

Chile's Sustainable Bond Framework: Policy and Challenges



**Gobierno
de Chile**

Ministerio de Hacienda

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Agenda

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2. Chile's Sustainable Bond Framework
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4. Challenges

Context

- Society is running against time, with the climate crisis as an undeniable ongoing event.
- President Boric's Government is committed to ensure a sustainable economic development.
- The incorporation of social criteria in the issuance of its sovereign bonds, along with its green bond issuances, are concrete steps towards this goal.

Chile's commitment to Sustainable Growth

- Chile is the first country in the Americas to issue Green bonds, and the second to issue Social and Sustainable Bonds, which were structured in accordance with [Chile's Sustainable Bond Framework](#) (2020)
- Considering its Paris Agreement commitments, in 2020 Chile presented an update of its Nationally Determined Contributions ([NDC](#))
 - On the mitigation side, Chile committed the goal of reaching **95 MtCO₂eq** for 2030, the peak year in 2025 and a carbon Budget that will not exceed 1.100 MtCO₂eq for the 2020-2030 period
- The Ministry of Finance, in coordination with the Ministry of the Environment, developed a [Financial Strategy on Climate Change](#), which included:
 - The creation of a Public-Private Green Finance Table
 - The research to generate data and analysis
 - The promotion of financial instruments to fund these green initiatives
- From a social dimension, Chile has experienced a successful history in the last 30 year showing a strong reduction in poverty from 68% in 1990, reaching 8.6% in 2017.

Chile's Sustainable Bond Framework

November 2020

- This new framework broadens the **Green Bond Framework**, defining the guidelines that allow the issuances of **Green Bonds, Social Bonds and Sustainable Bonds** (which include the funding of green and social projects)
- As the Green Bond Framework, this new document establishes the Use of Proceeds, the Evaluation and Selection of the Projects' process, the Management of Proceeds and the Reporting process after the issuances of these instruments
- Adds new social categories, including those specific for the support of the population most affected by the COVID-19 pandemic
- This framework complies with **ICMA (International Capital Market Association)** standards for Green and Social bonds and received a favourable **SPO (Second Party Opinions)** from Vigeo Eiris

FRAMEWORK	General Conditions
Use of Proceeds	What will be the use of the proceeds?
Definition of Eligible Expenditures	What kind of projects could be included?
Evaluation and Selection Process	How are the projects selected
Management of Resources	How the process will be managed?
Reporting	Expenditures and Impact

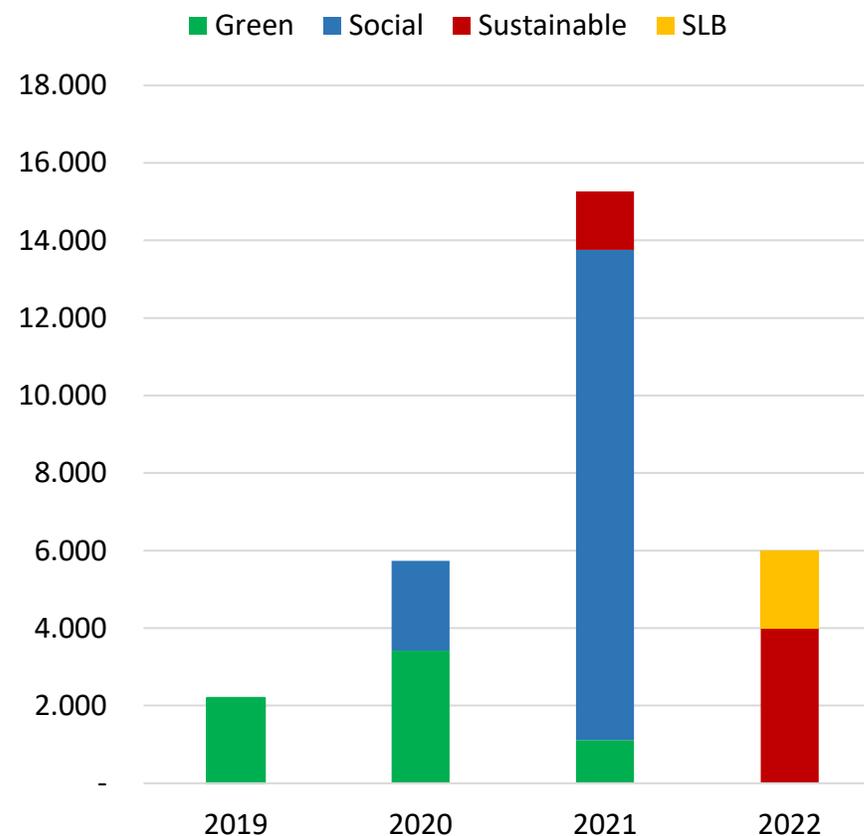
Labelled bonds have become fundamental for financing of Chile

As of March 2022, the Ministry of Finance has issued **US\$33 billion in labelled bonds**:

- i. Social: US\$17.8 billion
- ii. Green: US\$7.7 billion
- iii. Sustainable: US\$5.5 billion
- iv. SLB (Sustainability-linked Bonds): US\$2.0 billion

In sum, these reach **roughly 28.7% of Chile's Central Government debt**.

ESG Issuances of Chile
(MM US\$ equivalent issued amount)



Summary and Upcoming Challenges

- Post Covid, the credibility of Fiscal consolidation process is a key element. Communication, transparency and enhancement of the fiscal rules are fundamental
- Flexibility of instruments and to access to the market is important, but a mix of currency and average duration should be established as a goal, in order to minimize the refinancing risk
- Chile has the credentials to affirm its commitment to the protection of the environment, the fight against climate change and its efforts and commitments in the social sphere
- Chile is the first country in the Americas to issue Green Bonds and continued with the issuance of Social and Sustainable Bonds
- 24.6% of the CG (Compass Global) debt is thematic as well as the 65% of the 2021 Bond issuances, and we plan to continue this trend
- Thematic bonds broaden the investor base and, in the margin, improve financial results
- They imply an additional operational burden due to the greater knowledge required in all projects, the selection process and the preparation of annual impact, allocation and eligibility reports
- The portfolio of green projects is limited, which restricts the amount to be issued. SLBs are an option under evaluation

More Challenges

- **Lack of standardized taxonomy:** Currently, Chile is working on defining a taxonomy that allows investors to distinguish between “green” and “non-green” companies. This is a public-private joint effort.
- **Lack of data:** we need more data in order to measure more precisely the potential impact of ESG bonds on the financial system and economic development in general.
- **Information disclosure:** the information that companies disclosure should be standardized. More information will allow investor to price properly these kind of instruments. Mandatory disclosure policy should be evaluated.

Although we must address these challenges, there is no time to wait for them to be solved to continue making steps towards a greener financial market.

Final remarks

- Chile has taken serious steps to face against climate change.
- It has taken a leadership in the ESG market, being the first country in the Americas to issue Green Bonds and the first sovereign in the world to issue SLB, setting a milestone for other issuers.
- It is well determined to take further steps towards promoting a greener financial market, fostering innovative and concrete initiatives.
- Notwithstanding, there are still challenges that must be addressed.

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