

Green Bond Framework



Republic of Chile



Table of Contents

Introduction	3
Background on Chile's international commitments and environmental policies	4
The Paris Climate Agreement	4
Government Program 2018-2022	4
Chile's Government and Sustainable Finance	5
Chile's Green Bond Framework	6
Use of Proceeds	7
Definition of Eligible Green Expenditures	7
Green Sectors	8
Exclusions	11
Process for Project, Asset and Expenditure Evaluation and Selection	11
Management of Proceeds	12
Figure 1. Evaluation & Selection Process for Eligible Green Expenditures	12
Reporting	13
Allocation Reporting	13
Impact Reporting	13
Figure 2. Reporting Process	14
Examples of indicators and metrics:	15
External Review	16
Second-Party Opinion	16
External certification	16
External audit	16
Amendments to this Framework	17
Legal Documentation	17



Introduction

Chile has a strong commitment with climate change mitigation and environmental protection. Reflecting this commitment, Chile is interested in issuing Green Bonds as a tool to channel investments towards green assets, contributing to further financial development and promoting national financial innovation that supports the country's sustainable development path, low in carbon emissions, with strong climate resilience.

Chile recognizes the impending necessity to transition to a low carbon economy, which has also been highlighted by the Intergovernmental Panel on Climate Change's (IPCC) "Special Report on Global Warming of 1.5°C¹ (October 2018), and considers Chile's current exposure to climate change related impacts as one of the country's main challenges.

Chile is already facing these challenges and as a part of its national development plan, several ministries, including the Ministry of Finance (MoF) have opened new specialized areas dedicated to face climate change, promoting public-private cooperation, including climate change analysis in international negotiations and supporting the Chilean strategy against climate change. The MoF is responsible for fiscal policy and plays an active role in channeling public and private flows of capital to Chile's Nationally Determined Contributions (NDCs) under the Paris Climate Agreement. In addition, Chile is taking a leading global role on climate action. Chile's Minister of Finance, Mr. Felipe Larraín, currently co-chairs the Coalition of Finance Ministers for Climate Action, and the country will host the United Nations Climate Change Conference of the Parties (COP25) in December 2019.

The MoF, in coordination with the Ministry of the Environment (MoE), have developed a sovereign green bond framework ("Framework"), which will allow Chile to fund eligible projects, assets and expenditures that will support the fulfillment of the country's sustainable development needs as well as international commitments including its NDCs. At the same time, this framework underlines Chile's commitment to the advancement of the Green Bond market.

» 1 <https://www.ipcc.ch/sr15>

Background on Chile's international commitments and environmental policies

The Paris Climate Agreement

Chile ratified the Paris Climate Agreement in February 2017, by Supreme Decree No. 30 of the Ministry of Foreign Affairs. In its NDCs presented to the UNFCCC in September 2015, Chile established commitments in five areas²: i) mitigation; ii) adaptation; iii) construction and capacity building; iv) technology development and transfer; and v) financing.

In particular, Chile has committed to reduce its CO₂ emissions per unit of GDP by 30% by 2030, from 2007 levels.

According to the 2019 Global Climate Risk Index³, a measure that quantifies the impact of extreme weather events based on fatalities and economic losses, Chile is among the highest as it is ranked 16th among 181 countries. Chile is highly vulnerable to the effects of climate change due to:

- i) its low-lying coastal areas;
- ii) its susceptibility to natural disasters; and
- iii) the presence arid, semi-arid and forest areas prone to drought, desertification and degradation.

In order to achieve its Long-Term Climate Strategy (LTCS), Chile is promoting new and profitable ways to accelerate emission reductions and encouraging the alignment of financial flows with a low-carbon, climate resilient economy. The development of a local and international Green Bond market to finance the country's sustainable development needs is seen as a critical tool.

Government Program 2018-2022

Worldwide, it is estimated that approximately US\$ 6 trillion of infrastructure investment will be needed annually until 2030. About US\$ 4 trillion of these investments will be accounted for by the global south. In Chile, it is expected that infrastructure investments opportunities could amount to 3.5% of its GDP⁴.

Infrastructure development opportunities in Chile are key for the sustainable development of the country, as they

provide fundamental support for the advancement of key productive sectors and social welfare. However, given the country's exposure to climate change related impacts, it is key that infrastructure development prevents and mitigates the generation of greenhouse gases and takes into account future variations in weather patterns in the different phases of the projects' life cycle.

The Government of Chile is proposing a paradigm shift in the life cycle management of public works as part of its *2017-2022 National Action Plan for Climate Change*. This is why, embedded within this national plan, in November 2017 the Ministerial Council for Sustainability approved the Climate Change Mitigation and Adaptation Plan for Infrastructure Services. This latest plan is the first of its kind in Latin America and will help the government adjust the designs of planned infrastructure to mitigate the worst impacts of climate change at the community, regional and national level.

The Climate Change Law and the development of a Long-term Climate Strategy (LTCS) commit to the development of a National Climate Change Financing Strategy.

Considering the above, and in line with the country's strategic priorities set forth by the 2018- 2022 Government Program and with its international commitments, this Framework is geared towards financing the following priorities:

- ◆ Clean Transportation;
- ◆ Energy Efficiency;
- ◆ Renewable Energy;
- ◆ Living natural resources, land use and marine protected areas;
- ◆ Efficient and climate-resilient management of water resources;
- ◆ Green Buildings.

» 2 Chile is set to update its NDCs during 2019.

» 3 Global Climate Risk Index (2019), Who Suffers Most From Extreme Weather Events? David Eckstein, Marie-Lena Hutflits and Maik Winges

» 4 http://www.concesiones.cl/Documents/libro-Concesiones_obras-publicas-chile-20.pdf



As the first sovereign green bond issuer in the Americas, Chile also intends to set a benchmark for future sovereign issuances in the region.

Chile's Government and Sustainable Finance

As mentioned in the previous section, since 2014 a set of public policies supporting Chile's low carbon transition have been put forth by the current and the previous administrations. Such is the case, among others, of the National Plan for Adaptation to Climate Change (2014); Climate Change Adaptation Plan for the Biodiversity Sector (MMA, 2014); Adaptation Plan for Climate Change in the Health Sector (MMA, MINSAL, 2016); National Action Plan on Climate Change (PANCC 2017-2022); Adaptation to Climate Change for Cities (MMA, MINVU, 2018); National Energy Policy 2050 (2015); Energy Sector Mitigation Plan (2017); and the Electro Mobility Strategy (2017).

Recognizing that climate change and other environmental risks may affect the appropriate functioning of markets, financial regulators across the globe have been increasingly involved in assessing the interrelation of climate change

related risks, financial asset performance and broad financial market stability. The rapid increase in sustainable finance policies and regulations offers concrete proof of this global momentum.

In Chile, the MoF has taken a leading role by co-chairing the Coalition of Finance Ministers for Climate Action. Furthermore, following the launch of the Green and Social Bonds market on the Santiago Exchange and the issuance of the first green bonds in the country, the issuance of a sovereign green bond would further develop the market and encourage Chilean corporate issuers to follow with green bonds of their own.

A sovereign green bond provides a strong signal of the country's commitment to promote sustainable finance and development of a low carbon, climate-resilient economy. With this

in mind, Chile looks to further promote the development of a green asset class that can help attract foreign investment to support the country's sustainable infrastructure needs.

As the first sovereign green bond issuer in the Americas, Chile also intends to set a benchmark for future sovereign issuances in the region. With this issuance, Chile seeks to promote a wider regional dialogue, to enhance the consistency and uniformity of future green bonds coming out of the region and contribute to the development and acceptance of this asset class by issuers and investors alike.

As the government looks to develop and implement a National Climate Change Financing Strategy, this Framework sets out the main sectors for which an inaugural transaction and future green bond issuances can be made.

Chile's Green Bond Framework

The purpose of this document is to describe Chile's Green Bond Framework, built on the country's overall climate change strategy. The Framework applies to current and future Chilean Green Bonds, and may be updated by the MoF's Public Debt Office as needed.

A Sovereign Green Bond Framework sets forth obligations that the government, through its Public Debt Office, fulfills as a Green Bond issuer. Sovereign Green Bonds must be in compliance with obligations already in place for bond issuances, as set out by the MoF according to the State Financial Administration Law -D.L. N° 1.263, from 1975, Article 3 from State Budget law N°21.125 as well as future Budget Laws governing debt issuances.

The MoF is the body in charge of the implementation of the Green Bond Framework.

Payments of principal and interest on the issuances completed under this Framework are made by Treasury and are not conditional on the selection or performance of the eligible projects. Investors in bonds issued under this Framework do not bear any project related risks. Green Bonds issued under this Framework rank *pari passu* with each other and with other Chile Government Bonds.

This Framework has been developed following the highest standards of the Green Bond market and is aligned with the Green Bond Principles (2018 edition) published by the International Capital Markets Association (ICMA). It therefore details the four core components of these principles:

- (i) Use of Proceeds;
- (ii) Project Evaluation and Selection Process;
- (iii) Management of Proceeds; and (iv) Reporting; plus, an approach to External Reviews.



A Sovereign Green Bond Framework sets forth obligations that the government, through its Public Debt Office, fulfills as a Green Bond issuer.

Use of Proceeds

An amount equal to the net proceeds of any government issuance under this Framework will be allocated to finance new Eligible Green Expenditures (as defined below) and/or to refinance existing Eligible Green Expenditures.

Eligible Green Expenditures, falling under this Framework, are intended to:

1. Promote Chile's transition to a low carbon, climate-resilient and environmentally sustainable economy or other objectives set forth under Chile's 2030 Agenda⁵ commitments and/or its Nationally Determined Contributions (NDCs)⁶ under the Paris Climate Agreement;
2. Consider sustainability across the key dimensions as per the alignment with the Sustainable Infrastructure Framework of the IDB: Economic and Financial, Environmental and Climate Resilience, Social and Institutional⁷;
3. Be funded, in whole or in part, directly or indirectly, through Treasury funded expenditures, subsidies or tax foregone as detailed in Section 3.1.1 below.

Definition of Eligible Green Expenditures

Eligible Green Expenditures are expenditures within Chile's central government budget that fall under the Green Sectors as defined in the section 3.1.2 (Green Sectors); these are deployed to promote Chile's transition to a low carbon, climate-resilient and environmentally sustainable economy.

Eligible Green Expenditures may include:

- ◆ Tax expenditures (subsidies and tax exemptions);
- ◆ Operational expenditures (funding for state agencies, local authorities and companies' instrumental to deploying the country's climate and environmental strategy);
- ◆ Investments in real assets (land, energy efficiency, infrastructure, etc.) and maintenance costs for public infrastructure;
- ◆ Intangible assets (research and innovation, human capital and organization).
- ◆ Capital transfers to public or private entities.



» 5 Chile Agenda 2030 – Sustainable Development Goals <http://www.chileagenda2030.gob.cl/>

» 6 Contribución Nacional Tentativa de Chile (NDC) para el Acuerdo Climático París 2015 <http://portal.mma.gob.cl/wp-content/uploads/2016/05/2015-INDC-web.pdf>

» 7 “What is Sustainable Infrastructure? A Framework to Guide Sustainability Across the Project Cycle”. IDB Group 2018 <https://publications.iadb.org/en/what-sustainable-infrastructure-framework-guide-sustainability-across-project-cycle>

Green Sectors

A list of Green sectors that may be relevant to the categorization of budget lines and that which may qualify as Eligible Green Expenditures is presented below. Six sectors have been defined: Clean Transportation, Energy Efficiency, Renewable Energy, Living Natural Resources, Land Use and Marine Protected Areas, Water Management and Green Buildings.

Green Sectors	Eligible Green Expenditures	Environmental benefits	SDG's contribution
Clean Transportation	Promote public transportation and support to multimodal transport solutions Green Eligible Expenditures include: - Investment in public infrastructure and assets enhancing modal shift, electric public passenger transport: - electrified metro lines: new lines, extension and renovation - electric buses, charging stations for electric vehicles - other public transportation like tramways and trains - intermodal infrastructure to connect different clean public transportation, system monitoring and control, passenger safety and security infrastructure and bicycle paths and parking - Subsidies or incentives to promote public transportation	Climate change mitigation Air quality improvement Greenhouse gas reduction through the promotion of low carbon mean of transportation	3 GOOD HEALTH AND WELL-BEING  11 SUSTAINABLE CITIES AND COMMUNITIES  13 CLIMATE ACTION 
Energy Efficiency	Support energy efficiency improvement in buildings and public spaces Green Eligible Expenditures include: - Energy efficiency investments in public buildings which result in savings higher than 20%: including (but not limited to) retrofit, thermal insulation and/or upgrades of air conditioning system - Subsidies dedicated to energy efficiency improvements in housing, including (but not limited to) improvement on houses' insulation - Public lighting improvements (e.g., replacement with LEDs)	Climate change mitigation Energy savings Greenhouse gas reduction	7 AFFORDABLE AND CLEAN ENERGY  11 SUSTAINABLE CITIES AND COMMUNITIES  13 CLIMATE ACTION 

Renewable Energy	Promote the development of renewable energy technologies Green Eligible Expenditures include: ◆ Investments in projects from renewable non-fossil sources such as: ○ Wind energy⁸ (onshore) ○ Solar energy⁸ (onshore) ○ Small run-of-river hydro plants (under 25MW) ◆ Investments in solar / wind energy (onshore) projects that integrate energy generation and storage (batteries) ◆ Training programs to increase technical knowledge in vocational education centers in renewable energies installation	Climate change mitigation Long term Low Carbon Infrastructure Provision Greenhouse gas emission reduction	  
Living Natural Resources, Land Use and Marine Protected Areas	Promote land, biodiversity preservation and marine protected areas Green Eligible Expenditures include: ◆ Forestry ○ Programs for the conservation and restoration of native and exotic forest ○ Management and maintenance of National Parks and Conservation Areas ◆ Marine protected areas protection and surveillance (including research)	Climate change mitigation Conservation and sustainable use of terrestrial ecosystems Biodiversity preservation and protection of terrestrial ecosystems	   

» 8 Solar and wind facilities shall not have more than 15% of electricity generated from non-renewable sources (CBI certification requirements)

Water Management	Promote sustainable water management to ensure water supply Green Eligible Expenditures include: ◆ Water distribution: Installation or upgrade of water efficient irrigation systems, construction or upgrade of sustainable infrastructure for drinking water (including research or studies) ◆ Waste water management: Installation or upgrade of waste water infrastructure including transport, treatment and disposal systems ◆ Water resources conservation: including protection of water catchment areas and prevention of pollution affecting water supplies ◆ Flood defence systems against riverine inundations: including construction of reservoirs for the control of water flows	Water resources conservation Climate change adaptation Reduction of water consumption Climate change adaptation and resilience, considering meteorological extreme events	 
Green Buildings	Green Building construction and retrofits, with a minimum of 30% carbon reduction in line with CBI standard Green Eligible Expenditures include: ◆ Design and construction of public buildings certified under “Sistema Nacional de Certificación de Calidad Ambiental y Eficiencia Energética para Edificios de Uso Público” ◆ Costs associated with retrofits to existing public buildings to meet “Certificación Edificio Sustentable” or improve the current certification level	Climate change mitigation Energy savings Greenhouse emission reduction	  

Green sectors comply with the international Climate Bonds Taxonomy⁹, and when feasible are also in line with the relevant eligibility criteria under the Climate Bonds Standard (i.e. when the criteria are available for the relevant expenditures). Furthermore, where local, regional or domestic conventions, taxonomies and certifications exist to determine that an asset is low-carbon and climate-resilient (e.g. Joint-MDB Climate Finance Tracking; standards for buildings, etc.), these may also be taken into account.

» 9 <https://www.climatebonds.net/standard/taxonomy>

Exclusions

Any project, asset or expenditure related to the following activities will be excluded from the Green Eligible Expenditures:

- ◆ Exploration and production of fossil fuels;
- ◆ Burning of fossil fuels as the unique source of power generation or hybrid plants with a fossil related back up higher than 15%;
- ◆ Construction of rail infrastructure dedicated for transportation of fossil fuels;
- ◆ Generation of Nuclear power;
- ◆ Electricity transmission infrastructure and electricity systems where an average of 25% or more is fossil-fuel-generated;
- ◆ Alcohol, weapons, tobacco, gaming, or palm oil industries;
- ◆ Production or trade in any product or activity deemed illegal under national laws or regulations or international conventions and agreements;
- ◆ Deforestation, degradation of forest.

Process for Project, Asset and Expenditure Evaluation and Selection

The MoF has established a decision-making process to determine the eligibility of the projects, assets and expenditures as part of its Green Bond Framework, which includes:

- ◆ A statement on the environmental objectives of the bond;
- ◆ A process to determine the project, assets and expenditure eligibility;
- ◆ The related eligibility criteria, exclusion criteria or any other process used to identify and manage environmental and/or social risks associated with the projects.

As part of the process to determine project, asset and expenditure eligibility (Figure 1.) The MoF, with the support from the MoE, leads an inter-departmental committee, named “Green Bond Committee”, with the aim of overseeing the full implementation of this Framework, including the allocation of funds raised to eligible projects and the provision of the investor reports referred to Section 3.4 (Reporting).

The Green Bond Committee is comprised of representatives from the main ministries in charge of the execution of the public budget, including but not limited to Ministry of Environment, Ministry of Public Works, Ministry of Energy, Ministry of Transport and Ministry of Agriculture among others.

The MoF with the support of the MoE will be responsible for the following:

- ◆ Review and validate the selection of eligible green projects, assets and expenditures as defined in Section 3.1 (Use of Proceeds);
- ◆ Monitor resource allocation to eligible green projects, assets and expenditures;
- ◆ Manage any future updates of the Framework;
- ◆ Coordinate the preparation of reports as described in the Framework.

The MoF has the ultimate responsibility for determining the list of eligible projects, while ministries will be responsible for providing the requested documents and any further information to verify eligibility.



Management of Proceeds

This Framework is a general approach applicable to one or more future issuances. Each specific green bond issuance under this framework will be linked to a specific pool of eligible projects.

The management of Eligible Green Expenditures will be done on a notional basis.

The tracking of the Eligible Green Expenditures is done by the MoF, ensuring that an amount at least equal to the net proceeds from the completed issuances under this Framework will be allocated to the financing and/or refinancing of expenditures that meet the eligibility criteria (3.1.2).

If one or more projects initially included in the pool no longer comply with the aforementioned eligibility criteria due to changes in their nature or in their implementation, their specific amount

will not be accounted in the financing/ refinancing expenditures related to the specific bond. It's anticipated that the total value of eligible projects, assets and expenditures related to a specific bond will be higher than the amount of issuance, in order to avoid the necessity to include new projects in event of projects no longer eligible, delays in execution and/or projects' eventual cancellations.

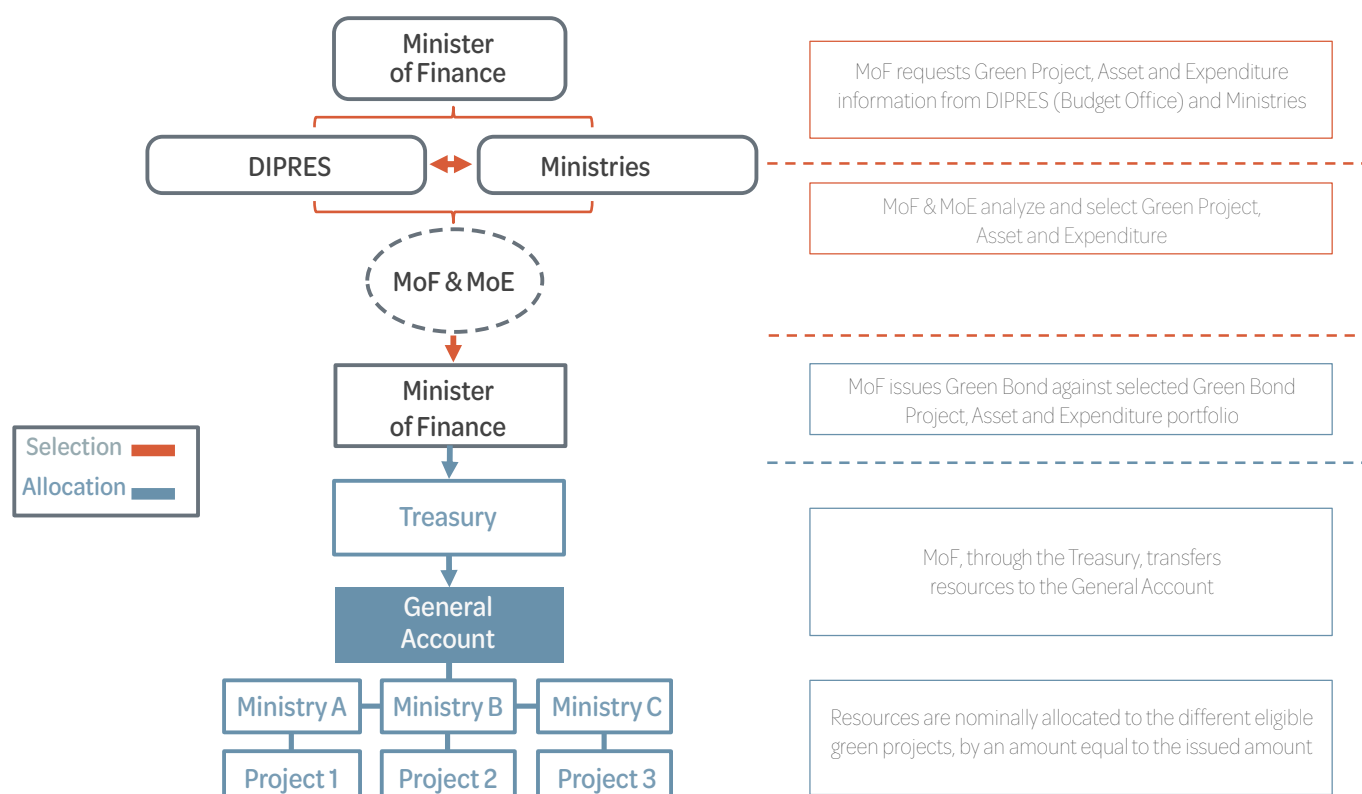
In the context of this framework, Green Eligible Expenditures will include Recent Expenditures (i.e., all expenditures made in the previous year) and Current Expenditures (i.e., all expenditures to be made in the current year), and, if necessary because the two latter categories have been exhausted, it may also include Future Expenditures (i.e., all expenditures to be made in the coming years). For each bond and previous to the issuance, Chile will disclose a Report containing, at least, the estimated

percentage of Recent Expenditures to be financed through the bond and the estimated period after the issuance in which most of the expenses will be disbursed. This Report will be published in the Ministry's website.

The net proceeds from the contemplated issuances will be transferred to the general account of Chile (the "General Account"). Pending the full allocation of the proceeds of the issued Green Bond to Eligible Green Expenditures, the MoF will manage the proceeds according to the article 12 of Law Nr. 20,128 ("On Fiscal Responsibility"), which establishes that the investment of the resources will be disposed by the MoF, according to the regulation contained in the article 3 of the Decree-Law Nr. 1,056¹⁰.

The MoF also ensures that the nominal allocation of proceeds does not allow for listing of the same eligible green project twice.

Figure 1. Evaluation & Selection Process for Eligible Green Expenditures¹¹



» 10 The resources maintained in the Other Treasury Assets (Otros Activos del Tesoro Público, in Spanish) could be invested in securities issued by the Central Bank of Chile, repos, bank deposits, short-term, sovereign bonds and others.

» 11 Dipres is the Budget Office (Dirección de Presupuestos, in Spanish).

Reporting

The Ministry of Finance will provide investors with an allocation report and an impact report (Figure 2.) as per the frequency defined below, covering all of the bonds that have been issued under this Framework. The MoF is responsible for consolidating the allocation reports and the impact reports. This information will be published on the MoF website in April of each year in the following link [<https://www.hacienda.cl/english/public-debt-office/green-bonds.html>]. The information published will be subject to availability of general fiscal accounts. The first report will be published in the following year after the issuance.

Allocation Reporting

Until full allocation of proceeds, the MoF through the Treasury and the Budget Office (DIPRES) will provide information on the allocation of the net proceeds of its Green Bond(s) that should include:

- ◆ a brief description of the projects and the amounts disbursed;
- ◆ percentage of proceeds allocated per Green project or program;
- ◆ percentage of proceeds allocated for financing and refinancing;
- ◆ the remaining balance of unallocated proceeds;
- ◆ percentage of co-financing per Green project or program.

Where confidentiality agreements or competition considerations limit the amount of detail that can be disclosed, the information may be presented in generic terms.

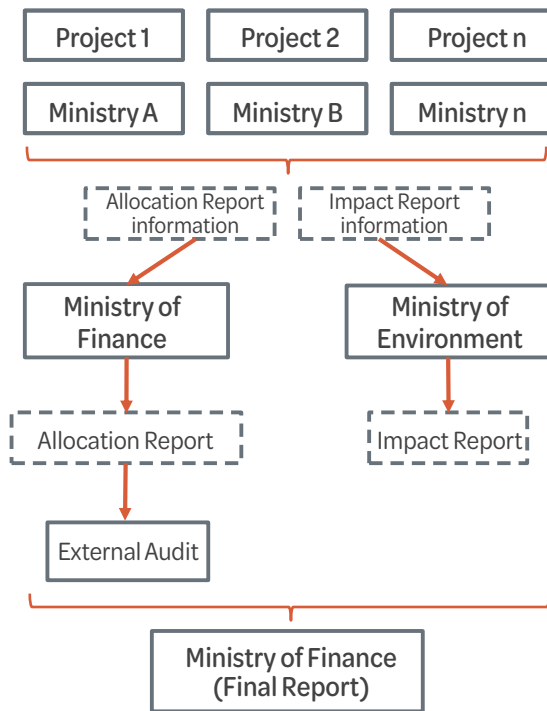
Impact Reporting

As long as the green bond is outstanding and where feasible, an annual impact report will be provided. The MoE will be in charge of liaising with the appropriate ministries to integrate all impact indicators into an impact report that will be considered by the MoF for reporting to investors. The impact report may include, where information is available:

- ◆ The expected impact of the projects and assets;
- ◆ Qualitative performance indicators and, where feasible, quantitative performance measures of the impact of the projects;
- ◆ The methodology and underlying assumptions used to prepare performance indicators and metrics shall be disclosed.



Figure 2. Reporting Process



Ministries collect information related to Green Projects: amounts allocated and impact on environment. That information is necessary to produce the allocation and impact report

MoF & MoE consolidate information from Green Bond projects, assets and expenditures into an Allocation and Impact report

External Auditor reviews the Allocation Report

MoF produces and publishes final report to investors



Examples of indicators and metrics:

Green Sectors	Example of Output	Example of Impact KPIs ¹²
Clean Transportation	Number of km of new electric train lines created / maintained Number of km of new electric bus lines created / maintained Number of people using the new public clean transportation means	» Annual GHG emissions reduced/ avoided (tCO₂e) » Tons of particles avoided PM 2.
Energy Efficiency	Number of private households/buildings benefited with energy efficiencies Number of public households/buildings benefited with energy efficiencies Number of public lightings benefited with energy efficiency	» % of annual energy saving » kWh of annual energy saving » Annual GHG emissions reduced/ avoided (tCO₂e)
Renewable Energy	Installed Capacity (MW) Annual renewable energy generation (MWh) Number of people benefited from training programs	» Annual GHG emissions reduced/ avoided (tCO₂e)
Living Natural Resources, Land Use and Marine Protected Areas	Area of land or ocean conserved / recovered (km²) Area (km²) of marine/forestry reserve under active monitoring Number of climate observation stations installed (for gradual and extreme changes) Number of farmers implementing sustainable agriculture practice	» Protected areas and Reserves: Captured CO₂ (per year)
Water Management	Number of efficient pumps installed Km of new sewage pipes installed Number of new reservoirs/flood defences built Number of studies (research) Annual absolute (gross) amount of wastewater treated, reused or avoided before and after the project (m³/a) Annual volume of clean drinking water in m³/a supplied for human consumption	» Reduction in water use in %
Green Buildings	Number of Buildings with Green Certification, indicating the specific level of certification obtained	» % of annual energy saving » Annual GHG emissions reduced/ avoided (tCO₂e)



External Review



Second-Party Opinion

Chile has engaged Vigeo Eiris to provide an independent Second Party Opinion on this Green Bond Framework prior to the first issuance of a bond under the Framework. Second Party Opinion documents are available at the MoF's [website](#).



External certification



Chile reserves the right to request the certification of its Green Bonds under the International Climate Bonds Standard. This request will be analyzed on a case-by-case basis.



External audit

The MoF will also engage an independent external auditor to provide third party assurance on the allocation report and its conformity with this Framework. This process will be made on an annual basis until full allocation.



Amendments to this Framework

The MoF reserves the right to modify this framework according to international best practices or in accordance to Chile's international commitments.

Legal Documentation

According to the Supreme Decree N° 195 of 2019, which authorized the external issuance for 2019, the MoF is authorized to issue and/or sign the proper documentation needed for the Green Bond issuance, included in this Framework:

“En uso de esta facultad, cualquiera de los personeros antes mencionados (Ministro de Hacienda y el Cónsul

General de Chile en Nueva York) (...) podrán establecer y/o suscribir la documentación requerida en procesos de certificación internacional, que respalde la intención de realizar gastos en proyectos vinculados con la adaptación al cambio climático y la protección del medio ambiente, entre otros, por un monto equivalente a la emisión de los bonos que se autorizan bajo este decreto.”