

“Financing Development Goals in Middle Income Countries: the Chilean Story”

Financing for Development Forum
Embarking in the path toward FfD 4

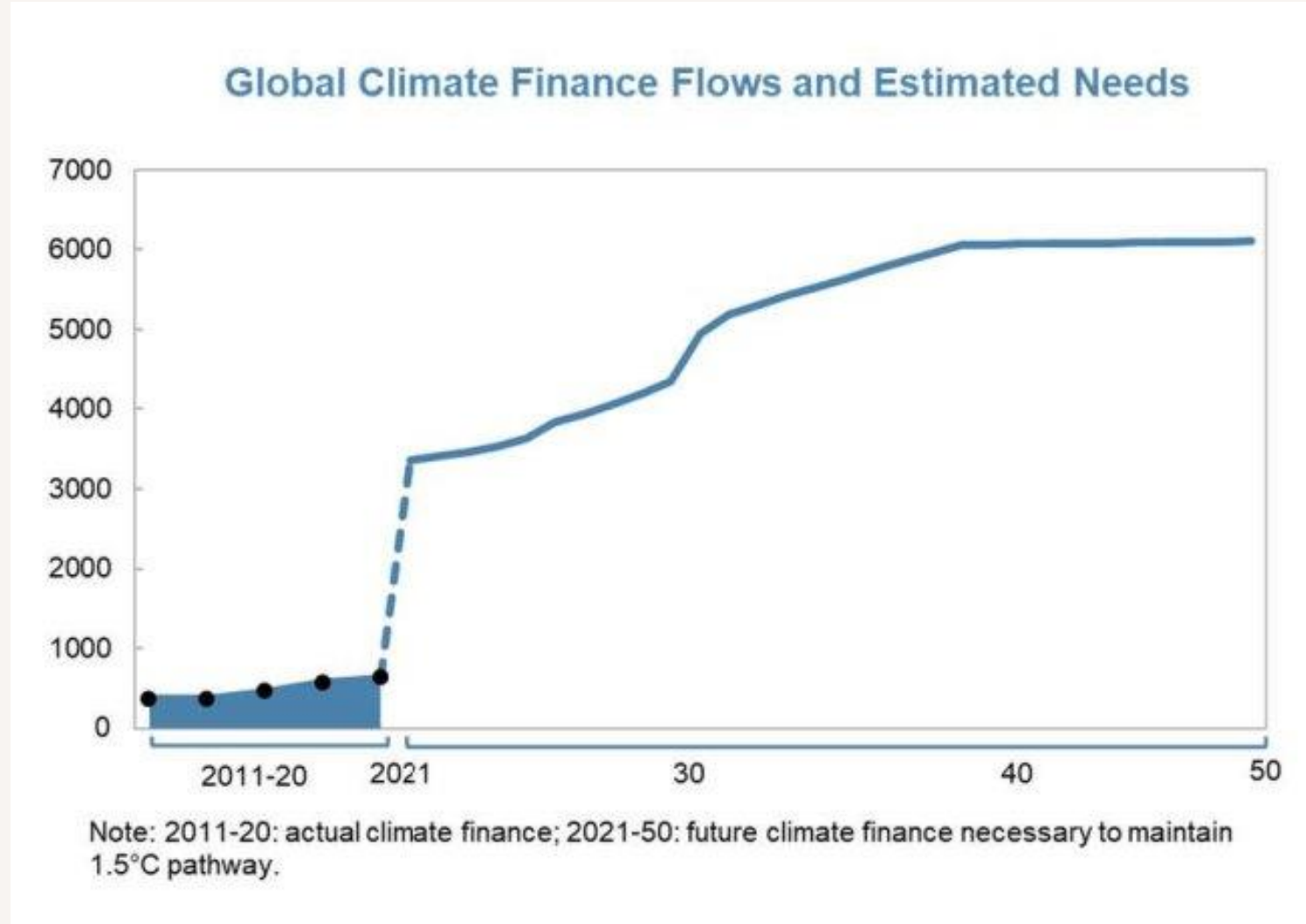
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22 – 25 April 2024

The world is facing unprecedented challenges. The post-pandemic macro scenario, ongoing war conflicts, food and energy insecurity, population aging and the climate change threat to derail progress on the SDGs.

- Escalations in extreme poverty not only widen the gap between developed and developing nations but also incentivize the latter to engage in economic activities that detrimentally impact climate change.
- Inequality-related challenges, such as a significant portion of the population residing in precarious and vulnerable conditions, exacerbate the negative effects of climate change.
- Delaying investment in sustainable transformations will jeopardize the 2030 Agenda and its social and environmental objectives.
- This scenario makes it necessary to rethink the ways of channeling financial resources both globally and locally.
- The global financial architecture is undergoing a major redesign to address the urgent needs on poverty alleviation, climate change mitigation and biodiversity preservation efforts, mainly in the Global South.
- Emerging and middle-income countries, such as Chile, are no exception on this global trend.
- Chile has achieved 18 of the 116 SDG targets for which comparable data are available and, based on most recent trends, it is expected to meet 4 additional targets by 2030.

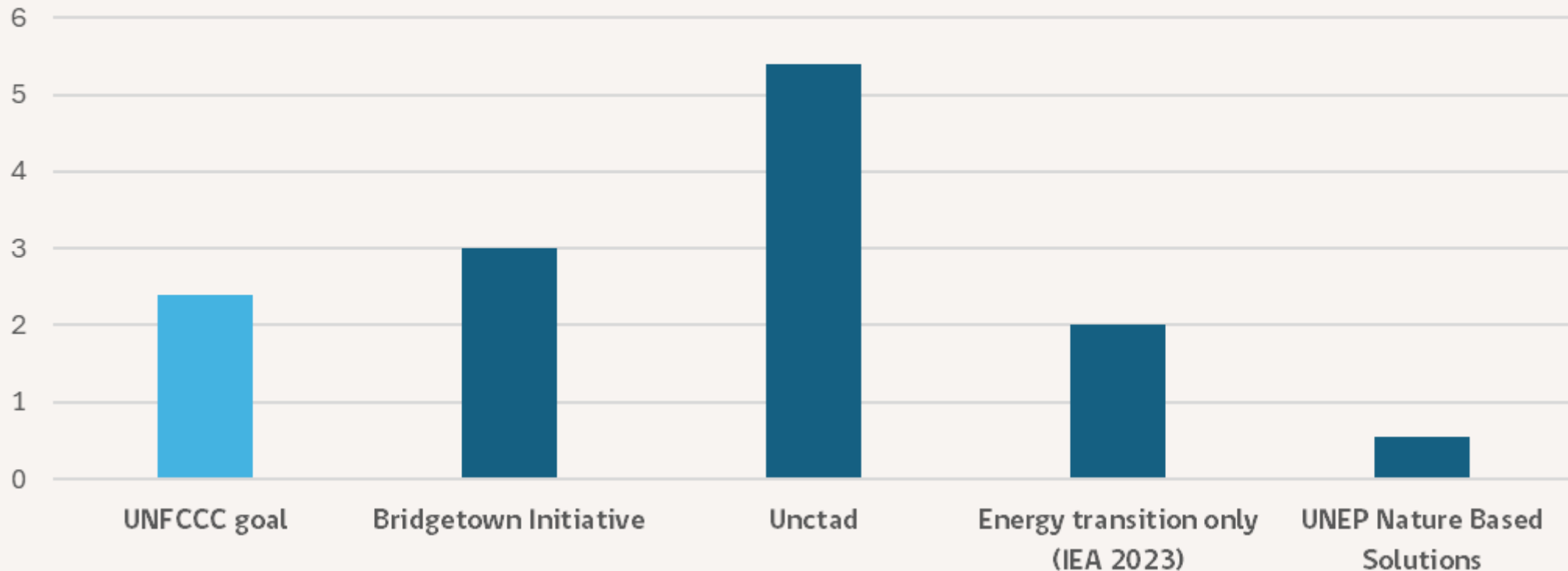
Financing needs for meeting the Sustainable Development Goals (SDGs) and climate change goals are mounting while these become more urgent than ever. The lack of financing may lead to a lost decade.



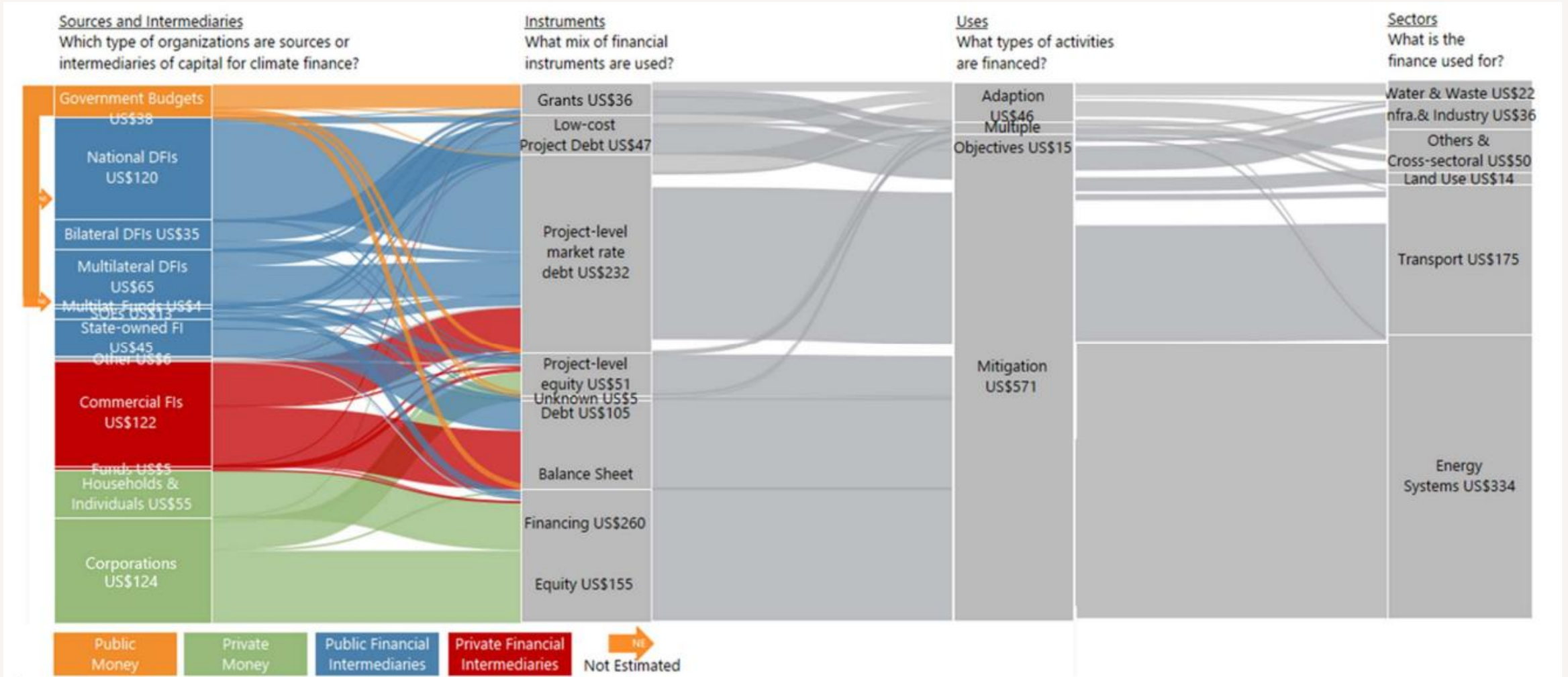
Source: IMF Staff Climate Notes, 2022 "Mobilizing Private Climate Financing in Emerging Market and Developing Economies"

Near US\$5.4 trillion per year are needed to achieve the 2030 Agenda for Sustainable Development in 48 developing countries. Estimates only for climate are closer to US\$2.5 trillion, and nature only, \$500 billion.

SDG, climate and nature financing cost vs and UNFCCC goal
(Trillion dollars per year)



In 2019–20 total financing averaged US\$653 billion per year. Public development finance makes up more than half of climate finance. Only a small fraction goes to adaptation (US\$50bn), and mostly directed to Energy and Transport Sectors



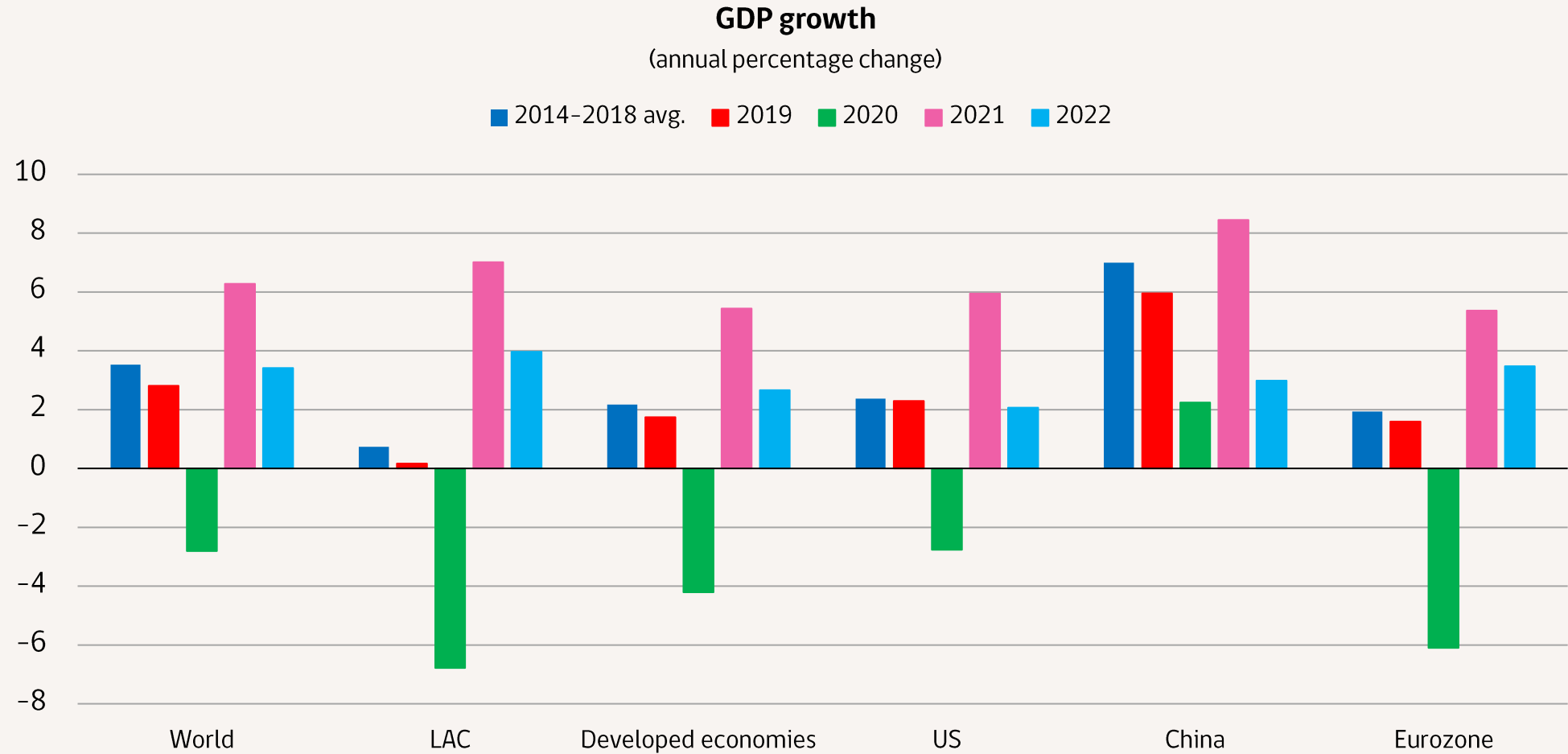
Financing for Development in Middle Income Countries

Middle-income countries often face stricter borrowing conditions and have less access to concessional loans compared to low-income countries.

For example, LIC have access exclusively to world bank IDA resources and part of concessional IBRD funds.

- Hence, MICs depend on domestic resource mobilization: public and private
 - Increase the efficiency of tax collection and enhancing financial governance
 - Partner with the private sector through public-private partnerships (PPPs) and foreign direct investments (FDIs) are essential for funding development projects.
 - MICs are increasingly tapping into capital markets by issuing bonds to finance large-scale infrastructure and development projects, yet the legacy of the Covid-19 crisis is weighting heavily on borrowing costs.

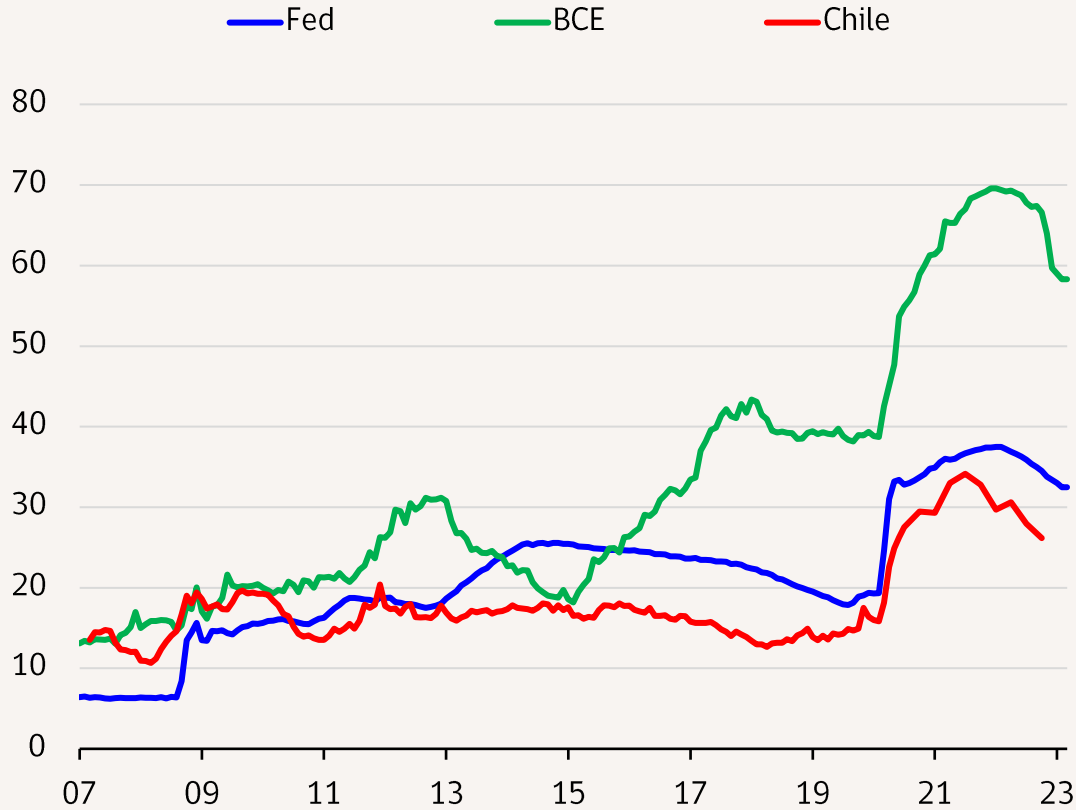
The world experienced in 2020 and 2021 the fastest, deepest, and most simultaneous economic crisis in memory



The shock that the economy received was unusual in its origin and development, while the policy response was unprecedented in its magnitude and content

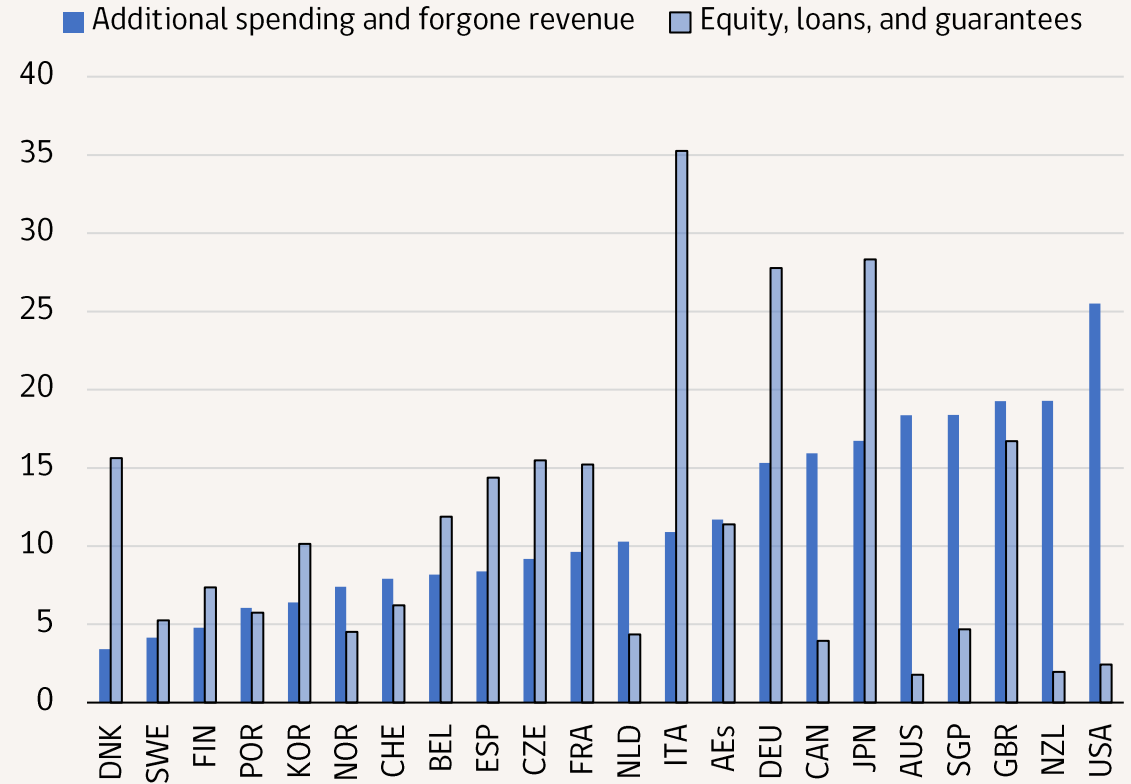
Central Bank Balance Sheet

(percent of GDP)



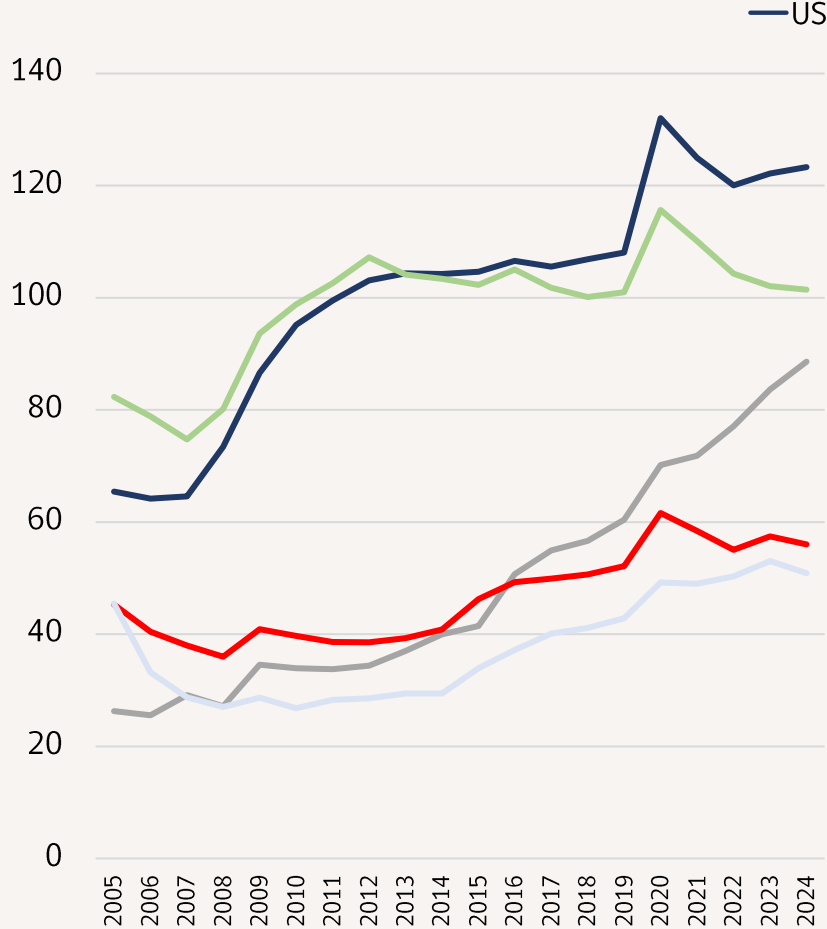
Fiscal response to the Covid-19 crisis

(percent of GDP, 2020-2021)

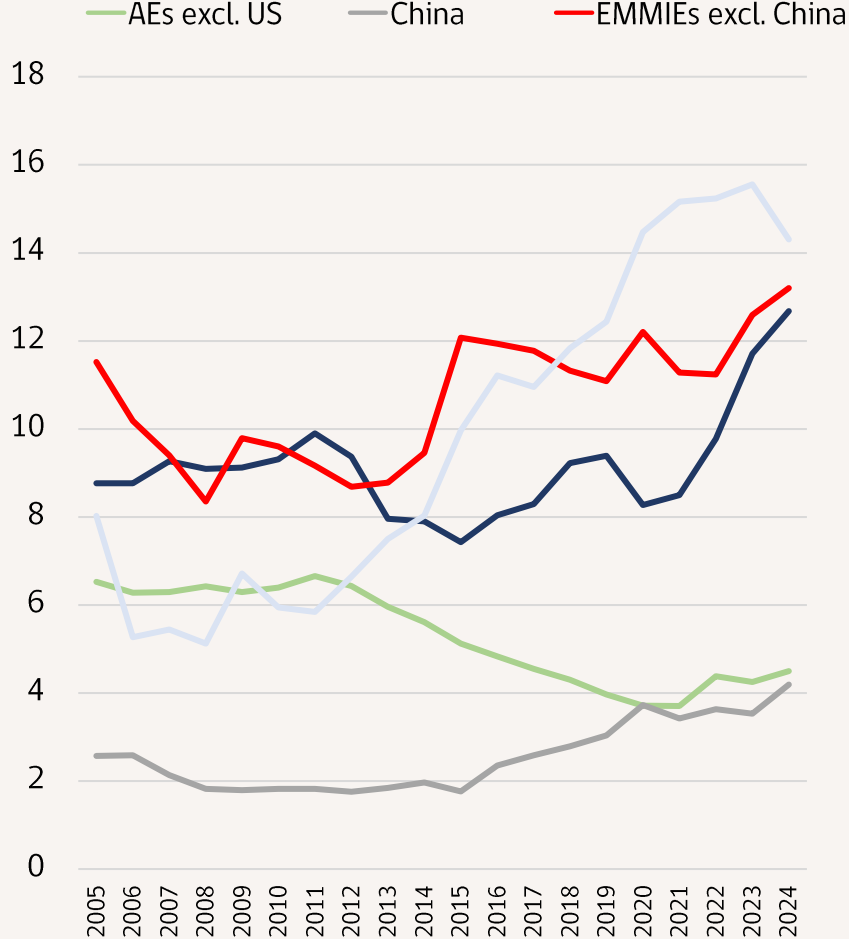


As a result, debt-to-GDP ratios and interest payments on debt increased sharply. Budget deficits continue

General Government Debt
(percent of GDP)

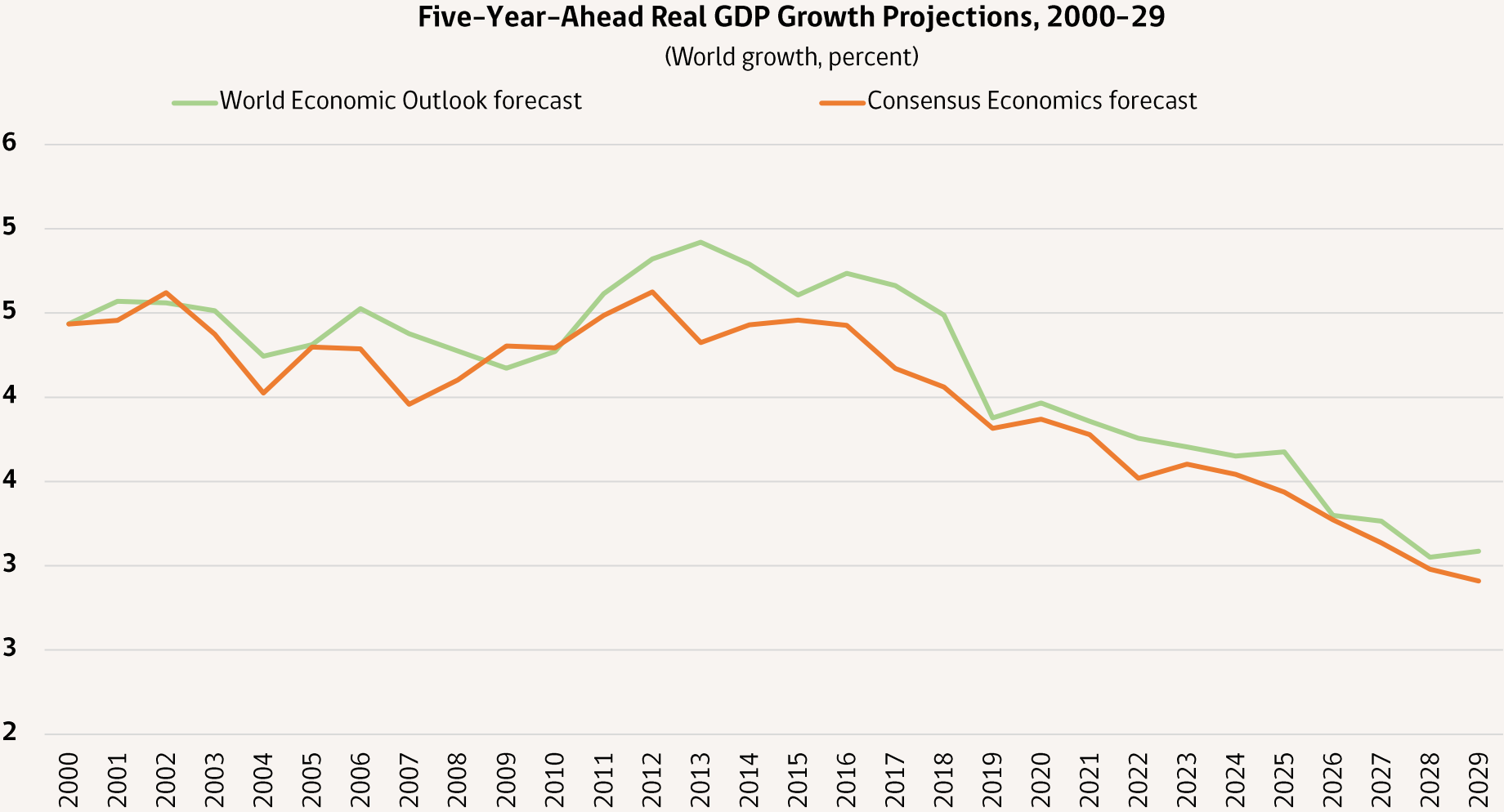


General Government Interest Payment
(percent of general government revenue)



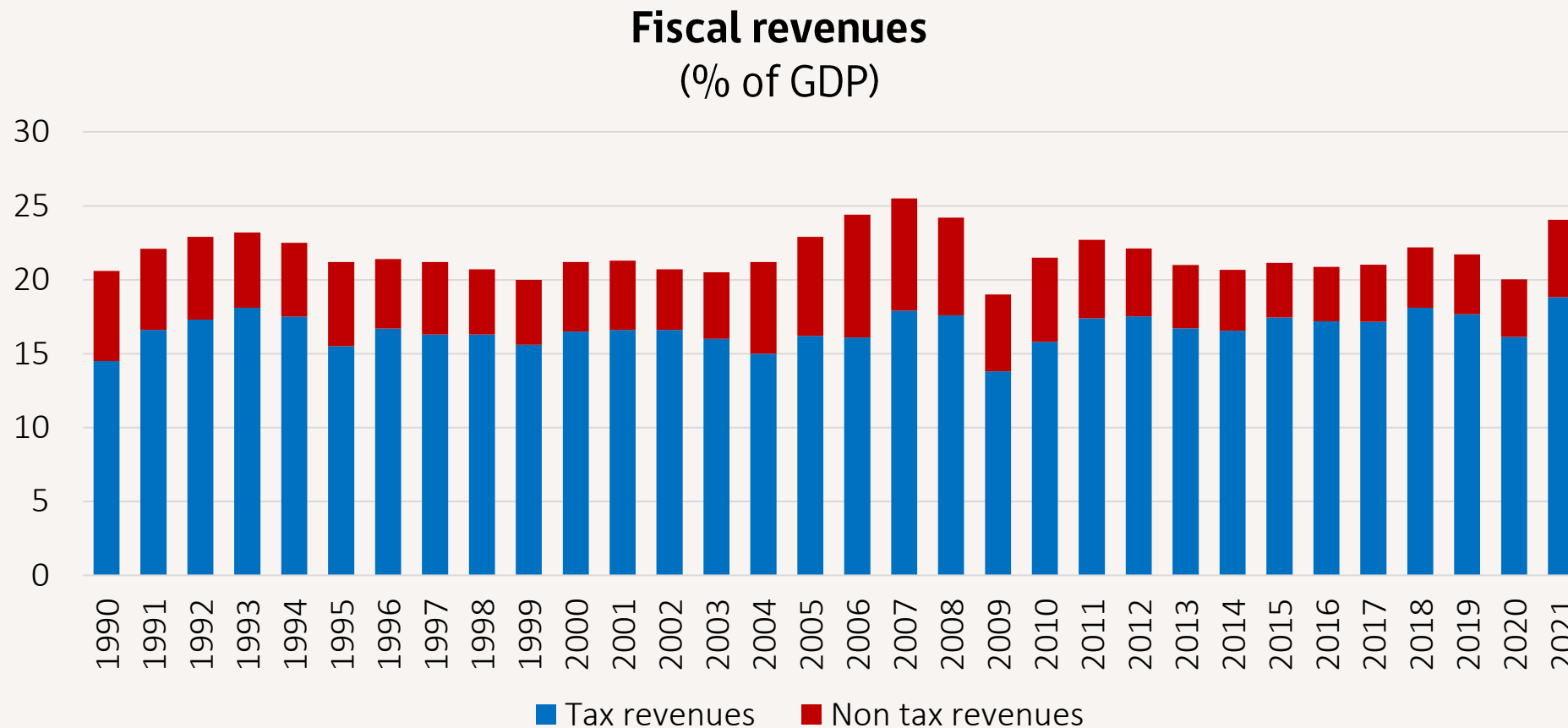
General Government Fiscal Balance
(percent of GDP)





Source: Consensus Economics; and IMF staff calculations

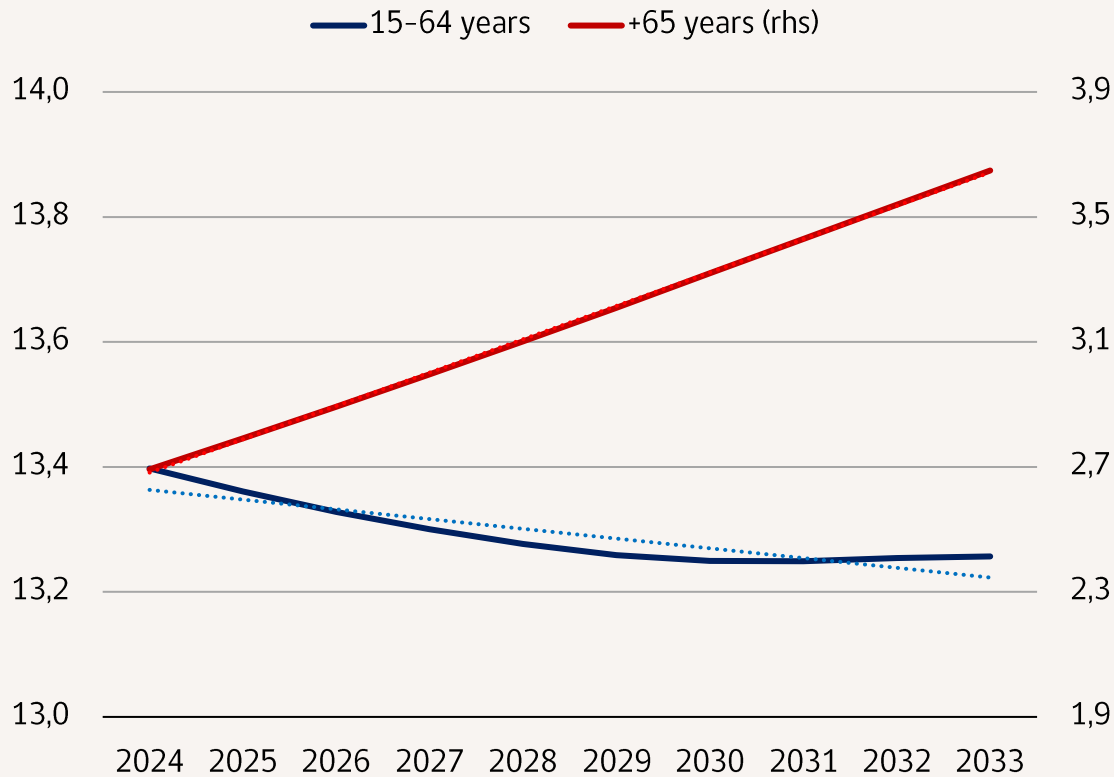
Chile has been no exception to this scenario, worsened by procyclical policy measures in 2021 that put a pressure on inflation and public debt. Fiscal revenues nearly flat as a % GDP since the 1990s further constrain fiscal space



Source: Eclac

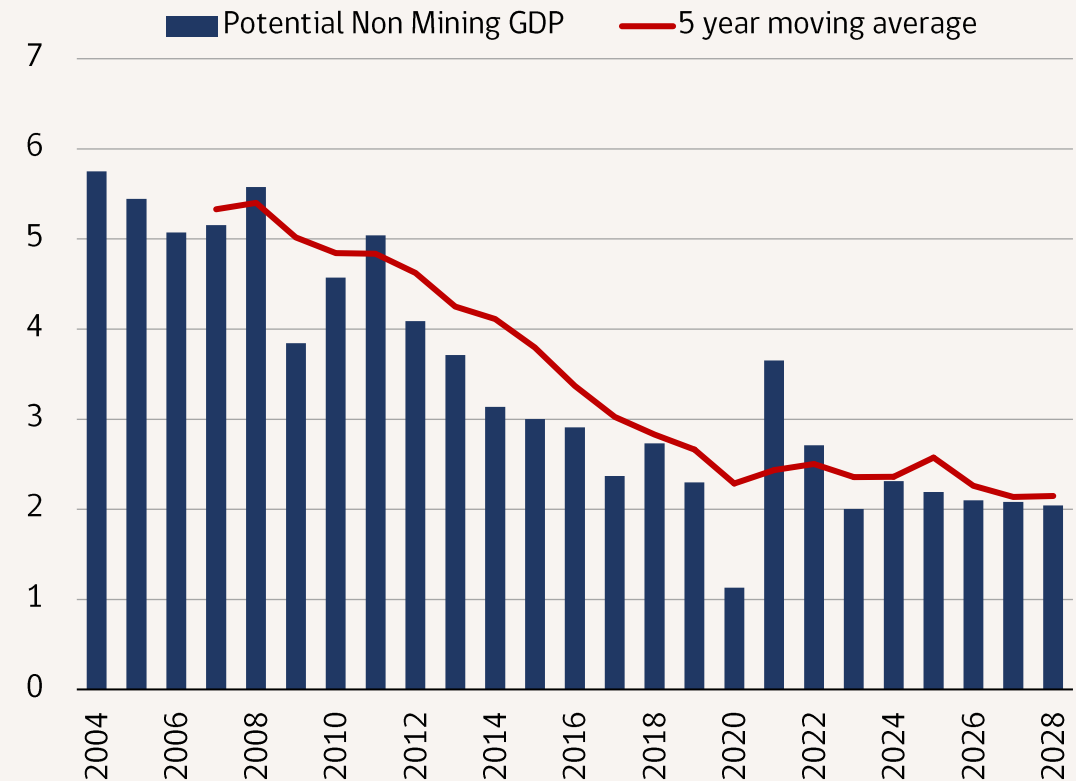
In the next decade, the population of older adults will grow at a faster pace than the population aged 15 to 64, as well as the trend growth and fiscal revenues under the current financing structure.

Population (millions)



Potential Non Mining GDP (1)

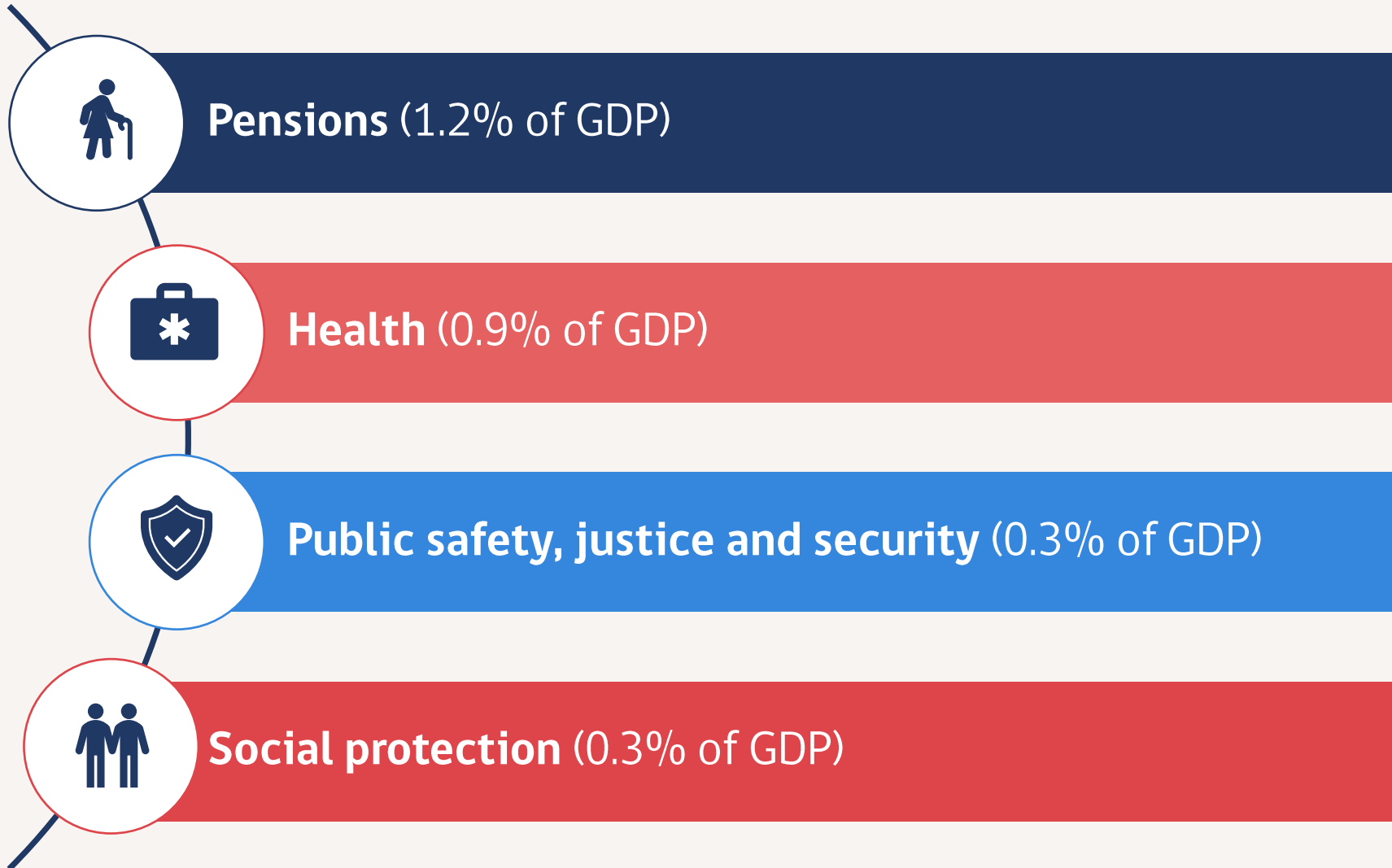
(YoY real change, percentage)



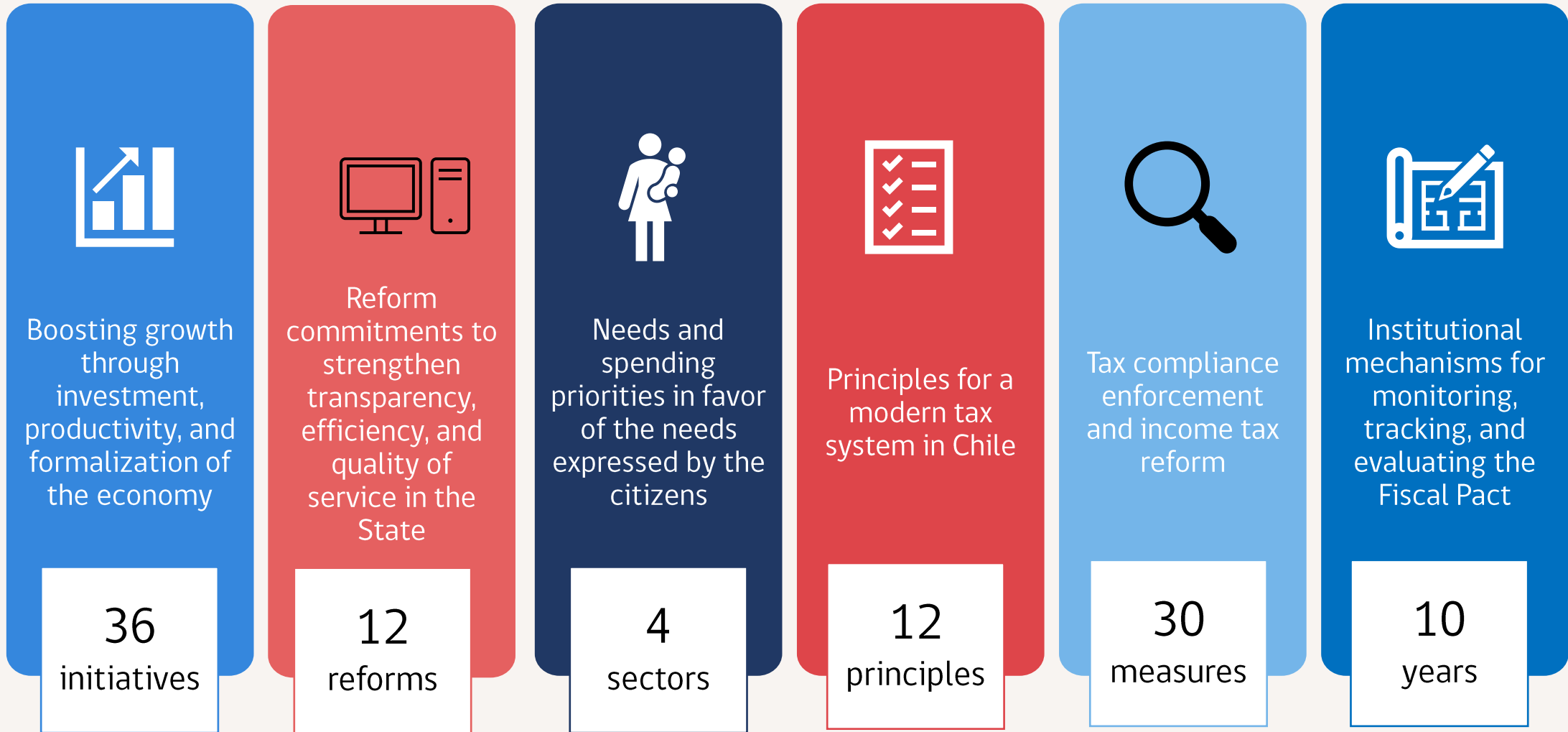
Note: (1) The dotted lines represent the trend of the respective series.
Source: CELADE- Population Division of ECLAC and report "Productivity in the Telecommunications Sector" of the National Commission for Evaluation and Productivity.

Note: (1) Trend GDP estimated by a Committee of Experts for Trend GDP in 2023.
Source: Ministry of Finance.

The Government has estimated the fiscal cost of responding to urgent social needs at 2.7% of GDP

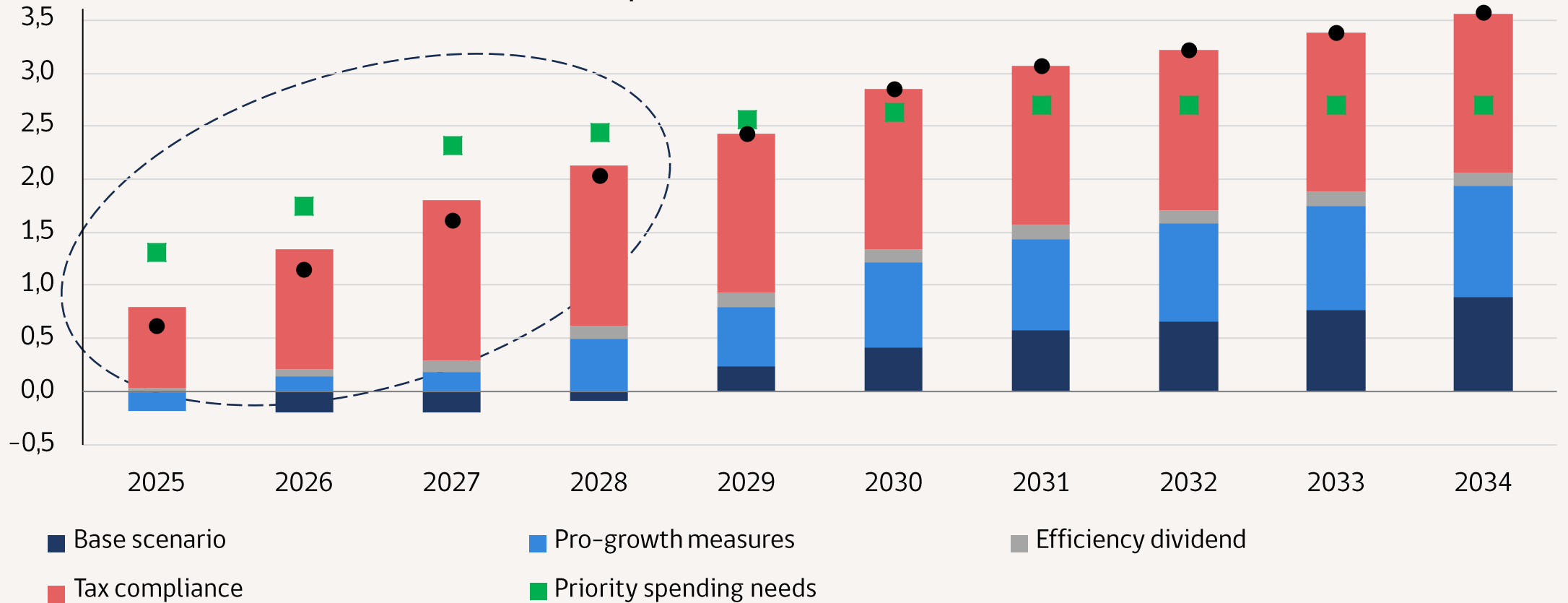


The Government consulted with political parties and civil society organizations to generate a Pact for Economic Growth, Social Progress, and Fiscal Responsibility to address urgent social needs over the next 5 years



The Fiscal Pact combines pro-growth, public sector reform, tax compliance and income tax reform to fund priority spending needs

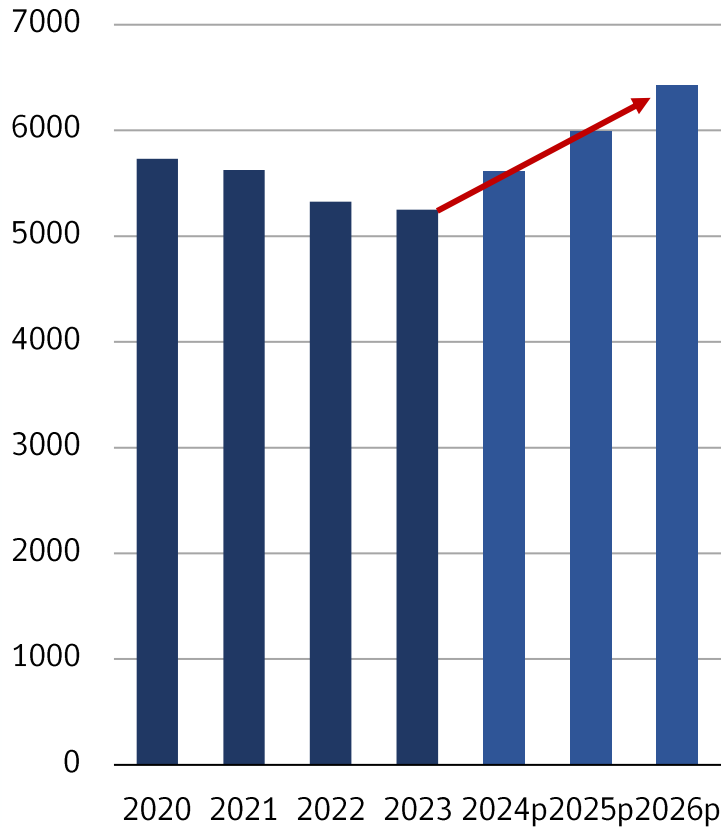
Needs of revenues
(percent of GDP)



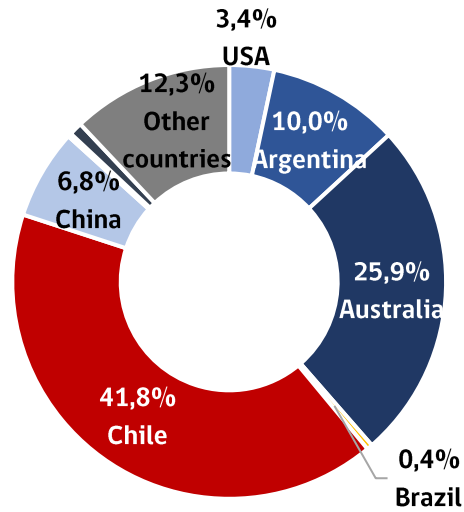
Nota: Se consideran PIB del Escenario B del Comité de expertos

The greening of the World Economy is opening new opportunities for sustainable economic growth in Chile

Copper production forecast
(thousands of tons)

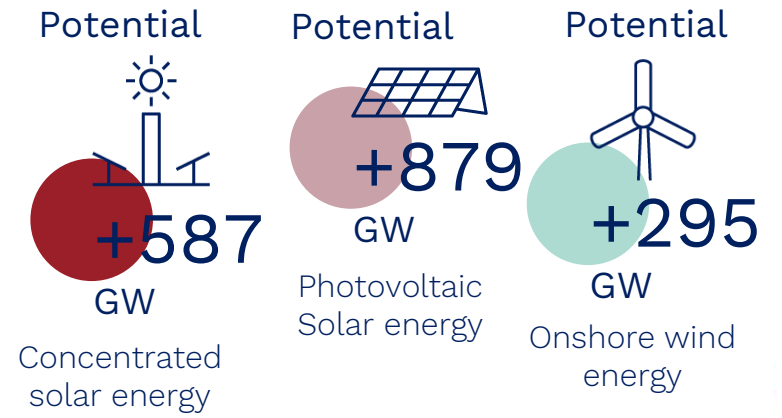
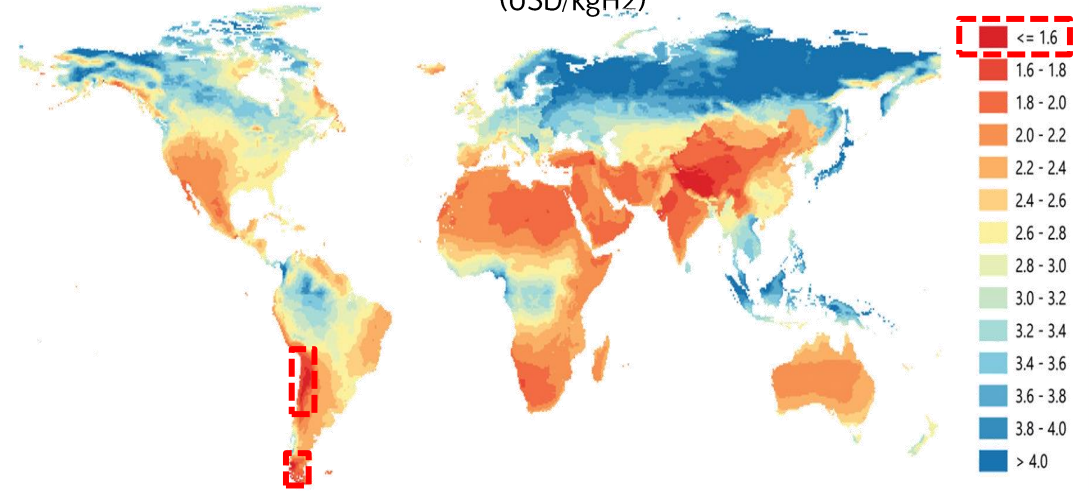


Lithium reserves by country in 2023
(percentage of total reserves)



Lithium production in Chile represented **34%** of world production in 2022

Hydrogen costs from hybrid solar PV and on-shore wind system in the long term
(USD/kgH₂)



Source: Cochilco (National copper corporation) based on United States Geological Survey (USGS), U.S. Geological Survey (2022), World Bank and Ministry of Energy.

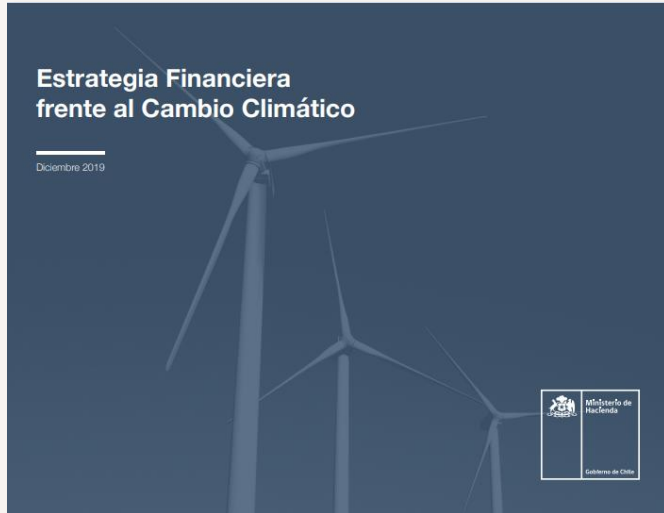
A Financial Strategy to tackle environmental commitments.

The Ministry of Finance has developed a **Financial Strategy** to accomplish Chile's NDC commitments (after Paris Agreement) by enabling the implementation of the measures committed in **the Long-Term Climate Strategy of Chile**.

The strategy is currently being updated and will orient investments towards those sectors and regions that are lagging behind, have large financing gaps, and have high impact in terms of the climate objectives.

In 2025, a new strategy will be published that will include not only climate, but biodiversity and just social transition objectives.

2019



2022



2024



2025-



External sources of financing in Chile are very diversified, and they point towards both social and environmental objectives (among others)

Chile benefits from external funding, such as the UNFCCC **Green Climate Fund** – seven Chilean projects have received US\$214 million. For example:

- The Atacama Solar Project is a 143MW solar park that will supply a low-cost, clean, and renewable alternative. This project has been partially funded by GCF and CAF to complete its long-term financing, which facilitated further investment from other financial institutions. Tonnes of emissions avoided: 4.3m

MDBs play a key role in allocating financing to key development areas, accompanied by technical assistance.

- Water, small and medium enterprises support, housing, security, among others.

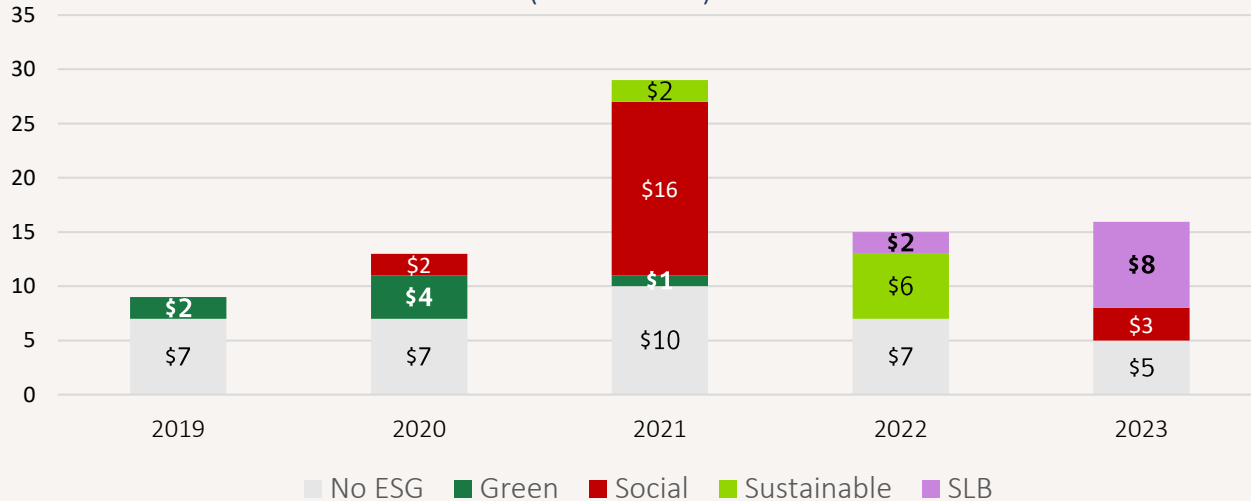
MDBs catalyzing private investment

- A US\$ 1 billion financial facility to boost the green hydrogen industry in Chile, to derisk projects, incentivizing the private sector to invest.
- Energy generation and price stabilization

Chile is a leader in public financing using market instruments. We share our experience in many fora like the Regional Finance Minister's platform for CC

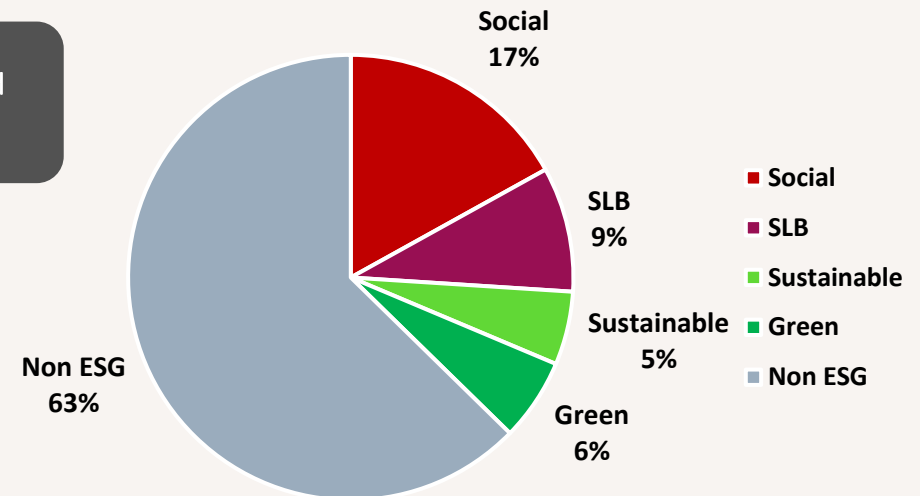
- The main instruments that the private sector uses are commercial bank lending, green bonds and loans, sustainability-linked bonds and loans, sustainable and social bonds, green-asset backed securities and other financial instruments.
- These are present to a larger or lesser extent in emerging economies, and middle income countries
- Labelled bonds have become fundamental for Chile's financing strategy (37% of stock) being the only country in to have issued all types of bonds, and having the largest stock (41bn) of sovereign bonds worldwide

Historical ESG Issuances
(USD billion)



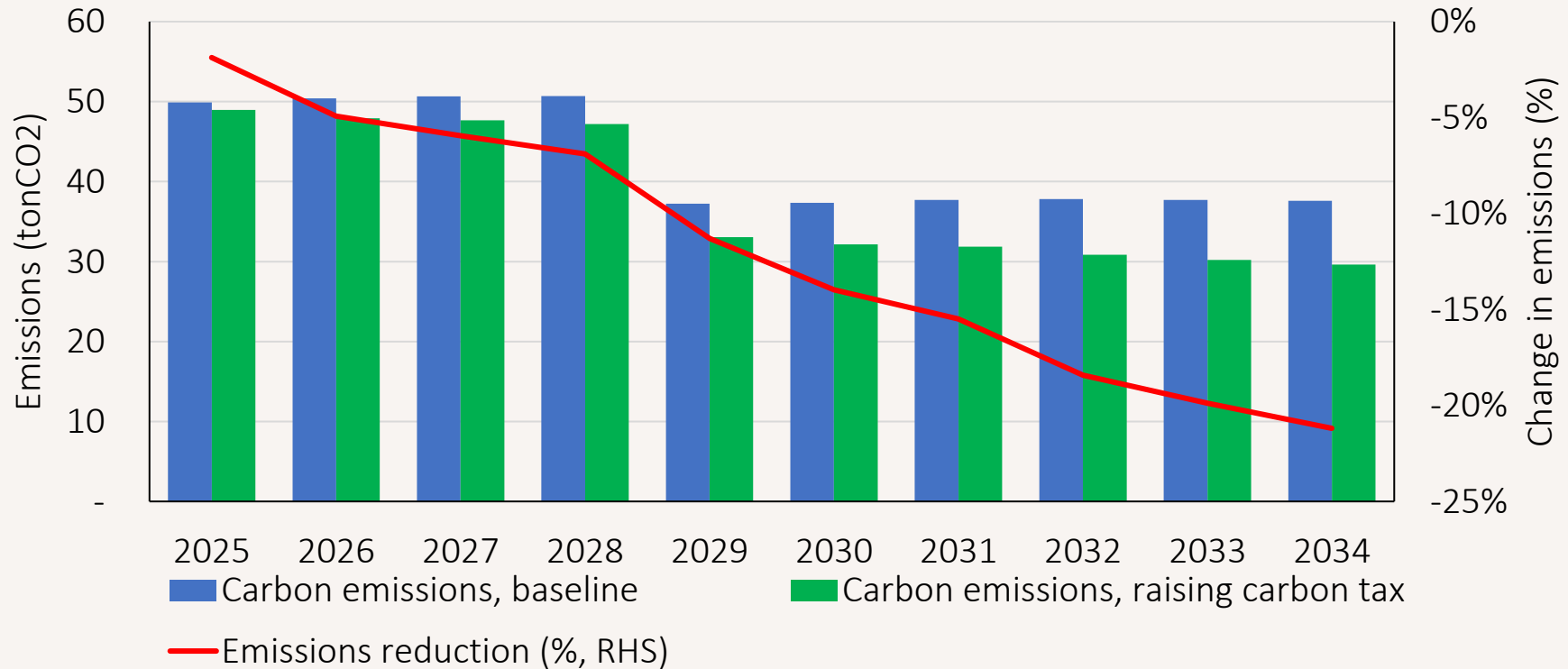
Stock as of March 31, 2024
(% of Total of Central Government Debt)

ESG Labeled Debt: 37%



Raising carbon tax to its social price would contribute to a 20% reduction of emissions in a decade

Carbon emissions in Chile



Financing for development is not growing at the necessary pace, which may lead to a lost decade in terms of progress toward the SDGs.

- The ability of developing countries to tackle poverty and protect their environment is undermined by tax losses caused by profit shifting. Channeling of international resources is essential.
- Public policy has a fundamental role in addressing social commitments that come along with social developments such as higher expenses from an aging population
- Public resources can help catalyze private financing, as do those of MDBs.
- Private resources are key to achieve the sustainability goals, social and environmental, and for that more information and transparency in financial markets is much needed.
- Global goals need global efforts:
 - Chile is leading the Regional Platform of the Ministries of Economy and Finance on Climate Change (IDB), promoting a regional effort on advancing climate action and address the loss of nature.
 - Chile is a founding member in the Coalition of Finance Ministers for Climate Action, participates in the International Platform on Sustainable Finances, and we are one of the two countries working on a pilot in the OECD's Inclusive Forum of Carbon Mitigation Approaches.

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