

República Oriental del Uruguay

Uruguay's Sovereign Sustainability-Linked Bond



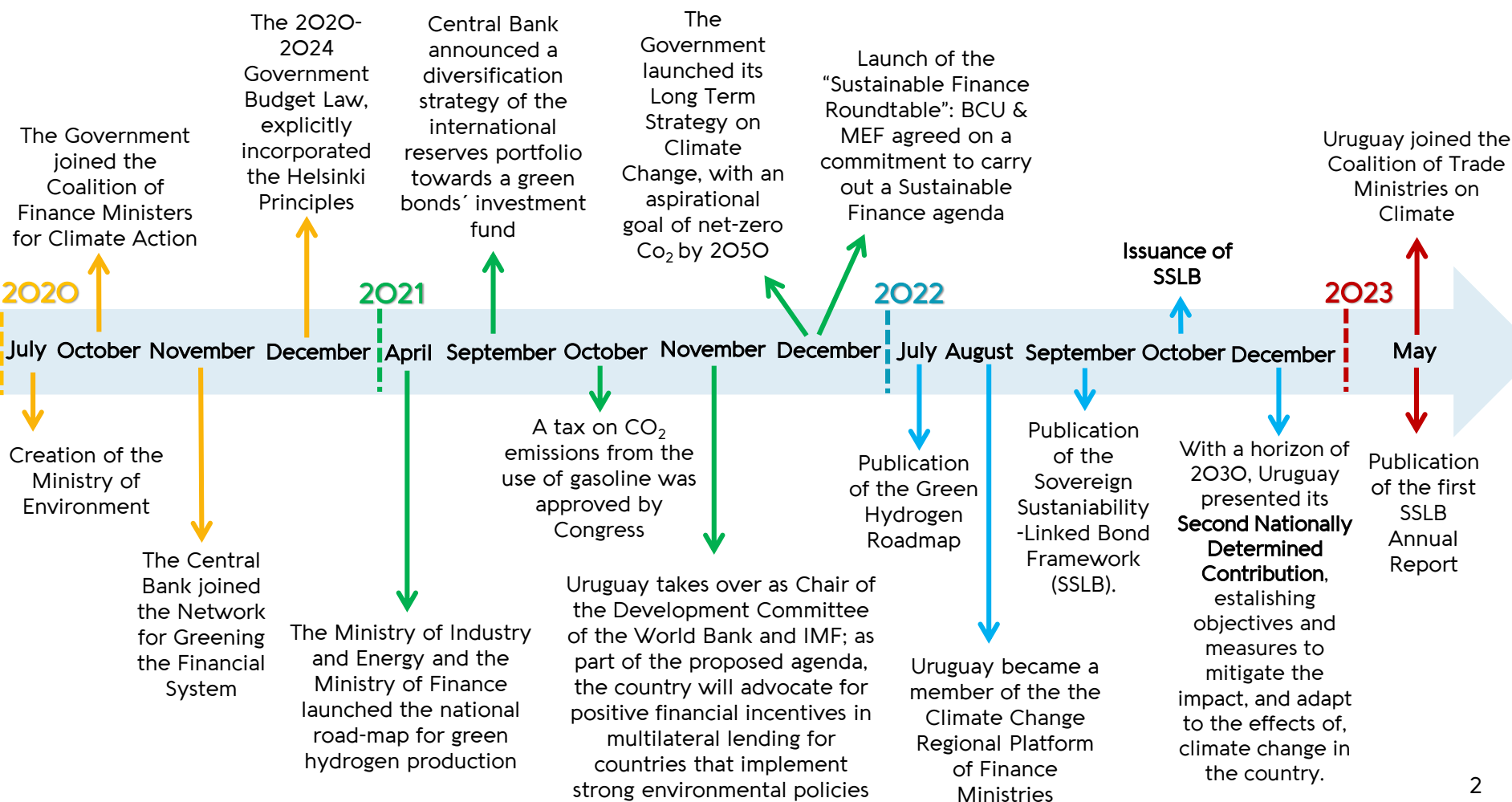
Ministerio
de Economía
y Finanzas

October 2023

The Government is committed to advancing climate action policies.



The goal is to make economic growth consistent with a pathway towards low greenhouse gas emissions and a climate-resilient economy, through macroeconomic, fiscal, trade and financing policies.



Uruguay's Sovereign Sustainability-Linked Bond issued in October 2022



Key Performance Indicators of the SSLB



KPI-1: Reduction of aggregate gross GHG emissions (in CO₂ eq) per real GDP unit, with respect to reference year 1990 (in %)

Indicator Definition: Percentage reduction of aggregate gross GHG emissions (sum of CO₂, CH₄ and N₂O emissions, measured in the CO₂ equivalent under the GWP metric GWP100 AR5) per unit of real GDP of year t, with respect to 1990.

Reference Year: 1990.

Formula:

$$\left[1 - \frac{\left(\frac{GHG\ Emissions}{real\ GDP} \right)_t}{\left(\frac{GHG\ Emissions}{real\ GDP} \right)_{1990}} \right] * 100$$

Rationale

✓ The KPI is core, material and has high strategic importance to Uruguay given its coherence with the Republic's international commitments to the Paris Agreement and to other environmental goals of the Nation.

✓ All-encompassing KPI that monitors the state of Uruguay's full transition towards a decarbonized economy where growth is decoupled from emissions, in accordance with the NDC targets.

✓ Contributes to the realization of Uruguay's commitments in terms of addressing climate change, environmental progress and of being global leaders in decarbonization.



KPI-2: Maintenance of native forest area (in hectares), with respect to reference year 2012 (in %)

Indicator Definition: Percentage of maintenance of native forest area (in hectares) in year t, with respect to year 2012 (native forest area in year t over native forest area in 2012).

Reference year and value: native forest area in 2012 (849,960 ha.).

Formula: $\frac{\text{area of native forest in year } t}{\text{area of native forest in base year 2012}} * 100$

Rationale

✓ The protection of natural ecosystems—among them, the country's native forests—is a key part of the country's commitments under the NDC

✓ Represents Uruguay's ongoing objectives of net negative CO₂ emissions.

✓ The KPI helps advance protection of water resources, reverse environmental degradation, and support biodiversity.

Sustainability Performance Targets based on commitments by 2025 under the Paris Agreement



KPI-1: Reduction of aggregate gross GHG emissions intensity 

KPI-2: Maintenance of native forest area 



NDC Commitments

SPT 1.1

Achieve **at least 50%** reduction in GHG emissions intensity by 2025 from the 1990 reference year.

SPT 2.1

Maintain **at least 100%** of the native forest area compared to reference year 2012.



Outperformance of NDC Commitments

SPT 1.2

Achieve **more than 52%** reduction in GHG emissions intensity by 2025 from the 1990 reference year.

SPT 2.2

Achieve an **increase higher than 3%** of the native forest area compared to reference year 2012.

NOTE:



- SPT 1.2 goes beyond the NDC, representing an overachievement of Uruguay's NDC through an additional 2-percentage point reduction in total GHG emissions per unit of real GDP over the baseline 1990.
- SPT 2.2 goes beyond the NDC target representing an overachievement of Uruguay's NDC under the Paris Climate Agreement through a 3-percentage point increase in Uruguay's native forest area in comparison to the 2012 baseline year (which represents approximately 5 percent increase with respect to the official estimate for 2016).

SPT's Materiality and Ambition: Summary of Sustainalytics' Second Party Opinion



Uruguay has obtained a Second Party Opinion (SPO) by Sustainalytics who has provided an opinion on the sustainability benefits of Uruguay's selected KPIs and SPTs.

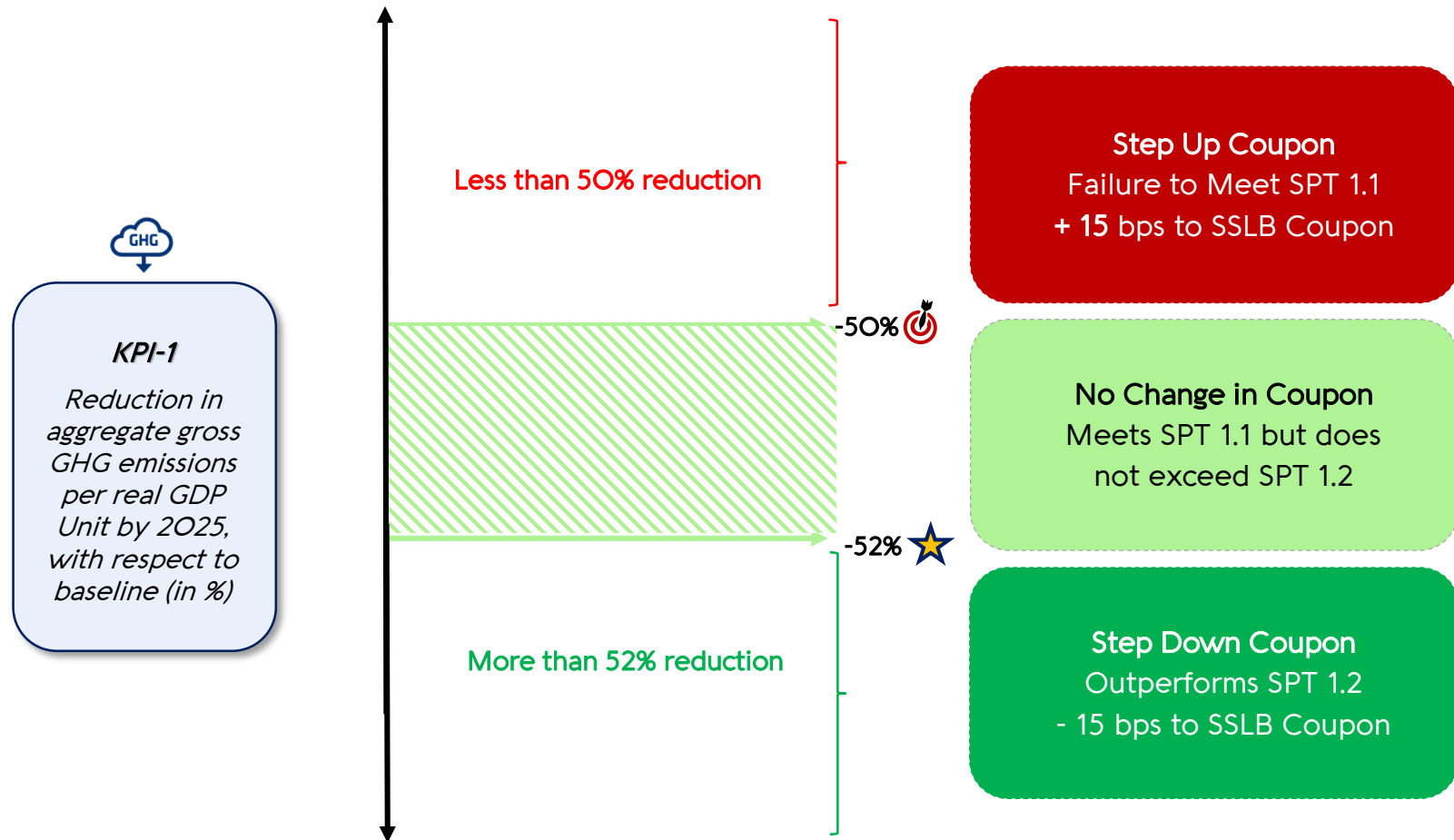


	 KPI 1	 KPI 2
Strength of KPIs	Strong	Strong
KPI Characteristics	KPI is recognized by the World Bank Group for Sovereign Sustainability Linked Bonds and it is also used by the International Energy Agency	Viewed to be a direct measure of Uruguay's performance on the material issue of native forest area preservation
KPI Overall Assessment	<ul style="list-style-type: none"> ✓ Clear and consistent externally benchmarkable methodology ✓ High relevance to a material issue 	<ul style="list-style-type: none"> ✓ Direct relationship to performance ✓ High relevance to a material environmental issue

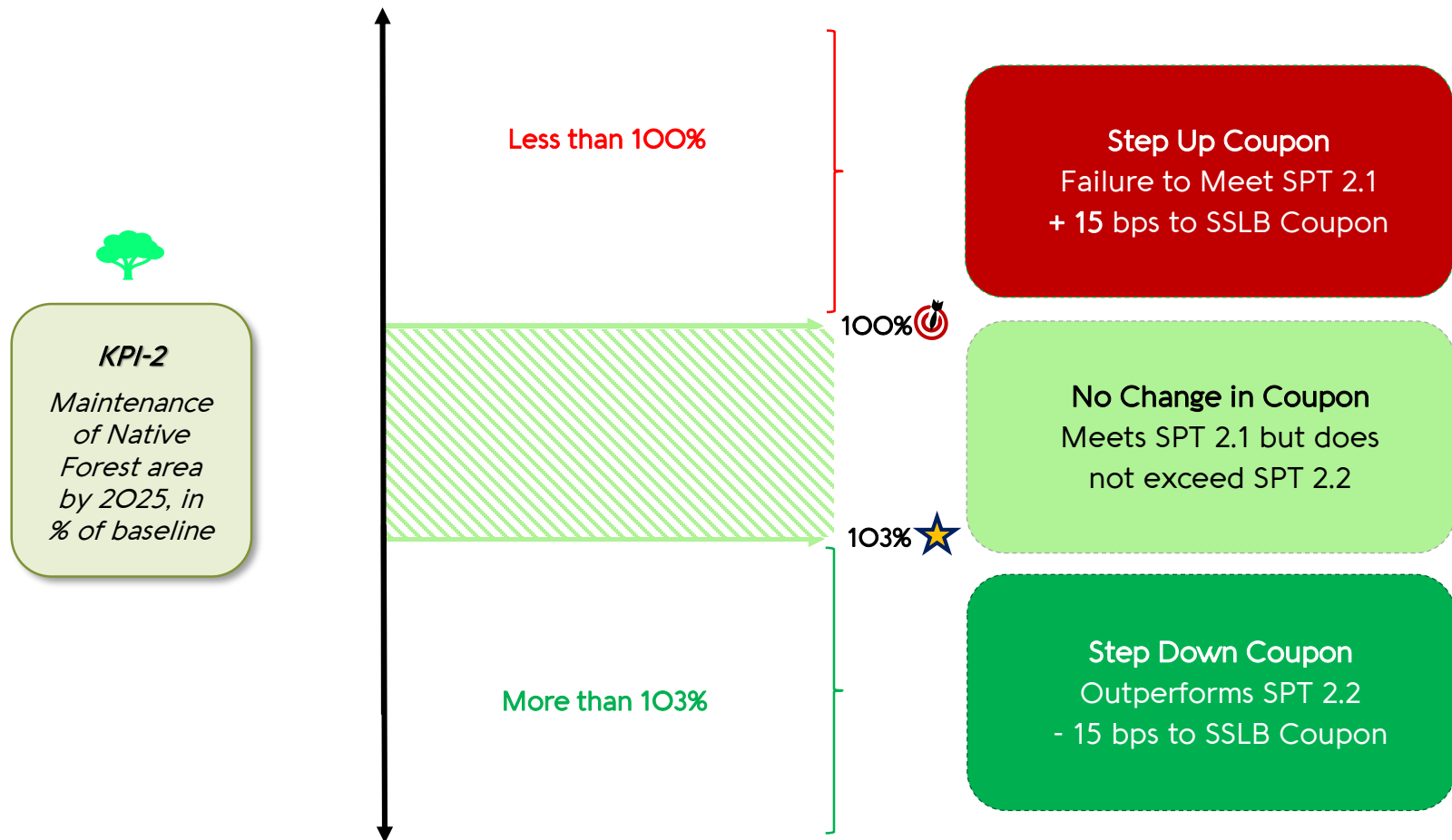
	SPT 1.1.	SPT 1.2	SPT 2.1	SPT 2.2
Ambitiousness of SPTs	Strong	Strong	Strong	Very Ambitious
KPI Characteristics	<ul style="list-style-type: none"> ✓ Represent trajectories that exceed Uruguay's historical performance 		<ul style="list-style-type: none"> ✓ Ambitious versus Historical Performance and versus Peer Performance 	

Reporting	<ul style="list-style-type: none"> ✓ KPI 1 reporting in alignment with the requirements of the SLBP and positively notes Uruguay's commitment to go beyond international standards in data reporting frequency & transparency 	<ul style="list-style-type: none"> ✓ KPI 2 reporting is in alignment with the periodicity of the elaboration of the official cartography of native forests in Uruguay and therefore in alignment with the requirements of the SLBP
Verification	<ul style="list-style-type: none"> ✓ Shorten data reporting 'lags' and the external verification period for GHG emissions to approximately 17 months will enhance transparency, data availability and accountability to monitor the progress in achieving SPTs 	
Impact of SPTs	<ul style="list-style-type: none"> ✓ The issuance of SSLBs will provide financing for projects that are expected to help to reduce national GHG emissions, achieving Uruguay's emissions reduction targets and further facilitate the transition to a decarbonized economy 	<ul style="list-style-type: none"> ✓ Sustainalytics is of the opinion that the Framework is expected to contribute to the country's preservation, regeneration and reforestation efforts for its native forests

Contingent Payoff Structure that is Incentive Compatible: Step-Up / Neutral / Step-Down Mechanism



Contingent Payoff Structure that is Incentive Compatible: Step-Up / Neutral / Step-Down Mechanism



Reporting will go over and beyond UNFCCC requirements for Uruguay and based on Open-Source Data



The methodologies used to calculate the performance of the KPIs are the same as those employed by Uruguay to report Nationally Determined Contributions (NDCs) progress data to the United Nations.



KPI-1

The reporting of KPI-1 has moved from a biennial to an **annual frequency, with one year lag.**

- Uruguay is the only non-Annex I country to start reporting GHG emissions on annual frequency and with a shorter time lag, on par with industrialized countries.



KPI-2

Uruguay will carry out a satellite-imaging mapping of the native forest area **every four years, with one-year lag.**

- For the years in which the cartography is not carried out (i.e., when KPI-2 is not calculated), Uruguay will provide intermediate updates on any actions, policies, regulations, and/or changes in the normative framework for conserving native forest.

Uruguay has committed to have an annual external verification on the KPIs' estimated values throughout the life of the bond



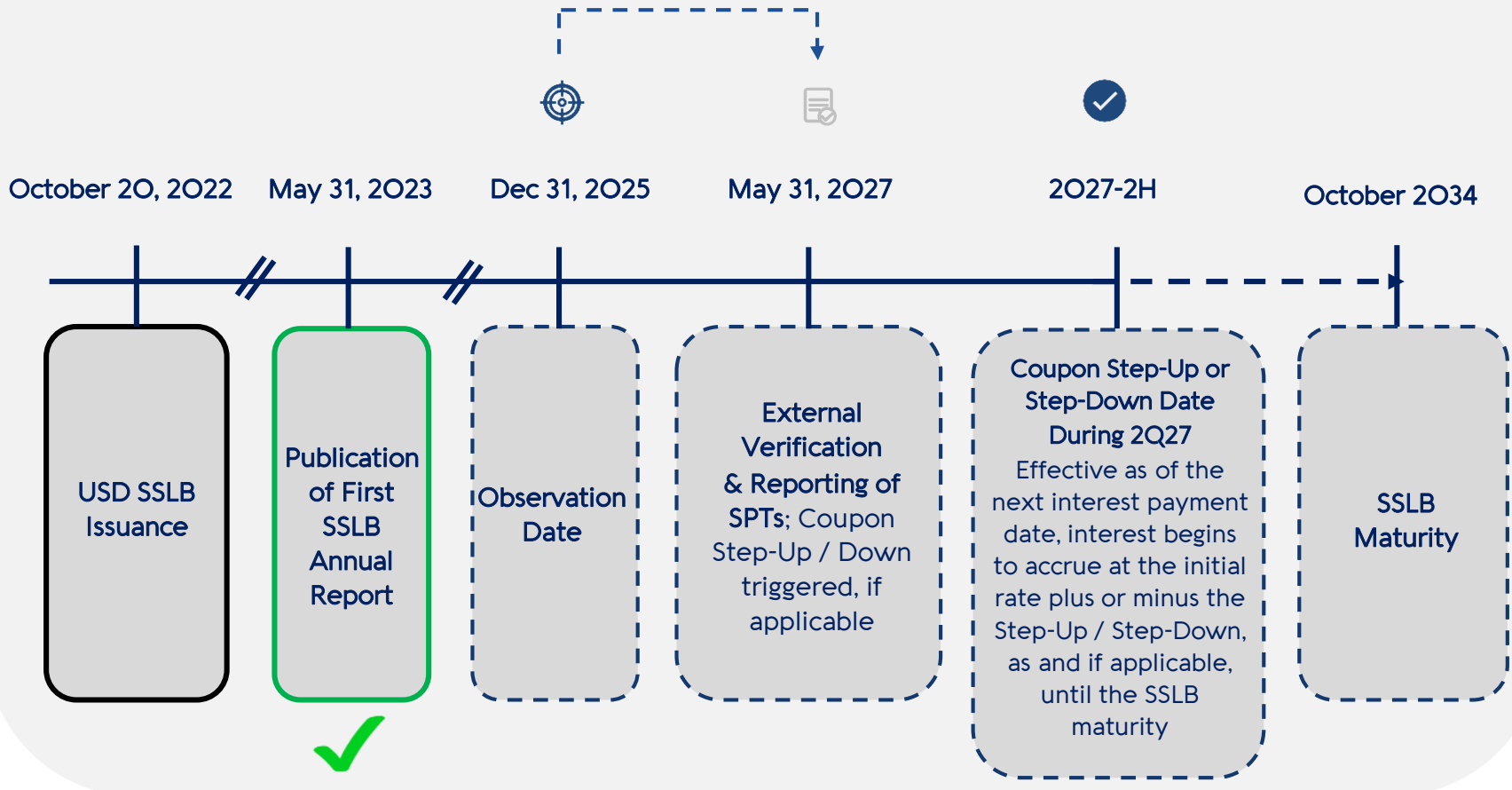
The United Nations Development Program (UNPD) has provided an external, independent and qualified review on the results of both KPIs.

- ✓ The estimated values for KPI-1 and KPI-2 were prepared in accordance with the methodologies established in the SSLB's Framework.
- ✓ Both KPIs calculations and results follow the methodology and good practices established in the 2006 IPCC Guidelines for the preparation of National Greenhouse Gas Inventories.
- ✓ KPI-2 aligns with the Methods and Guidance of the Global Forest Observations Initiative.
- ✓ Uruguay's submitted methodological reports, Emissions Report, Native Forest Report and KPI Report, comply with the quality principles established by the IPCC in terms of Transparency, Accuracy, Consistency, Comparability and Completeness.

The Framework is anchored on a robust, timely and transparent system of reporting and verification



Accelerated timetable for reporting and verification compared to UNFCCC¹ Framework for Developing Countries

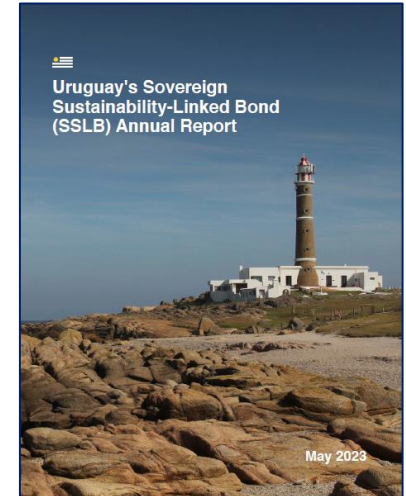


(1) United Nations Framework Convention on Climate Change.

Uruguay published its first Annual Report on the Sustainability-Linked Sovereign Bond in **May 2023**




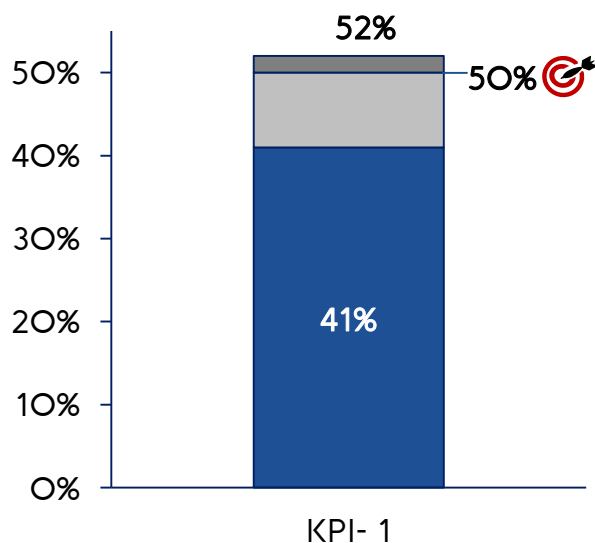
- As part of Uruguay's commitment to deliver ambitious sustainability goals and timelines, on May 31st, 2023, the government published its first **SSLB Annual Report** and UNDP published the first **External Verification Report**.
- The **SSLB Report** updates the selected KPIs through 2021, and provides granular information that allows investors to monitor progress towards the quantitative goals set for 2025.
- The **External Verification Report** conducted by the United Nations Development Program concludes that the methodology and calculations applied for both KPIs are adequate, consistent, complete and transparent.




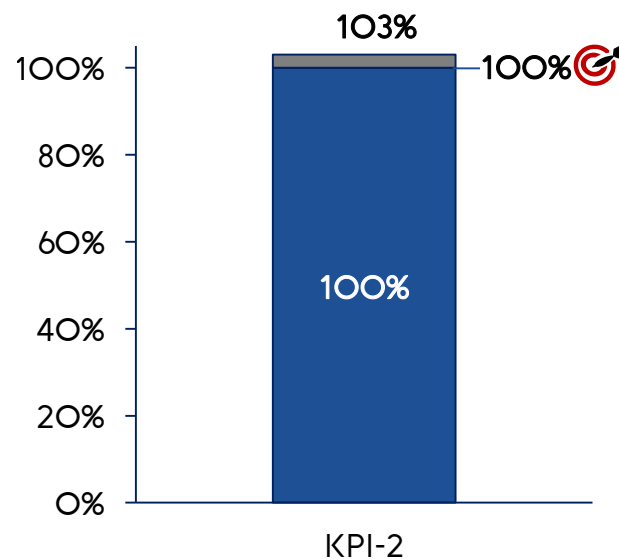
Key Performance Indicators through 2021



 KPI-1: Reduction of GHG emissions intensity (compared to reference year 1990)	
SPT 1	-50%
SPT 2	-52%
Latest value	-41% (Year 2021)



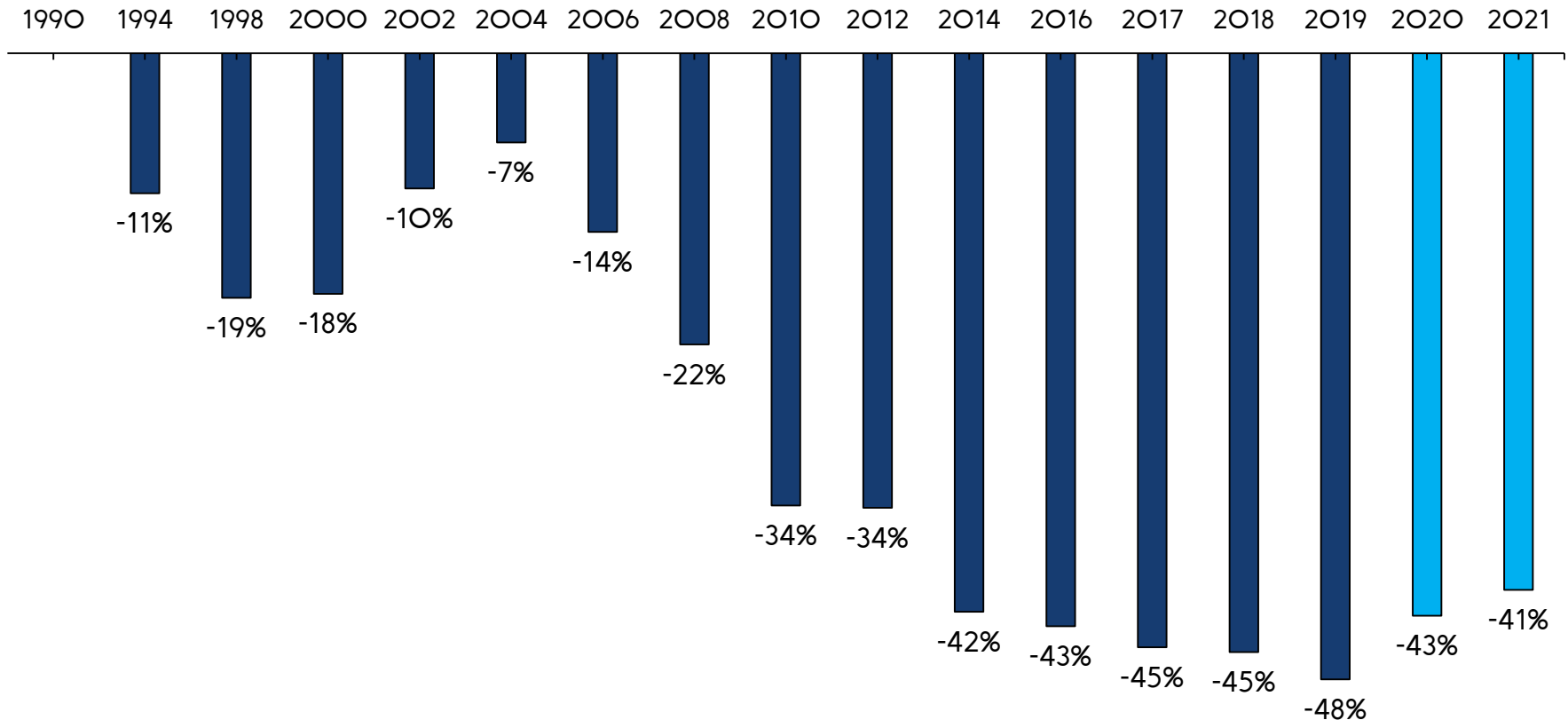
 KPI-2: Maintenance of Native Forest area (compared to reference year 2012)	
SPT 1	100%
SPT 2	103%
Latest value	100% (Year 2021)



Evolution of KPI-1: % Reduction of GHG emissions intensity compared to reference year



Uruguay's aggregate gross GHG emissions per GDP unit (% change compared to 1990)



(*) Considers the three main GHGs and the sectors contributing emissions of each GHG, as set out in the 2017 NDC.

Expressed in Gg CO₂eq, Metric GWP100 AR5.

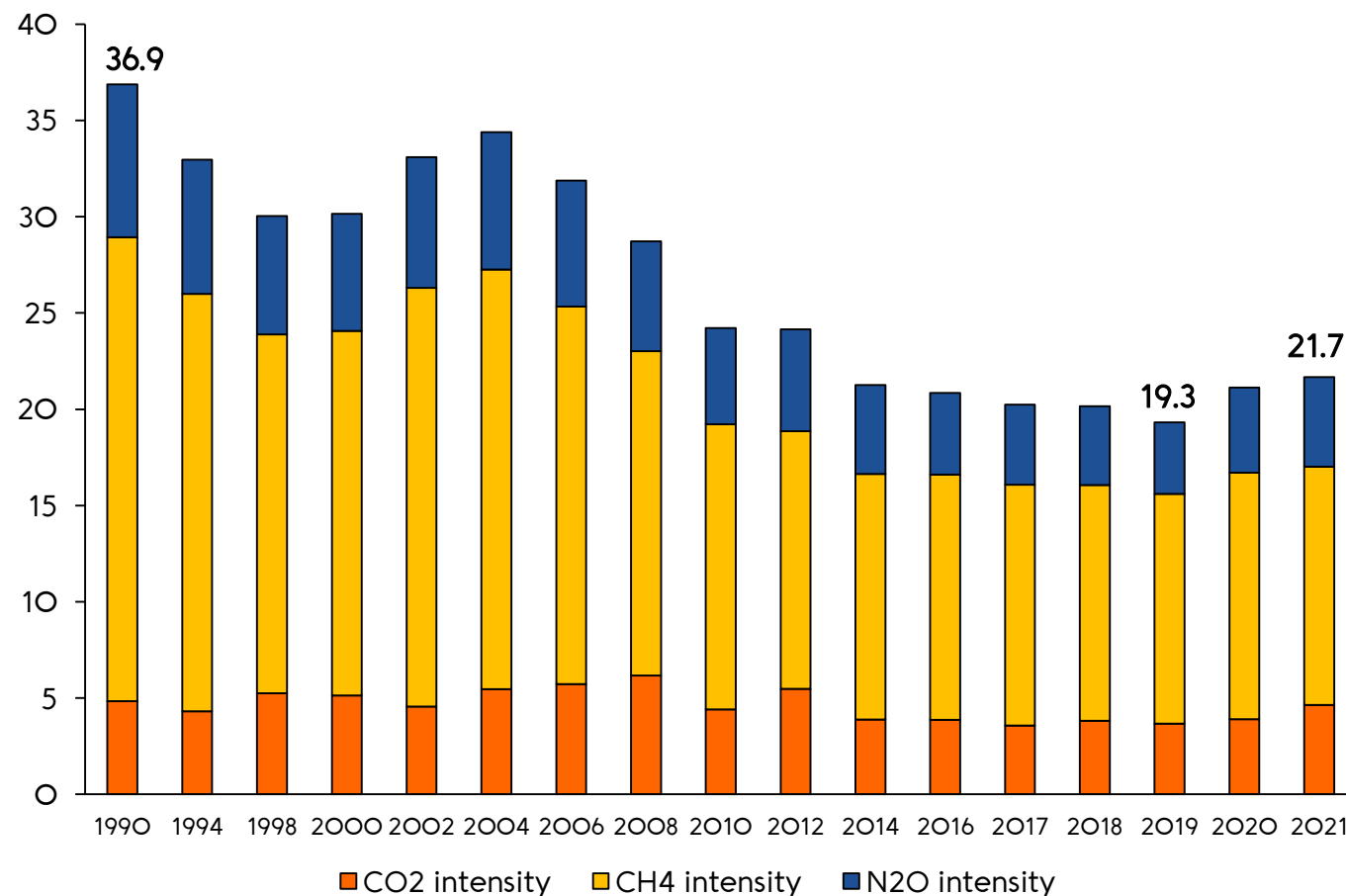
Real GDP measured in billions of pesos in 2016 constant prices.

The country is at the forefront of environmentally-friendly policies, and is committed to continuing with the decarbonization in the economic activity



Evolution of Uruguay's Intensity Gross Greenhouse Gas Emissions(*)

As a share of real GDP, by type of gas



Aggregate GHG emissions' key drivers between 2019 and 2021:

- CO₂ emissions rose mainly due to the increase in electricity exports that were sourced with fossil fuels, given the severe droughts experienced in the region.
- N₂O increase can be attributed to the expanding cultivation of crops utilizing synthetic nitrogen fertilizers.

During the period of 2020-2021 real GDP experienced a cumulated contraction of 1.3 percent.

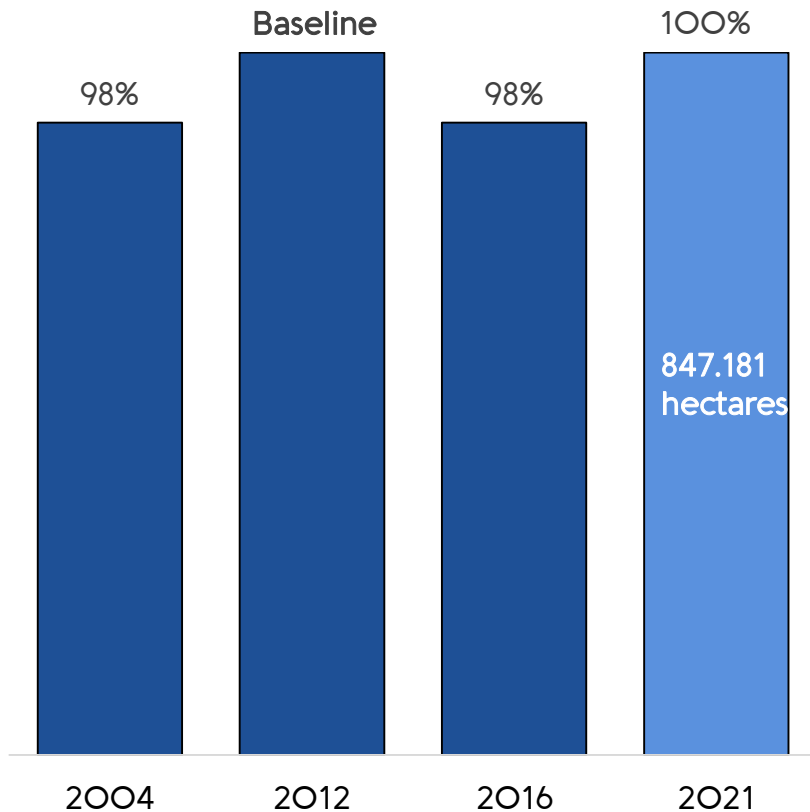
(*) Considers the sectors contributing emissions of each GHG, as set out in the 2017 NDC. Expressed in Gg CO₂ Metric GWP100 AR5. Real GDP measured in billions of pesos in 2016 constant prices. For the period 1990-2019, data is for years with official NGHGI publication and data for 2020 and 2021 was estimated for the SSLB Annual Report. Source: SSLB Open Database as of April 2023.

Evolution of KPI-2:

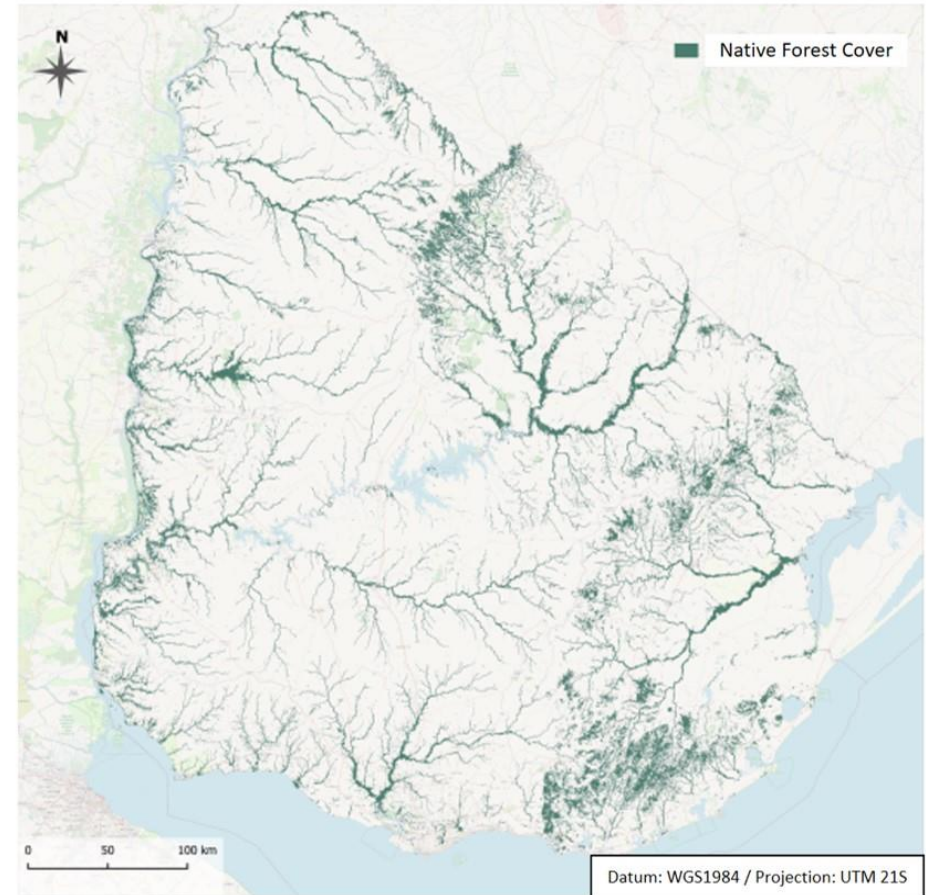
% Maintenance of Native Forest area compared to reference year



Uruguay's Historical Data of Native Forest area
% compared to 2012 Baseline



Uruguay's Native Forest Cartography for 2021
Hectares, 2021



Future Pathways: Uruguay's actions to drive progress on KPIs



Energy and Industrial Processes

- Implementing 2nd energy transition: decarbonizing the transport sector:
 - Expanding electric mobility and charging infrastructure.
 - Incorporating biofuels into automotive fuels.
 - Improving efficiency in urban mobility.
 - Promoting the production and use of e-fuels and green hydrogen.
- Promoting “cleaner” industrial processes:
 - Reducing clinker usage in cement production.
 - Substituting fossil fuels with biomass in the cement industry.

Waste

- Implementing methane capture in industrial wastewater treatment systems in meat industries.
- Promoting capture and burn technologies for methane gas at landfills, particularly in those which received waste from various cities.

Livestock management

- Strengthening public co-innovation systems which promote low -carbon, climate resilience production:
 - Focusing in grassland management and livestock productivity.
 - Developing an animal breeding platform.
 - Promoting research in methanogenesis inhibitors.

Sustainable Finance

- Promoting domestic sustainable finance and developing a Green Taxonomy.
- Revising the tax structure and identifying incentives to promote electric transportation and native forest conservation.
- Introducing a new financial instrument: Sovereign Sustainability-Linked Loan (SLL).
- Assessing tax exemptions for projects committed to the “Clean Technology” Index under the Investment Promotion Law.

Summary of Key Innovations in Uruguay's SSLB Framework



Whole Economy Sustainability-Linked Bonds

- ✓ By integrating “whole economy” Paris-aligned commitments into a national financial strategy, Uruguay will introduce a class of financial instruments that can enable Uruguay, and other State Actors, to achieve our shared climate change objectives

Mainstream NDC Commitments

- ✓ Create benchmarks for Sovereign GHG emission intensity reduction and Native Forest Area maintenance goals
- ✓ Help strengthen the credibility in the NDC system
- ✓ Pave way for KPI standardization in order to scale up sustainable finance instruments for sovereigns

Robust inter-ministerial coordination

- ✓ The responsibilities and accountability across participants of task force was agreed and laid out in a Memorandum of Understanding
- ✓ The work of the task force is backed by an executive decree executed by all Five Ministries involved in the work related to SSLBs



Financing mechanism that is incentive-compatible

- ✓ Uruguay seeks to explicitly link its cost of capital to the achievement of the country's forward-looking environmental targets under the Paris Agreement
- ✓ The proposed two-way pricing structure will penalize Uruguay if it does not deliver on its NDC goals (SPT 1.1 & SPT 2.1) and will reward the country if it over performs on its ambitious NDC targets (SPT 1.2 & SPT 2.2)

Reporting

- ✓ Uruguay will be the only non-Annex I country to start reporting GHG emissions on **annual frequency** and with a shorter time lag, on par with industrialized countries
- ✓ Uruguay's efforts to shorten data “lags” and external verification period for GHG emissions to approximately 17 months

External Verification

- ✓ United Nations Development Program (“UNDP”) will provide accelerated independent external review of both KPIs throughout the life of the bond