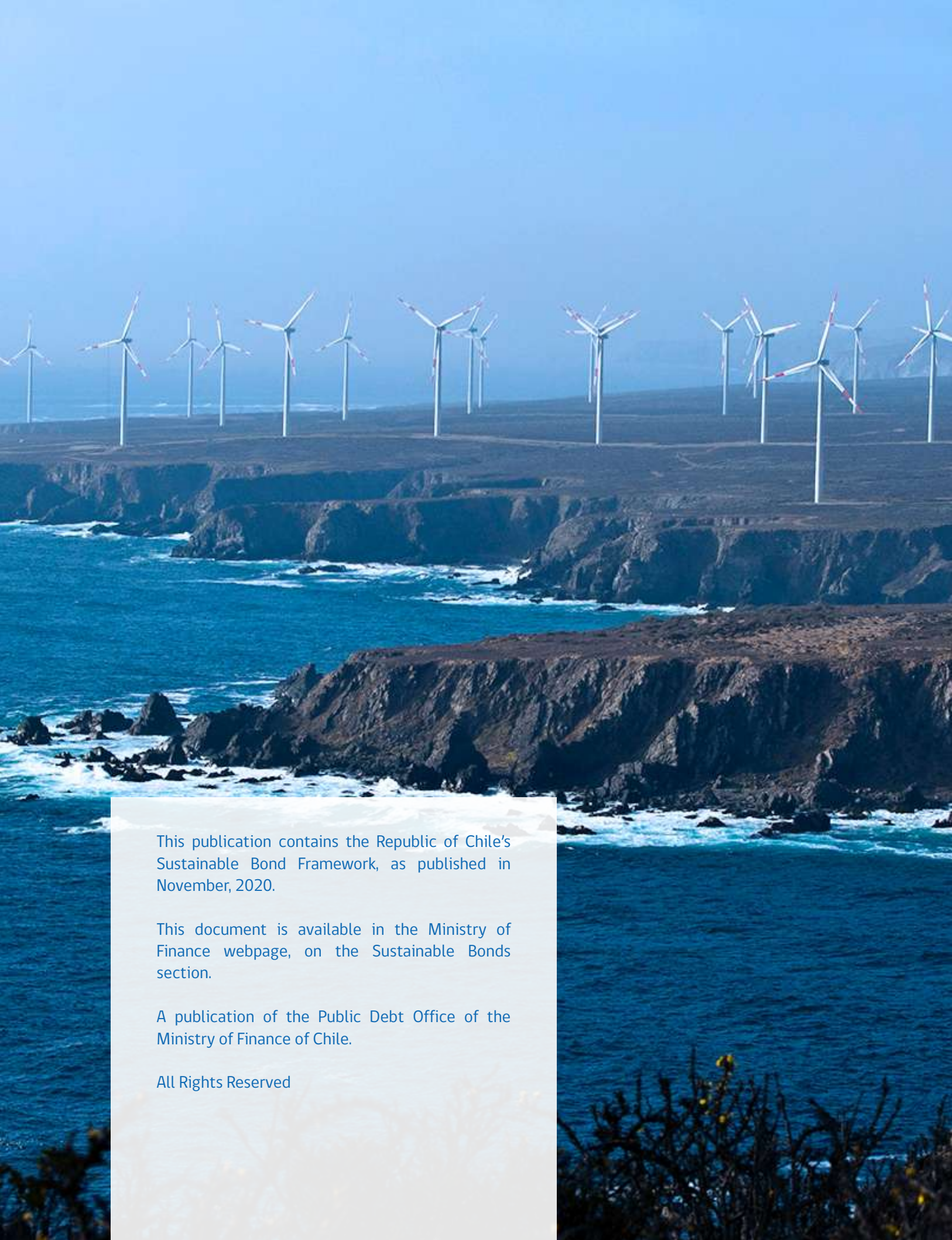
Ministry of Finance

Government of Chile

Chile's Sustainable Bond Framework

November 2020



This publication contains the Republic of Chile's Sustainable Bond Framework, as published in November, 2020.

This document is available in the Ministry of Finance webpage, on the Sustainable Bonds section.

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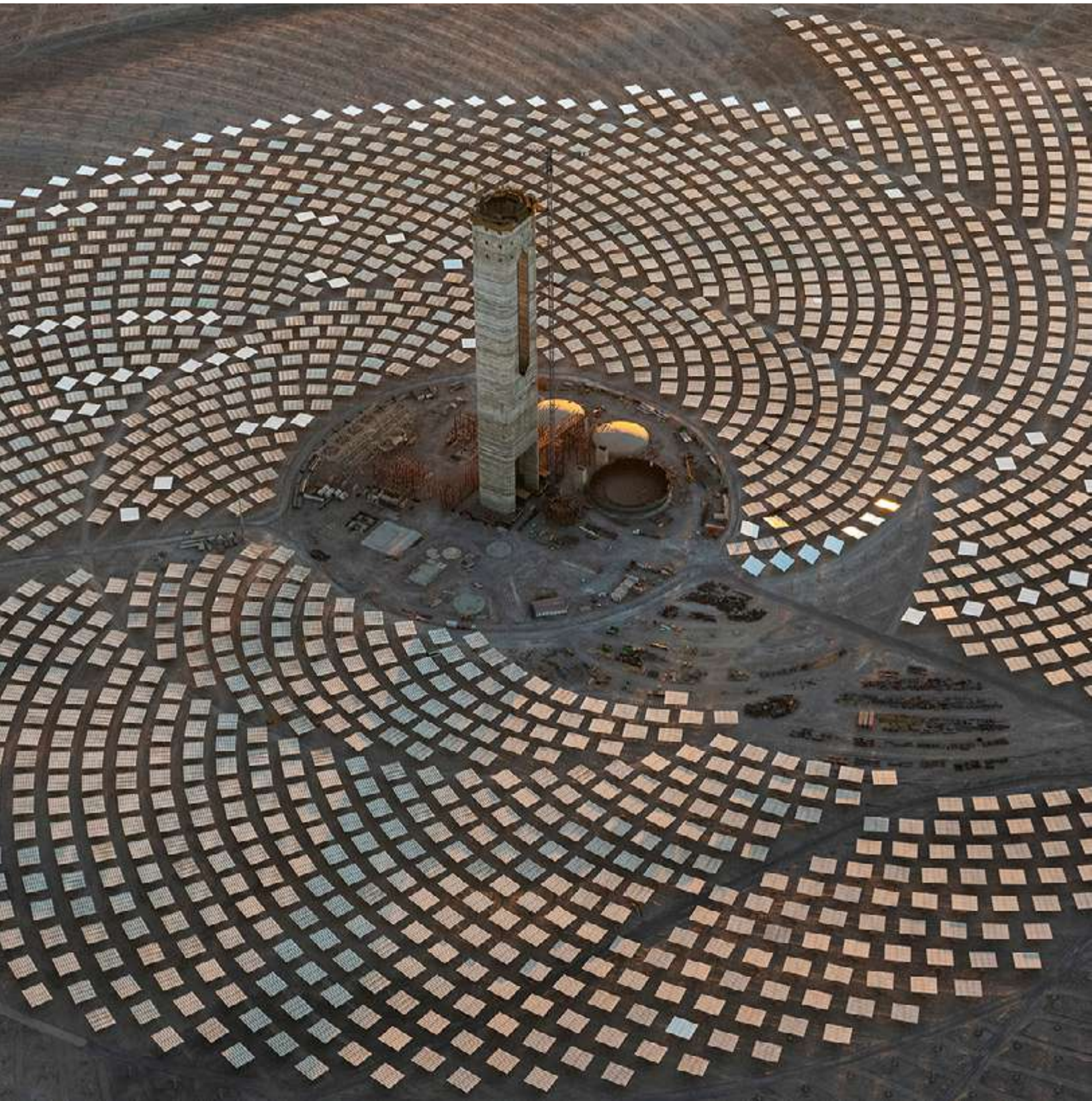
Content

Introduction



Chile seeks to transition from a middle-income to a high-income economy in a sustainable manner that considers economic, environmental and social dimensions. In this sense, the public-private investment plan that will support the recovery of the Chilean economy in the coming years considers these different dimensions, with a particular emphasis on environmental and social areas. The incorporation of social criteria in the issuance of its sovereign bonds, along with its green bond issuances, are concrete steps in Chile's shift towards a sustainable financing strategy that facilitates inclusive development and promotes economic growth.

Over the years, Chile has strengthened its commitment to mitigation of climate change and to environmental protection. It has clearly received the imminent need to transition towards a low-carbon economy, and as part of its actions, various ministries, including the Ministry of Finance (*MoF*) have created specialized areas to deal with climate change, promoting public-private cooperation, including the consideration of climate change in international negotiations.

The Ministry of Finance, responsible for the country's fiscal policy, has taken on a key role in channeling public and private capital flows to support and comply with environmental commitments, which can be seen in diverse initiatives that have constituted important milestones over time. In particular, the Minister of Finance of Chile, Ignacio Briones, is the co-Chair of the Coalition of Finance Ministers for Climate Action, while on the national side, the Ministry has been leading several initiatives including the Public-Private Green Finance Roundtable (*Mesa público-privada de Finanzas Verdes*), the publication of the first National Financial Strategy to deal with climate change and the first Sovereign Green Bond Framework. This framework, established in 2019, has served as a tool to channel investments towards green assets, and contributes to greater financial development while promoting financial innovation that supports the country's path towards sustainable development, with low carbon emissions and strong capacity for resilience to climate change. The issuance of sovereign green bonds under that framework in 2019 and 2020, provided positive financial results on several dimensions while at the same time demonstrated Chile's commitment to climate action.

Recognizing the country's comprehensive commitment to sustainable development, and in accordance with the Sustainable Development Goals established by the United Nations in 2015, the Ministry of Finance has decided to incorporate social aspects of sustainable development into its financing strategy.

Chile has made substantial progress in reducing poverty since the 1990s. In particular, income poverty, according to the survey from CASEN (*Caracterización Socioeconómica Nacional* / National Socioeconomic Characterization), has fallen from 68% in 1990 to 8.6% in 2017, the most recent year for which data is available. This decrease in poverty reflects the impact of economic growth on people's income, along with policies focused on direct transfers to extremely vulnerable groups and conditional transfers aimed at improving people's employment income.

However, various factors have emerged in the analysis of poverty. First of all, the decline in poverty has slowed in recent years, which demonstrates the need to continue the efforts made in the past, but also to apply measures that deal directly with its root causes. Secondly, there have been changes in how vulnerability is understood, and to understand current vulnerability, new factors have to be considered, beyond just income. This has already been shown through the modifications made to the CASEN survey, which since 2015 has allowed for the measurement of poverty in a multidimensional manner, and points to a broader and more comprehensive direction for designing different social policies. Thirdly, income inequality has played a dominant role in the public discussion, which is why the focus on social programs and improvements in efficiency in public expenditures has become a pillar of the social strategy.

The Ministry of Finance has therefore decided to update its sovereign green bond framework in 2020, to incorporate the possibility of issuing not only green bonds, but also social and sustainable bonds, moving from a purely environmental perspective towards a sustainable one, taking into account the global nature of sustainable development, while incorporating a more complex vision of vulnerability. In this manner, Chile has decided to provide greater emphasis to social policies in its sustainable financing. Accordingly, the following have been included as strategic pillars:

- Growth with equality, through policies aimed at the sources of inequality, such as those to improve education for vulnerable groups and others aimed at improving the pensions of elderly in a situation of vulnerability;
- Greater access to quality education, increasing access to public services of this nature;
- Access to housing programs;.
- Improvement in vital indicators through nutritional programs for vulnerable groups and other health programs; and,
- Continuation of poverty reduction, without neglecting economic growth, through job support programs.

Finally, COVID-19 has had a significant impact on households and firms in the Chilean economy. In this regard, the authorities have implemented a broad set of measures aimed at mitigating the economic and social effects of the pandemic; these expenditures are also included in this Sustainable Bond Framework. Sustainable growth is impossible without considering the complex consequences derived from a crisis such as this one, which is why the Framework has been adapted taking into consideration the necessary funding to manage the current crisis and other potential socioeconomic crises stemming from events such as a pandemic or other natural disasters.

01

Sustainable Development Goals and International Commitments

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. From the environmental point of view, emphasis was placed on having accessible non-polluting energy, sustainable cities and communities, responsible production and consumption on behalf of the climate, submarine life and the life of terrestrial ecosystems. Of course, all of these objectives are framed within a fundamental pillar aimed at development, so it must be remembered that these objectives are part of global ones, such as decent employment and economic growth.

The Sustainable Development Goals are useful not only to establish the country's commitments in social, environmental and developmental matters but also because they help to define a general framework upon which to design policies and initiatives that would guarantee sustainable and even inclusive growth. In 2019, Chile presented its second Voluntary National Report on the 2030 Sustainable Development Agenda.

Chile also has had a tradition of international cooperation, ratifying a series of treaties throughout its history. Regarding social commitments, Chile ratified the Universal Declaration of Human Rights, which was amplified through the International Covenant of Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights, both of which are from 1966, and the 1989 Convention on the Rights of the Child. Additionally, the country is a party to the Ibero-American Multilateral Agreement on Social Security (*Convenio Iberoamericano de Seguridad Social*), which is complemented by 25 agreements with different countries. Parts of those agreements are included in the currently-in-effect Political Constitution, which establishes a series of rights for all people, such as the right to live in a pollution-free environment, the right to good health, the right to education, freedom of employment and protection for the right to social security.

From an environmental perspective, Chile ratified the Paris Agreement in February of 2017, by means of Supreme Decree N° 30 of the Ministry of Foreign Affairs, and presented its Intended Nationally Determined Contribution (INDC) before the United Nations Framework Convention on Climate Change in September of 2015.

In April of 2020 and in response to the requirements of the Paris Agreement to update its commitments every five years, Chile formally presented its updated Nationally Determined Contribution (NDC). This milestone makes it one of the world's first countries to update its commitments to climate action. The updated NDC also addresses the major requirements of the scientific community and considers commitments in five areas: i) social pillar for just transition and sustainable development, ii) mitigation, iii) adaptation, iv) integration, and v) means of implementation.

On the mitigation side, Chile committed to replace its previous emissions intensity indicator with an unconditional absolute indicator, with 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.

02

Chile's Priorities

The following is a description of Chile's current priorities in the following areas: (1) Environmental, (2) Social and (3) Economic and handling of socioeconomic risks.

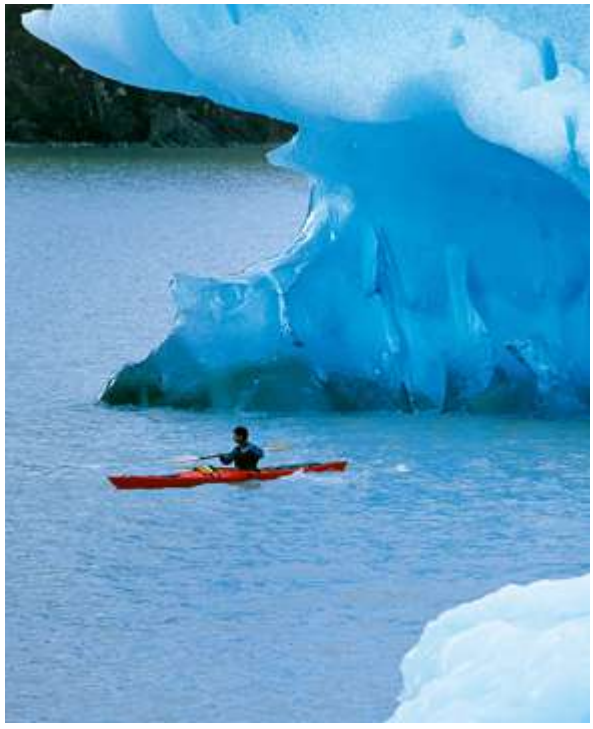
1. Environmental

Chile's greenhouse gas emissions (GHG) accounted for approximately 0.25% of worldwide emissions in 2016, with a per capita average slightly above the worldwide average but still below that of the OECD countries. Nevertheless, the country's emissions have increased constantly over recent decades (Ministry of Environment – MMA, 2020).

Chile is highly vulnerable to climate change. According to the Global Climate Risk Index 2019, which measures the impact of extreme meteorological phenomena based on deaths and economic losses, Chile is near the top of the list, ranking 16th among 181 countries. Among other results, this has led to a decrease in available water resources due to reduced precipitation, increased temperatures and accelerated melting of the cryosphere.

In response, Chile is in the process of updating and improving its policies and commitments regarding climate change, framed in a long-term vision whose goal is greenhouse gas emissions neutrality and increased resilience by 2050, aligned with the intermediate objectives expressed in the NDC.

The country currently has a Draft Framework Bill on Climate Change under discussion in the National Congress, which defines concrete management instruments such as the Long-Term Climate Strategy (ECLP from its Spanish acronym) currently being drafted and whose goal is to determine guidelines to be followed by the country to achieve emission neutrality by 2050. In terms of funding, Chile has a Financial Strategy to face Climate Change (EFCC), which defines a



framework for action based on three axes that guide contributions by the public and private sectors for consolidation of a low emissions economy that is resilient to the climate, without neglecting the country's capacity for growth and development. The Strategy will be updated in accordance with the guidelines defined in the Draft Bill and the ECLP.

In this context and as part of the third pillar of the EFCC, Chile is promoting new and profitable ways to accelerate emissions reductions, aligning financial flows towards a low carbon emission and climate resilient economy. The development of a local and international market for green bonds to finance the country's needs for sustainable development is considered an essential tool.

Issuance of the first Sovereign Green Bonds in 2019 was an important milestone, which made Chile the first issuer of sovereign green bonds

in the Americas, establishing a benchmark for future sovereign issuances in the region. In the first issuance of 2019, the dollar-based green bonds was oversubscribed by 13X, and achieved a new issue premium of -5 bps. The euro-denominated issuance met a demand equal to 4.7X and achieved a new issue premium of -10 bps. Additionally, those issuances achieved participation by ESG investors of 35% and 76%, respectively. During 2020, the green bonds issued in 2019 were reopened and new ones were issued in each currency. Thus, as of September of 2020, Chile had issued a total of US$ 6.2 billion in Sovereign Green Bonds, with a portfolio of projects in the Clean Transportation, Renewable Energy, Water Risk Management and Green Buildings sectors.

In light of the above, and in line with the country's strategic priorities, this framework reaffirms the climate financing priorities established in 2019, which define the following typologies of projects to be financed:

- Clean transportation;
- Energy efficiency;
- Renewable energy;
- Natural resources, land use and use of protected marine areas;
- Efficient and climate resilient water management;
- Green buildings.

The above-mentioned areas reflect the relevance of infrastructure in Chile for the country's sustainable development, providing support for the progress of key productive sectors and for social well-being. However, given the

country's exposure to impacts associated with climate change, it is essential that infrastructure development prevent and mitigate the generation of greenhouse gases and take into account future variations in climate patterns in the different phases of the lifecycle of projects.

Thus, the Government of Chile, in response to the commitments adopted under the INDC of 2015, has proposed a change of paradigm in managing the lifecycle of public works as part of its 2017-2022 National Action Plan for Climate Change. In the framework of this Plan, in November of 2017, the Council of Ministers for Sustainability approved the Plan for Mitigation and Adaptation to Climate Change for Infrastructure Services, the first of its kind in Latin America and which contributes towards adjusting planned infrastructure designs to mitigate the most serious impacts of climate change at the community, regional and national levels.

The updated NDC includes a commitment to update that Plan until 2023 and also establishes that, until 2030, each water-related public infrastructure project in its evaluation will contemplate protection for the population and territory (through water works) and/or deal with demands associated with urban and/or rural consumption in their area of influence.

2. Social

The Government of Chile has included attention for social areas in its administration, considering the importance of understanding vulnerability from a multidimensional view, beyond just income. In this context, the Sustainable Development Goals defined by the UN acquire a priority role.

While the country has been successful in terms of poverty reduction in the last 30 years, income inequality has been an area where Chile

continues to face challenges. Thus, while the incorporation of attention for environmental matters through sovereign bond issuances has been an important step, Chile wants to advance further, incorporating social issues in its bond issuances.

What follows is a detailed breakdown of the social topics that are relevant for this Sustainable Bond Framework.

- **Support for vulnerable groups**

Different policies have facilitated progress in the country's social agenda. In terms of surmounting poverty, direct transfers have been promoted for different groups, particularly those of extreme vulnerability. Also, a series of measures has been designed such as Charitable Chile (*Chile Solidario*) and the Subsystem of Securities and Opportunities (*Subsistema de Seguridades y Oportunidades*), which aims to provide support and opportunities for social integration for different sectors of extreme vulnerability. Additionally, Chile has intensified the delivery of targeted conditional transfers to overcome poverty. One of the most important programs has been the Unique Family Subsidy (*Subsidio Único Familiar*), which has existed for nearly 40 years and to which other programs have been added that supplement employment income. In this last group, it is important to mention the Women's Employment Bond (*Bono al Trabajo de la Mujer*) and the Youth Employment Subsidy (*Subsidio al Empleo Joven*), which progressively increases the incomes of workers from the most vulnerable groups to encourage participation in the formal labor market. Conditional transfers in the most recent years include the Guaranteed Minimum Income, which benefits all workers working full days whose incomes are close to the minimum wage, with a design similar to the negative taxes used in different countries of the world.

- **Pensions**

Demographic dynamics have posed important challenges for pension systems across the globe, including Chile. The expansion of the so-called Solidarity Pillar (basic Solidarity Pension and Solidarity Contribution (*Aporte Previsional Solidario*) of the national pension system has been essential for providing better incomes for vulnerable elders. Non-contributory pensions have their origins in 1975 with the Subsidized Pension Program (*Programa de Pensiones Asistenciales*), but became relevant since 2007 with the creation of the Basic Solidarity Pension (*Pensión Básica Solidaria*) and the Solidarity Contribution (*Aporte Previsional Solidario*). Those benefits aim to provide a pension for elder adults who have not contributed enough or to improve the situation of senior adults with a retirement or disability pension below a certain threshold. In 2019, the benefits of the Basic Solidarity Pension (*Pensión Básica Solidaria*) and the Aporte Previsional Solidario rose by 50%, significantly increasing the benefits received by older adults.

- **Health**

In the field of health, one of the most important reforms of the last 20 years has been the Explicit Guarantees System (*Régimen de Garantías Explícitas, GES*), implemented in 2005. The GES consists of four guarantees: universality, financial protection, equality and opportunity, with this last aspect being one of the most relevant for the population. In its beginnings, the system covered 25 health problems and currently covers 85 pathologies that represent the great majority of morbidity at the national level. The GES has also enabled access for millions of people to different health services, which has not caused any decline in the incomes of those same families. There is also an improvement in the efficiency of health systems, both public and private, which has enabled Chile to reach a life expectancy similar to the average of OECD economies, with

lower per capita health expenditures. Finally, and as a result of population aging, cancer has become the main cause of death at the national level. The National Cancer Law was therefore recently enacted, which strengthens the network for public attention with six specialized centers throughout the country, along with the creation of a fund that facilitates the capitalization of resources from different sectors.

- **Education**

The educational system has seen a greater injection of public funds in recent years. The first step was the creation of the Preferential School Subsidy in 2008, which allocates funds according to the degree of vulnerability of students at those establishments. Along with the rest of the subsidies that finance the school education system, the 2015 School Inclusion Law (*Ley de Inclusión Escolar*), among a series of measures, eliminates co-payments at establishments subsidized by the State, increasing the proportion

of public expenditure in education. In higher education, the country has historically sought to increase scholarships for households that satisfy diverse requirements, which have been supplemented with loans at preferential interest rates with the State as guarantor. In 2016, free higher education went into effect for vulnerable households, which aimed to prevent excessive indebtedness by students during their higher education studies.

As a whole, the country's main challenges, poverty and inequality, show the need to continue with even more effective policies that would deal with the root of the problem. This includes policies for education, food security and protection for vulnerable groups. These policies must be complemented with others to mitigate the effects of unemployment and improve pensions.

As a middle-income country seeking a higher level of development in the future, Chile aims to pursue its sustainable development goal through growth with equality, greater access to quality education, access to housing, improvements in vital indicators and the continuation of poverty reduction.

In line with the afore-mentioned strategic priorities, the present framework establishes the following typologies of projects to be funded:

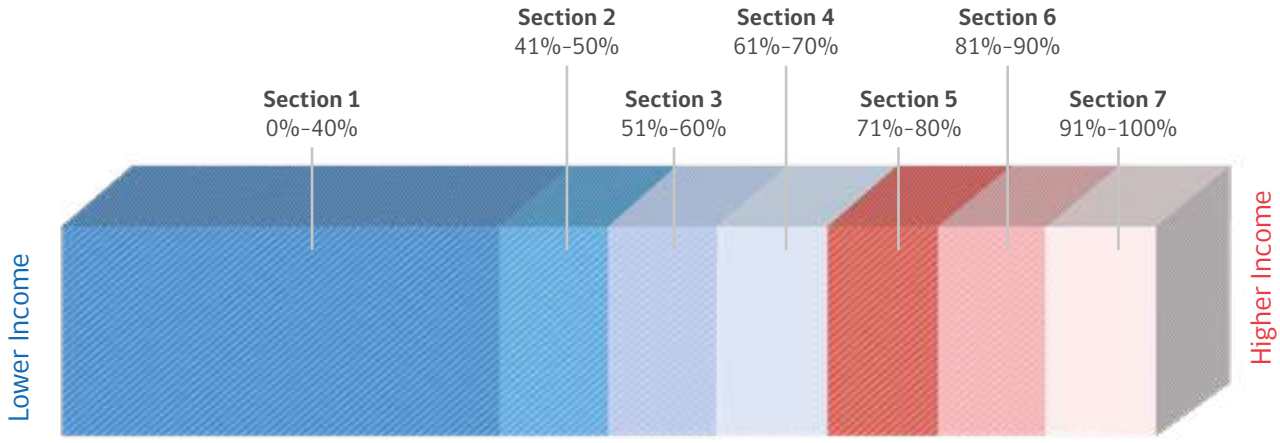
- Support for the elderly;
- Support for those with special needs from vulnerable sectors;
- Support for low-income families;
- Support for human rights victims;
- Support for the community through job creation;
- Affordable housing;
- Access to education;
- Food security;
- Access to essential services, including health;
- Focus on unemployment stemming from socioeconomic crises and support for SMEs

Definition of target population in social matters.

As a tool for targeting vulnerable citizens, the Household Social Register (*Registro Social de Hogares* - RSH) is the main instrument for selecting beneficiaries of the different social programs. For its construction, information reported by the members of each household is compiled to later be supplemented through diverse administrative records.

The households that make up the RSH are grouped into seven Socioeconomic Classification groups (CSE, from its Spanish acronym), in which each group represents a certain degree of vulnerability relative to the national population. The construction of the groups is based on the autonomous incomes generated by each household as a whole. Incomes are adjusted according to the household members, according to age and situation of disability, if any, a figure known as the index of needs. At the same time, comparisons are made with diverse administrative records to correct information in terms of land tenure, vehicles or high-value health plans in relation to the national reality. In this way, seven levels of vulnerability are created, which represent the total national population. Graph 1 depicts the levels in relation to income.

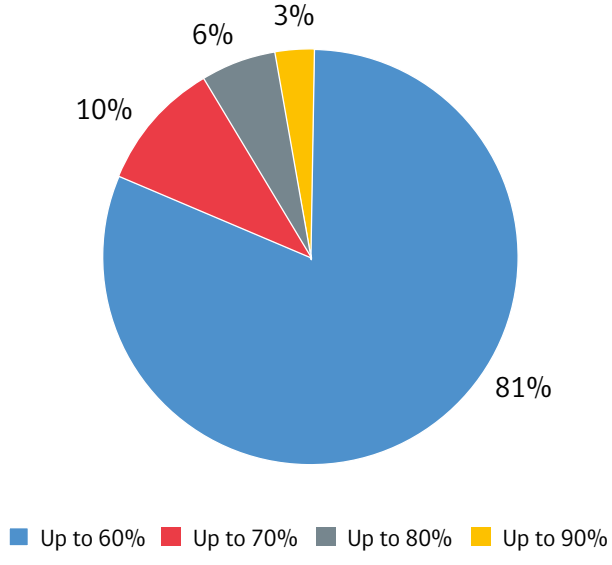
Graph 1 | Levels of Socioeconomic Classification (CSE) according to income



Source: Ministry of Finance.

As shown in Graph 2, Chile focuses 81% of total targeted social expenditure using the CSE on levels 1, 2 and 3, which represent the most vulnerable 60% of the population.

Graph 2 | Distribution of allocated social expenditure using the 2017 Socioeconomic Classification of the Social Registry of Households (Clasificación Socioeconómica del Registro Social de Hogares).



Source: Report on the Social Registry of Households, Undersecretary for Social Evaluation, Ministry of Social Development (2018).

Finally, it is worth noting that 11 ministries use the RSH to target their own programs.

The National Socioeconomic Characterization Survey (CASEN) is the main survey used at the national level to determine the country's socioeconomic reality. Based on the 2017 CASEN survey (the latest available), one may determine the characteristics of vulnerability of the population at levels 1, 2 and 3 as mentioned above. Quantitatively, those households are composed on average of 3.5 members, and their income per head is approximately US$150 per month, whereas the minimum wage at the national level is around $410. Approximately 45% of the heads of household in this group are high school graduates, and only 8.6% have university degrees, which is also reflected in the fact that nearly 30% of heads of household are unskilled workers. The needs of these households are also greater compared with the rest of the population, because around half have at least one member with some type of disability or difficulty in their daily lives, and 29% include at least one older adult. Finally, of the most vulnerable 60% of households, approximately 10% live in medium to low, high or critical conditions of overcrowding.

Another way to characterize and understand the needs of households at the top three levels of vulnerability is to analyze the dimensions that define multidimensional poverty. In education, 42% of such households suffer from lack of schooling, meaning that there is at least one person over the age of 18 who has not had the years of schooling established by law. In health, 7% of households include a child under the age of six in a state of malnutrition. In employment, 13% of households include an adult who cannot find work. Social security, particularly with respect to pensions, is a worrisome aspect for the group under analysis, because 35% of households whose members are employed do not contribute into the pension system. Additionally, lack of retirement income is another issue that calls for attention. Of the households belonging to the most vulnerable 60%, 13% include an older adult who does not receive any income other than a pension.

This reality, along with the above-mentioned priorities in the social realm (fight against poverty and inequality), somehow determines the design in which Chile intends to advance in terms of social policies, fundamentally through the design and implementation of conditional transfers to help households overcome the poverty line and improve their quality of life.

3. Economics and Handling of Socioeconomic Risks

Finally, the Ministry of Finance seeks to efficiently and responsibly manage government finances while promoting and encouraging sustainable development - in this perspective, and consistently with Sustainable Development Goal relative to Decent Employment and Economic Growth, it considers as well risks stemming from health crises (for example COVID-19) or other events with high socioeconomic impact (for example severe earthquakes). The Government of Chile understands that sustainable development requires considering environmental and social variables but also a focus on appropriate funding to deal with disastrous events that could have long-term effects on different variables of development. Thus, the country's objectives also include support for health programs in national emergencies, along with programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises, financing SMEs and micro finances.

03

Chile's Sustainable Bond Framework

The purpose of this document is to present in detail the Framework for Social Bonds, Green Bonds and Sustainable Bonds of Chile, based on the country's general strategy for climate change and social policies. This Framework may be updated by the Public Debt Office of the Ministry of Finance (MoF), as needed.

The Sustainable Bond Framework establishes the commitments and obligations that the government, through its Public Debt Office, must fulfill as an issuer of a thematic bond. From a financial and legal point of view, these bonds must fulfill the existing obligations for bond issuances, as established by the Ministry of Finance pursuant to the State Financial Administration Law (Ley de Administración Financiera del Estado -D.L. N ° 1.263) of 1975, article 3 of the Budget Law (Ley N ° 21,192), along with Future Budget laws that govern debt issuances. The Ministry of Finance is the entity responsible for implementation of the Framework.

Interest and capital payments on the bonds issued under this Framework shall be the responsibility of the Treasury. Investors in the bonds issued under this Framework assume no risk associated with any of the projects in the underlying portfolio. Similarly, bonds issued under this Framework rank pari passu with other Bonds of the State of Chile.

This Framework has been developed following the highest market standards: the eligible categories established in the Framework are aligned with the Green Bond Principles of 2018, Social Bond Principles of 2020, the Sustainability Bond Guidelines of 2018 published by the International Capital Markets Association (ICMA), and the United Nations Sustainable Development Goals.

The following are the four main components of these principles:

(i) Use of Proceeds

(ii) Process for Project Evaluation and Selection

(iii) Management of Proceeds

(iv) Reporting; including a reference to External Reviews.

Use of Proceeds

An amount equal to the net proceeds obtained from any government issue under this Framework shall be allocated to finance new Green or Eligible Social Expenditures (as defined below) and/or refinance existing Green or Eligible Social Expenditures.

The Green Expenditures and Eligible Social Expenditures are considered in the budget of the central government of Chile, and which fulfill the requirements for one of the Green Sectors defined in the section on Green Sectors and Social Sectors or Socioeconomic Risk Sectors defined in the section on Social Sectors. These are aimed at promoting Chile's transition to an economy with low carbon emissions that is climate resilient with sustainable development.

Eligible Expenditures may include:

- Tax expenditures (fiscal exemptions and subsidies)
- Operational expenditures (funding for state agencies, local authorities and companies that contribute towards deployment of the country's social, environmental and climate strategy)
- Investments in real assets (land, energy efficiency, infrastructure, hospitals etc.) and maintenance costs for public infrastructure

- Intangible assets (research and innovation, human capital and organization)
- Transfers of capital to public or private entities.

I. Green Sectors

The following is a list of green sectors that can be relevant when classifying budgetary expenditures, and which could be considered as eligible Green Expenditures. Six sectors have been defined: (1) clean transport, (2) energy efficiency, (3) renewable energy, (4) living natural resources, land use and use of protected marine areas, (5) efficient and climate resilient water management and 6) green buildings.

Table 1 | Eligible Green Sectors

Green Sectors	Eligible Green Expenditures	Environmental Benefits	Contributions
Clean Transportation	Promote public transport and support for intermodal transport stations Eligible green expenditures include: » Investment in public infrastructure, assets associated with intermodal stations and electric public transport - Metro lines: new lines, enlargement and renovation - Electric buses, charging stations for electric vehicles - Other public transport such as streetcars and trains - Intermodal infrastructure to connect different means of clean public transportation, monitoring and control systems, passenger safety systems and infrastructure along with bicycle paths and parking » Subsidies or incentives to promote public transportation	Climate change mitigation Air quality improvement Greenhouse gases reduction through the promotion of low carbon mean of transportation	  

Green Sectors	Eligible Green Expenditures	Environmental Benefits	Contributions
Energy Efficiency	Support improved energy efficiency in buildings and public spaces Eligible green expenditures include: » Investments in energy efficiency in public buildings which result in savings higher than 20%: including (but not limited to) retrofit, thermal insulation and/or updgrades of air-conditioning system » Subsidies dedicated to energy efficiency improvements in housing, including (but not limited to) a) improvements on houses' insulation, b) solar heating systems, c) photovoltaic systems » Public lighting improvements (e.g. replacements with LEDs)	Climate change mitigation Energy savings Greenhouse gas reduction	  

Renewable Energy	Promote the development of renewable energy technologies
	
	The eligible green expenditures include:
	
	» Investments in projects for non-fossil fuel renewable energy sources, such as
	  ' Wind energy[1] (onshore)
	  ' Solar energy[1] (onshore)
	  ' Small run-of-river hydro plants (under 25MW)
	
	» Investments in solar/wind power projects (onshore) that include energy generation and storage (batteries)
	
	» Training programs to increase technical knowledge in vocational education centers for renewable energy installations
		Climate change mitigation
		
		Long-term provision of low-carbon infrastructure
		
		Greenhouse gases reduction
			  

[1] The solar and wind power installations must not have more than 15% of their electricity generated from nonrenewable sources (CBI certification requirements CBI).

Green Sectors	Eligible Green Expenditures	Environmental Benefits	Contributions
Living natural resources, land use and marine protected areas	Promote proper care in land use, biodiversity preservation and protected marine areas The eligible green expenditures include: » Forestry ' Programs for conservation and restoration of native and exotic forests ' Management and maintenance of National Parks and conservation areas » Protection and oversight for protected marine areas (including research)	Climate change mitigation Conservation and sustainable use of terrestrial ecosystems Conservation of biodiversity and protection for terrestrial ecosystems	
Efficient and climate resilient water management	Promote sustainable water management to guarantee water supply » Water distribution: installation or upgrade of water efficient irrigation systems, construction or improvement of sustainable infrastructure for potable water (including research or studies) » Wastewater management: installation or improvement of wastewater infrastructure, including transport, treatment and elimination systems » Conservation of water resources: including protection for water catchment zones and prevention of pollution that affects water supplies » Systems for defense against river flooding: including building reservoirs to control water flows	Conservation of water resources Climate change adaptation Reduction of water consumption Climate change adaptation and resilience, considering extreme meteorological events	

Green Sectors	Eligible Green Expenditures	Environmental Benefits	Contributions
Green buildings (ecological buildings)	Construction and modernization of public buildings, with a 30% minimum reduction in carbon in line with the CBI standard The eligible green expenditures include: » Design and construction of public buildings certified under the National System for Certification of Environmental Quality and Energy Efficiency for buildings of public use (*"Sistema Nacional de Certificación de Calidad Ambiental y Eficiencia Energética para Edificios de Uso Público"*) (CES) » The costs associated with modernization of existing public buildings to comply with "Sustainable Building Certification" or to improve the current certification level	Climate change mitigation Energy savings Greenhouse emission reduction	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 11 SUSTAINABLE CITIES AND COMMUNITIES 13 CLIMATE ACTION

The green sectors comply with the international climate bonds taxonomy and, when feasible, are also adjusted in accordance with the relevant eligibility criteria by virtue of the climate bonds standard (in other words, when criteria are available for the corresponding expenditures). Additionally, when available, other conventions may also be taken into account, such as: taxonomies and local, regional or national certifications to determine that an asset is low-carbon and climate resistant (for example, references from the Joint Report on Multilateral Development Banks'Climate Finance; standards for buildings, etc.).

II. Social Sectors

The following is a list of the Eligible Social Expenditures. Nine sectors have been defined: (1) Support for the elderly or people with special needs in vulnerable situation, (2) Support for low-income families, (3) Support for the community through job creation, (4) Support for human rights victims, (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, and financing SMEs and micro-finance.

Table 2 | Eligible Social Sectors

Eligible Category	Eligibility Criteria	Social Benefit	Contribution to MDGs
Support for the elderly or people with special needs in vulnerable situation	Finance basic pensions for the most vulnerable (those belonging to the 60% of the population with the lowest income according to the Social Registry of Households/Registro Social de Hogares). Some of the included programs are as follows: » Pensión Básica Solidaria de Vejez y Aporte Previsional Solidario de Vejez (Basic Solidarity Old-age Pension and Solidarity Old-age pension) » Pensión Básica Solidaria de Invalidez y Aporte Previsional de Invalidez (Basic Solidarity Disability Pension and Disability Contribution Pension) aimed at people certified as disabled by the Regional Medical Disability Commissions of the Superintendence of Pensions. » Transfers per Child (contribution to pensions for vulnerable mothers)	» Improvement on social inclusion and cohesion • » Poverty reduction	
Support for low-income families	Finance actions and measures aimed at the country's most vulnerable families* using subsidies or contributions for low-income families, through such programs as: » Aporte Familiar Permanente (Permanent Family Subsidy) » Family Subsidy » Winter Bond *one of the requirements is to be in the lowest 60% of the population in terms of income according to the Social Registry of Households (*Registro Social de Hogares*).		
Support for human rights victims	Monetary transfers for beneficiaries of the State through the Leyes Reparatorias de Derechos Humanos (Human Rights Reparatory Laws) aimed at victims directly affected by human rights violations, exonerated politicians and family members of victims of human rights violations or political violence between 1973 and 1990.	» Improvement on social inclusion and cohesion	
Support for the community through job creation	Financing of projects to generate employment in, for example, regions with the highest unemployment (unemployment levels above the national average), through the financing of intensive projects in the use of manpower aimed at generating a positive impact in the community. This includes, but is not limited to, projects such as the Programa Inversión en la Comunidad (Program for Investment in the Community).	» Generar empleo	

Eligible Category	Eligibility Criteria	Social Benefit	Contribution to MDGs
Access to Affordable Housing	Financing for families of vulnerable sectors* for the acquisition, repair, enlargement, improvement and refurbishment of housing. Eligible programs (or part of them) include: » Fondo Solidario de Elección de Vivienda DS49 (Solidarity Fund for Choosing Housing) » Mejoramiento de Vivienda – (Housing Improvement) – DS 27 Chapter II (Ex Protection for Family Patrimony, Repair and Improvement of Housing); » Sistema Integrado de Subsidio Habitacional – DS1 (Integrated System for Habitational Subsidy) » Programa Habitacional de Integración Social DS. 116-2014 and DS. 19-2016 (Habitational Program for Social Integration) *Families in the 40% or 60% of the population with low incomes (depending on the program) according to the socioeconomic qualification established in the Social Registry of Households.	» Reduce inequalitie » Guaranteed access to affordable housing for vulnerable population » Reduce the homeless population	
Access to education	Financing of programs aimed at improving quality and access to nursery school, basic, middle and higher education for vulnerable children and young people* or those with special needs. The eligible programs include: ' Gratuidad en Educación Superior (Free higher education) ' Subvención Escolar preferencial (Preferential School Subsidy) ' Jardines Infantiles y Salas Cuna Modalidad Convencional (Conventional Modality of Kindergartens and Nursery Schools) ' Jardín Clásico Administrado por Junji y Vía Transferencia de Fondos (Classic Kindergarten Administered by Junji and through Fund Transfers) ' Fondo de Apoyo a la Educación Pública (Public Education Support Fund) ' Beca Bicentenario (Bicentenary Scholarhips)	» Provide equal access to accessible and quality education to include nursery school, basic, middle, high and higher education.	 

Eligible Category	Eligibility Criteria	Social Benefit	Contribution to MDGs
Access to education	*one of the requirements to be considered as a priority student pursuant to the definition by the National Board for School Aid and Scholarships (*Junta Nacional de Auxilio Escolar y Becas – JUNAEB*), is to be in the 60% of the population with low incomes according to the Single Form for Socioeconomic Accreditation (*Formulario Único de Acreditación Socioeconómica – FUAS*) or the Social Registry of Households.		

Food Security	Financing of programs for access to healthy and nutritious food service for the most vulnerable users * of the educational system.
	
	The eligible programs include:
	
	• Programa de Alimentación Escolar;
	
	• Beca de Alimentación para Educación Superior;
	
	  • School food program
	
	  • Food scholarship for higher education)
	
	*students from families in the most vulnerable 60% or those with greater economic disadvantage (according to the Social Registry of Households) who attend subsidized municipal or private universities or educational establishments (affiliated with the PAE) in the pre-basic, basic and middle levels of education.
		» Guarantee access for vulnerable population to a healthy, sufficient, healthy and proper nutrition.
		
		» Avoid malnutrition
			

Access to Essential Health Services	Financing the development of a healthcare network with both preventive and curative functions associated with locally declared states of emergency stemming from health events, including pandemics (i.e.: COVID-19). The eligible social expenditures include: • Construction and/or expansion of medical centers, laboratories and medical support infrastructure • Purchase of medical consumables to deal with the pandemic (Personal Protection Elements – PPE), installation of modular beds, monitors, ventilators, diagnostic equipment, etc.)		

Eligible Category	Eligibility Criteria	Social Benefit	Contribution to MDGs
Access to Essential Health Services	• Expenditures that enable access and accessibility of diagnostics (i.e. free tests for beneficiaries of Fonasa, setting of a maximum price in private systems) • Expenditures that enable strengthening of home care • Reuse and/or conversion of services/ installations for medical care in response to the pandemic • Other expenditures associated with preventive care, treatment and public health in relation to the pandemic	» Guaranteed Access to health care system » Strengthen the response of the health system in Chile to a pandemic (i.e.: COVID-19)	
Social programs designed to prevent and/ or alleviate unemployment derived from socioeconomic crises, including through the potential effect of financing SMEs and micro finances.	Financing of programs aimed at supporting people whose income is strongly affected by socioeconomic crises stemming from a declaration of a State of Catastrophe[2] by the national authorities (i.e.: pandemics, earthquakes, etc.), such as: • Ley de Protección al Empleo (Job Protection Law) • Bono de apoyo a los ingresos familiares (Support Bond for Family Incomes) • Ingreso Familiar de Emergencia (Emergency Family Income) • Fondo solidario municipal (Municipal Solidarity Fund)	» Strengthen family incomes	
	Loans or other financial support for MSMES[3] that face financial stress due to socioeconomic crises stemming from the declaration of a State of Catastrophe[4] by the national authorities (i.e.: pandemics, earthquakes, etc.)	» Prevent or reduce unemployment	

[2]For the purposes of the bond, the declaration of a State of Catastrophe due to wars is excluded as an eligible expenditure.
[3]According to the definition by the Internal Tax Service of Chile (Servicio de Impuestos Internos de Chile) http://www.sii.cl/contribuyentes/empresas_por_tamano/pymes.pdf
[4]For the purposes of the bond, the declaration of a State of Catastrophe due to wars is excluded as an eligible expenditure.

Exclusions

Any project, asset or expenditure associated with the following activities will be excluded from eligible expenditures:

- Exploration and production of fossil fuels
- Energy generation exclusively based on burning fossil fuels or hybrid plants with more than 15% fossil fuel support
- Construction of rail infrastructure to transport fossil fuels
- Generation of nuclear energy
- Electricity transmission infrastructure and electricity systems where an average of 25% or more is fossil-fuel-generated;
- Industries for alcohol, arms, tobacco, gambling or palm oil
- The production or trade of any product or activity that is considered illegal according to national laws or regulations or international agreements and conventions
- Deforestation, degradation of forests
- Activities in protected areas or activities that violate indigenous rights.

04

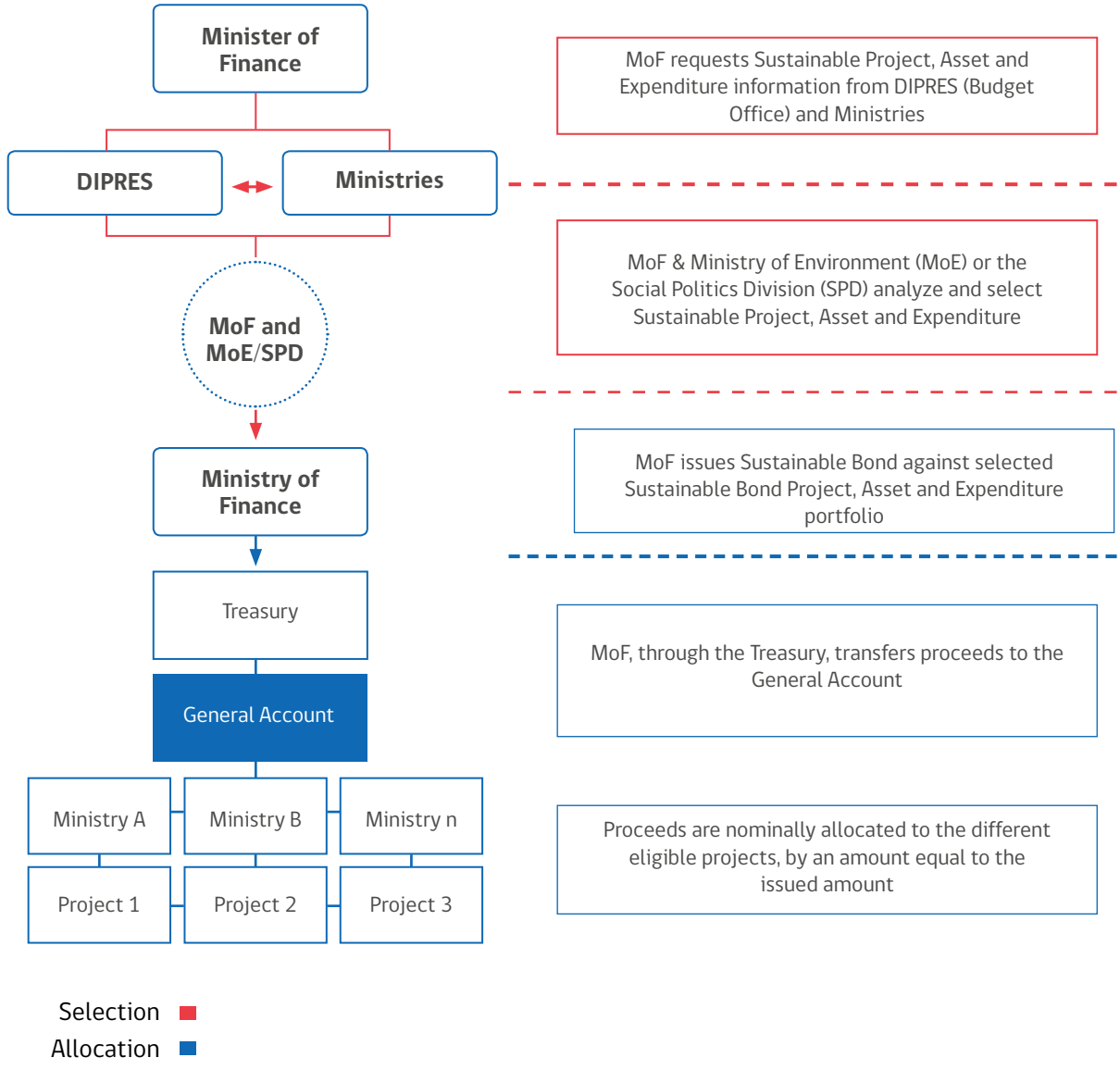
Project Evaluation and Selection Process

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

- A declaration about the objectives (environmental or social) of the bond
- A process to determine the eligibility of the project, assets and expenditures
- The associated eligibility criteria, criteria for exclusion or any other process used to identify and manage environmental and/or social risks associated with the project.

As part of the process to determine the eligibility of projects, assets and expenditures (Figure 1), the MoF heads an inter-ministerial committee called the "Sustainable Bond Committee", with the goal of supervising complete implementation of this Framework, including the allocation of funds received for eligible projects and delivery of the reports to investors as referred to in the Reports Section.

Figure 1 | Evaluation and Selection process for Eligible Sustainable Expenditures[6]



[6] Budget Office (Dipres)

The Sustainable Bond Committee shall be composed of representatives from the main ministries responsible for governmental budget execution. For the use of proceeds for green activities, the included ministries shall be: Ministry of the Environment (MoE), Ministry of Public Works, Ministry of Energy, Ministry of Transport and Ministry of Agriculture, among others. When dealing with the use of social proceeds, the Department of Social Policies of the Ministry of Finance along with the International Finance Unit shall carry out the analysis and selection process.

The Ministry of Finance shall be responsible for the following:

- Review and validate the selection of eligible green and social projects, assets and expenditures, as established in the section on the Use of Proceeds
- Supervise the allocation of funds for eligible projects, assets and expenditures
- Manage any future updating of the Framework
- Coordinate the preparation of reports, as described in the Framework.

The Ministry of Finance has the final responsibility to determine the list of eligible projects, whereas the other ministries shall be responsible for providing the requested documents and any other additional information to verify eligibility. Eligibility of these social programs is ensured through ex-ante evaluation and periodic follow-up. The ex-ante evaluation is made by the Sub-secretariat for Social Evaluation of the Ministry of Development and Family, which is used as the basis for a report on relevance of the design of the program. If that evaluation were to identify errors, both in its target population and its components, the program could be technically contested, which means that it must be reformulated in the short-term. Additionally, and periodically, follow-up reports are made on the different social programs, in which the beneficiaries of each component are analyzed. If a project contemplated in the bond is involved in a trial associated with activities carried out in protected areas, indigenous rights violations or non-fulfillment of labor legislation, the corresponding project shall be withdrawn from the bond by decision of the Sustainable Bond Committee. On the other hand, the ex-post evaluations of the diverse social programs are made by the Budget Office (*Dirección de Presupuestos*) with the aim of identifying potential errors in the design of each one, evaluating their social impact and identifying the relevance of its beneficiaries in the targeting criteria, among others.

05

Management of Proceeds

This Framework is a general approach applicable to one or more future issuances. Each issuance specifies the bonds under this framework that will be linked to a specific group of eligible projects. Management of the eligible expenditures does not imply a direct link between funds and allocation (notional basis).

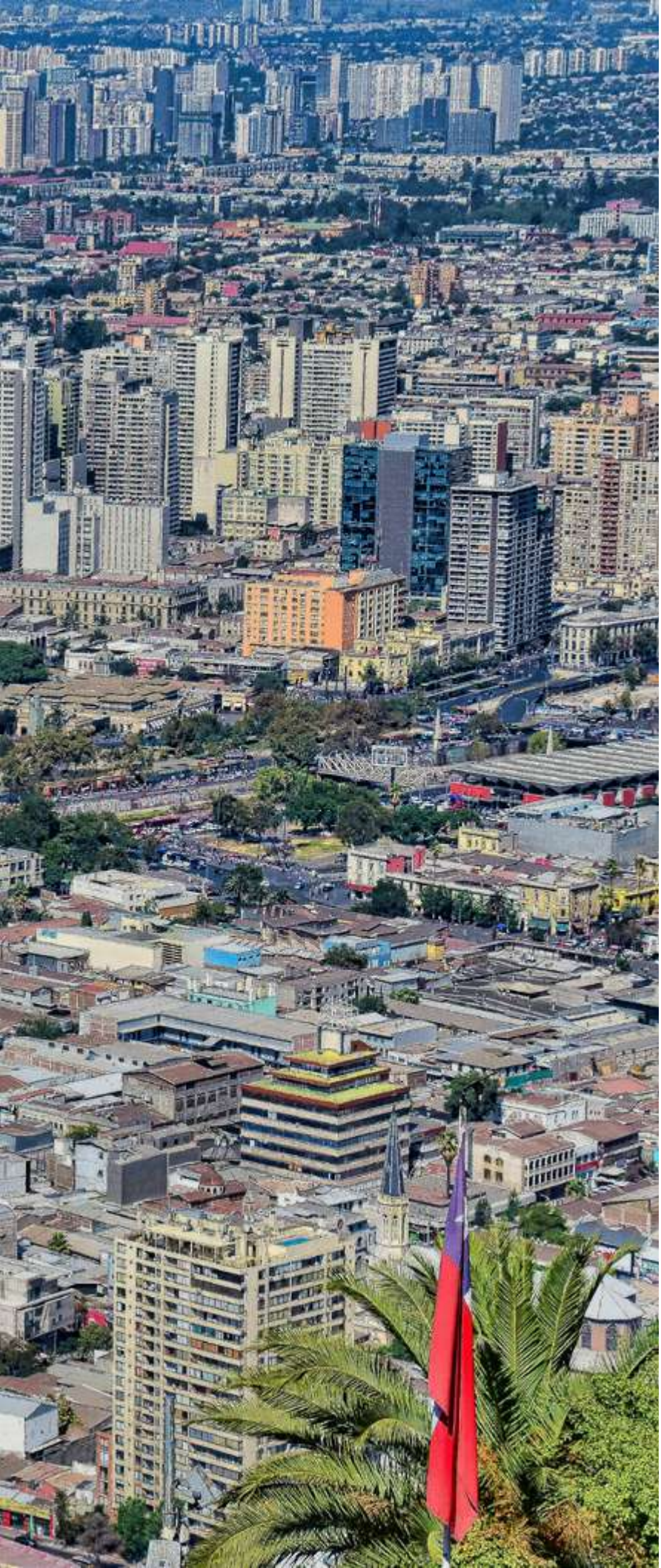
The Ministry of Finance will carry out follow-up activities on the eligible expenditures, guaranteeing that an amount at least equal to the net proceeds of the issuances completed under this framework will be allocated to financing and/or refinancing of expenditures that fulfill the eligibility criteria established in this document.

If one or more of the projects initially included in an issuance no longer fulfills the above-mentioned eligibility criteria, due to changes in its nature or implementation, the expenditures for financing or refinancing associated with the specific bond shall not be considered. That is why the total value of eligible projects, assets and expenditures associated with a particular bond will be greater than the amount of the issue, to avoid the need to include new projects in case some projects are no longer eligible, there are delays in execution and/or possible cancellations of projects.

In the context of this Framework, expenditures shall include recent expenditures (all expenditures made in the previous year) and Current Expenditures (all expenditures to be made in the current year) and, if necessary, could also include future expenditures (in other words, to be made in coming years). For each bond and prior to its issuance, Chile shall issue a report that at a minimum contains the estimated percentage of recent expenditures financed through the bond, and the estimated period of disbursement. This report shall be published on the Ministry's website.

The net proceeds from the issuances will be transferred to the general account of Chile (the *"Cuenta General"*). While awaiting total allocation of the revenue from the Bond, the Ministry of Finance will administer the revenues pursuant to article 12 of Law number 20,128 ("Fiscal Responsibility Law"), which establishes that investment of the proceeds shall be decided by the Ministry of Finance, pursuant to the regulation contained in article 3 of Law Decree No. 1,056.

The Ministry of Finance guarantees that allocation of the revenues does not permit the same project to be counted twice.

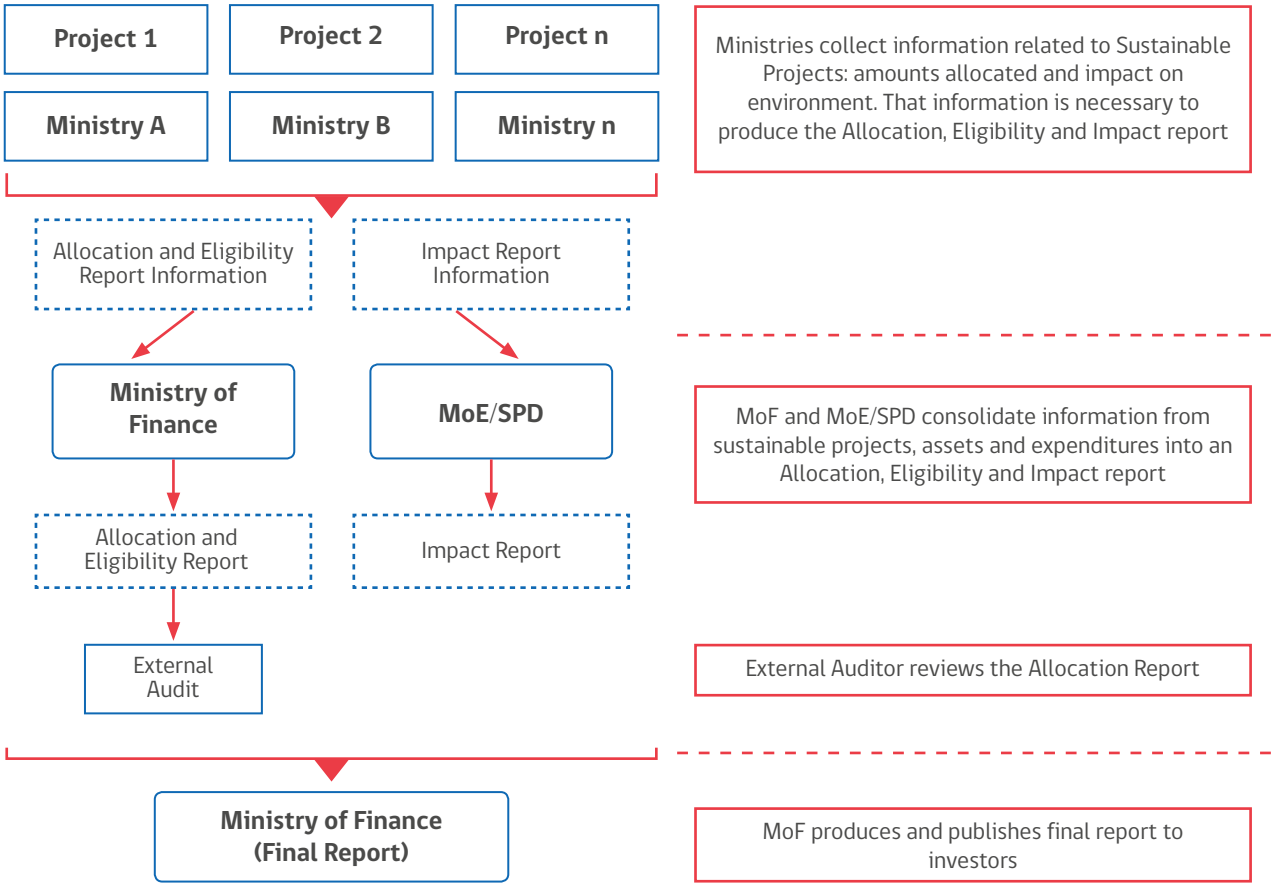


06

Reporting Process

The Ministry of Finance shall provide an Allocation Report along with an Impact Report for the investors (Figure 2), according to the frequency defined below, for all of the bonds issued under this Framework, being responsible for its consolidation. This information will be published on the website of the Ministry in April of each year, using the following link: https://www.hacienda.cl/english/work-areas/international-finance/public-debt-office. The published information will be subject to the availability of the fiscal accounts. The first report will be published during the year following issue.

Figure 2 | Reporting process



Allocation Report

The Ministry of Finance, through the Treasury and the Budget Office (DIPRES), will provide information about net proceeds allocation from its Bonds until complete allocation of funds, including:

- A brief description of the projects and amounts disbursed
- Percentage of revenues allocated per project or program
- Percentage of revenues allocated for financing and refinancing
- Remaining balance of unallocated revenue
- Percentage of co-financing per project or program

Confidentiality agreements or considerations of competition that could limit the amount of details that can be divulged may be applied, in response to which the information would be presented in generic terms and/or aggregates.

Eligibility Report

Besides publishing the resource allocations for the projects of the certified portfolio, the Ministry of Finance will report on the conformity of the projects with the eligibility criteria described in the section of this document on Use of the Proceeds and according to the Taxonomy described in the section on Use of the Proceeds of the present Framework.

Impact Report

As long as the green, social or sustainable bond remains in effect, and to the extent possible, an annual impact report will be provided. Regarding the green or sustainable bond, the MoE will be responsible for establishing contacts with the appropriate ministries to include all of the impact indicators in an impact report that will be considered by the Ministry of Finance to inform investors. With respect to a social bond, the Ministry of Finance will be responsible for consolidating the information about social indicators. The Impact Report may include the following, where there is available information:

- The expected impact of projects and assets
- Qualitative performance indicators and, when feasible, measurements of quantitative performance of the impact of the projects
- The underlying suppositions and methodology used to prepare the performance indicators and metrics that will be disseminated.

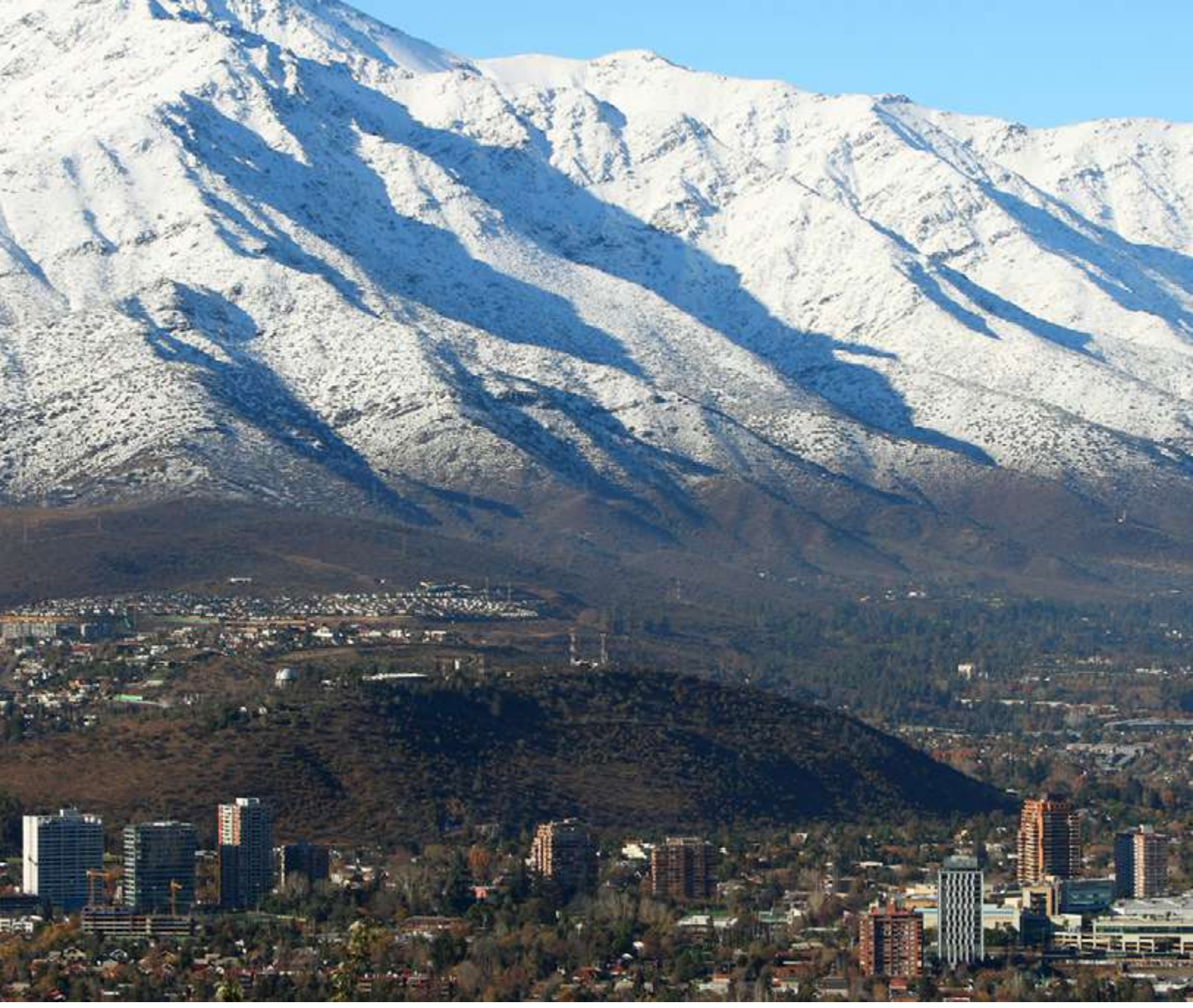
At least one indicator for each eligible category will be reported. This indicator will be equal or similar to the examples provided in the following tables.

Table 3 | Examples of Green Indicators and Metrics

Eligible Green Category	Example of Indicator	Environmental Impact Indicator
Clean Transport	Number of km of new electric train lines created / maintained Number of km of the new electric bus lines created / maintained Number of km of the new electric bus lines created / maintained Number of people who use new ecological public transport	» Annual emissions of greenhouse gases (GHG) reduced/avoided (tCO2e) » Tons of avoided MP2.5 articles
Energy Efficiency	Number of households/private buildings benefited with energy efficiencies Number of private buildings benefited with energy efficiencies Number of public lighting benefited with energy efficiency	» % of annual energy savings » kWh of annual energy savings. » annual emissions of GHG reduced/avoided (tCO2e)
Renewable Energy	Installed Capacity (MW) Annual renewable energy generation (MWh) Number of people who benefited from training programs	» Annual GHG emissions reduced /avoided (tCO2e)
Natural Resources, Use of Land and Protected Marine Areas	Area of land or ocean conserved/recovered (km2) Area (km2) of marine/forest reserves under active monitoring Number of climate observation stations installed (for gradual and extreme changes)	» Protected areas and reserves: CO2 captured (per year)
Water Management	Number of efficient pumps installed Km of new wastewater piping installed Number of new reservoirs/defenses against flooding constructed Number of studies (research) Gross annual quantity of wastewater treated, reused or avoided, before and after the project (m3/a) Annual volume of clean potable water in m3 supplied for human consumption	» % Reduction in water consumption
Green Buildings (Ecological Buildings)	Number of buildings with green certification, which indicates the specific certification level attained	» % of annual energy savings » Annual GHG emissions reduced/avoided (tCO2e)

Table 4 | Examples of Social Indicators

Eligible Social Category	Example of Indicator
Support for older adults or persons with special needs who belong to vulnerable sectors	• Number of older adults/persons benefited
Support for low-income families	• Number of low-income persons benefited
Support for human rights victims	• Number of victims of human rights violations benefited
Support for the community through job creation	• Number of jobs created
Access to basic housing	• Number of homes (broken down according to whether built or improved)
Access to education	• Number of vulnerable students benefited, broken down according to level of education
Food security	• Number of beneficiaries broken down according to level of education
Access to Essential Health Services	• Number of and/or value of medical supplies and equipment financed • Number of new hospital beds • Number of beneficiaries
Social programs designed to prevent and/or alleviate unemployment stemming from the socioeconomic crisis, even through the potential effect of financing of the SMEs and micro finances	• Number of beneficiaries • Loans to MSMEs (value and number of loans)



External certification

Chile reserves the right to request external certification in the case of its Green Bonds. This application shall be analyzed case-by-case.

External auditing

The Ministry of Finance shall contract an independent external auditor to provide guarantees about the allocation report and its compliance with the Framework. This process shall be undertaken annually until total allocation of proceeds.

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.

Contacts

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The content of this document has been prepared by the Ministry of Finance with the collaboration of the Interamerican Development Bank.

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HPL

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Ministry of Finance

Government of Chile