Sustainable Development Goals, visit:

<https://www.undp.org/content/undp/en/home/sustainable-development-goals.html>

### **Which are Chile's NDC goals? When is Carbon Neutrality projected?**

Chile ratified the Paris Agreement in February 2017, through Supreme Decree No. 30 of the Ministry of Foreign Affairs and presented its Tentative National Contribution (INDC) to the United Nations Framework Convention on Climate Change in September 2015. In April 2020 and in response to the requirements of the Paris Agreement to update commitments every five years, Chile formally presented the update of its Nationally Determined Contribution (NDC). This milestone makes it one of the first countries in the world to update their climate action commitments. The updated NDC also responds to the greater requirements of the scientific community and includes commitments in five areas: i) social pillar of just transition and sustainable development, ii) mitigation, iii) adaptation, iv) integration, and v) means of implementation.

In terms of mitigation, Chile undertook to replace the previous emissions intensity indicator with an unconditional absolute indicator, with a target to reach 95 MtCO<sub>2</sub>eq by 2030, a maximum emissions (peak year) by 2025 and a carbon budget that does not overcome 1,100 MtCO<sub>2</sub>eq for the period 2020-2030.

### **Is there a legal framework that supports the implementation of long-term sustainable policies?**

The Ministry of the Environment, through the Office of Climate Change, is leading the process of drafting the Framework Law on Climate Change, through a broad multisectoral process, in order to gather the vision and experience of key players from diverse parts of Chilean society.

This bill, that was sent to Congress in January 2020, seeks to establish the principles, governance system, management process and adequate financing mechanisms to allow for the transition to a low-carbon future, while reducing vulnerability, increasing resilience and complying with Chile's international commitments to addressing climate change.

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For more information, visit:

<https://mma.gob.cl/proceso-de-consulta-publica-del-anteproyecto-de-ley-marco-de-cambio-climatico/>

### **Where are the details of the projects associated with sustainable bond issuances published?**

Prior to the issuance of each Sustainable Bond, a document will be published in the Sustainable Bond section of the Ministry of Finance website, providing the details of the projects included in each issuance with all of the relevant information. For more information, visit:

<https://www.hacienda.cl/english/work-areas/international-finance/public-debt-office/sustainable-bonds>

### **How will the allocation, eligibility and environmental impact of the projects included in the Sustainable Bonds be disclosed?**

The Ministry of Finance will provide an Allocation Report, an Eligibility Report and an Impact Report, for all bonds issued under this Framework, being responsible for their consolidation. This information will be published on the Ministry's website in April each year, at the following link:

<https://www.hacienda.cl/english/work-areas/international-finance/public-debt-office/sustainable-bonds/reports>

The information published will be subject to the availability of the fiscal accounts. The first report was published in 2020, corresponding to issuances of 2019.

### **How are the environmental impacts of the projects financed by Sustainable Bonds assessed?**

All eligible projects included in the portfolio, as well as any other project developed in Chile, require the prior approval of the Environmental Impact Assessment System (SEIA, by its Spanish acronym). For more information on evaluation methodologies, visit: <https://www.sea.gob.cl/>

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### **What is the “Sustainable Buildings Certification”, and what does it assess?**

The "Sustainable Building Certification" (SBD) is a national system that evaluates, qualifies and certifies the environmental performance of public buildings in Chile. This evaluation system covers both new and existing buildings, for administrative, public or private use.

It is based on compliance with a set of mandatory and voluntary requirements that provide a final score. To be certified a building must comply with the mandatory requirements and achieve at least 30 points. The maximum score is 100.

The system was developed by the Chilean Construction Institute (Instituto de la Construcción) with the support and formal participation of 13 public and private institutions, gathered with the objective of encouraging the design and construction of buildings with sustainability criteria, and stimulating the market to value this type of building.

SBD is supported by the Ministry of Public Works, the Chilean Chamber of Construction, the College of Architects of Chile and the Construction Institute, which acts as an administrative entity.

For more information, visit: <http://www.certificacionsustentable.cl/>

### **How does the State of Chile participate in the energy market? How does it contribute to the development of clean energy?**

The energy market in Chile is regulated by the Ministry of Energy, which has successfully led the incentivization and promotion of clean energy. Reflecting this, the installed energy capacity of renewable energy in the country has increased from 2% in 2013 to 26% in 2019. The majority of investments in the energy sector are carried out by private capital. Therefore, in comparison to other sectors, direct investment by the State is smaller in this sector. Nonetheless, Chile believes that the change in regulation, by restricting the use of fossil fuels and incentivizing renewable energy will drive the private sector to increase the share of renewable energy generation in the Chilean energy mix.

### **What is the degree of consensus regarding the importance of addressing climate change?**

Chile's commitment to act against climate change reflects the increasing importance the public places on this issue. As shown by the National Environmental Survey, published by the Ministry of the Environment, 96% of the population agrees that taking action to care for

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the environment is a moral duty and the “Environment” theme moved up two spots to third in 2017, compared to fifth 2016. To view the survey results, visit:

<https://mma.gob.cl/wp-content/uploads/2018/03/Informe-Final-Encuesta-Nacional-de-Medio-Ambiente-2018.pdf>

