

República Oriental del Uruguay

ESG Report



Ministerio
de Economía
y Finanzas

June 2024

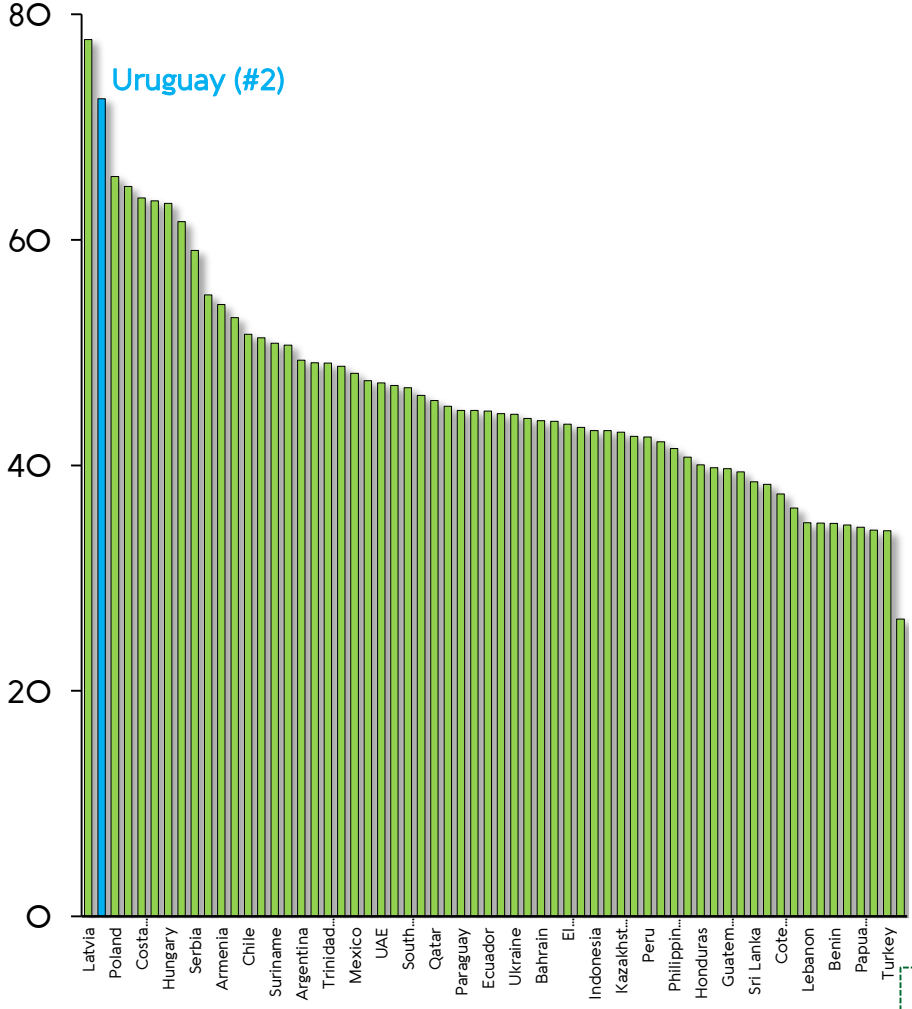


Uruguay is among the top global performer on ESG fundamentals in emerging markets



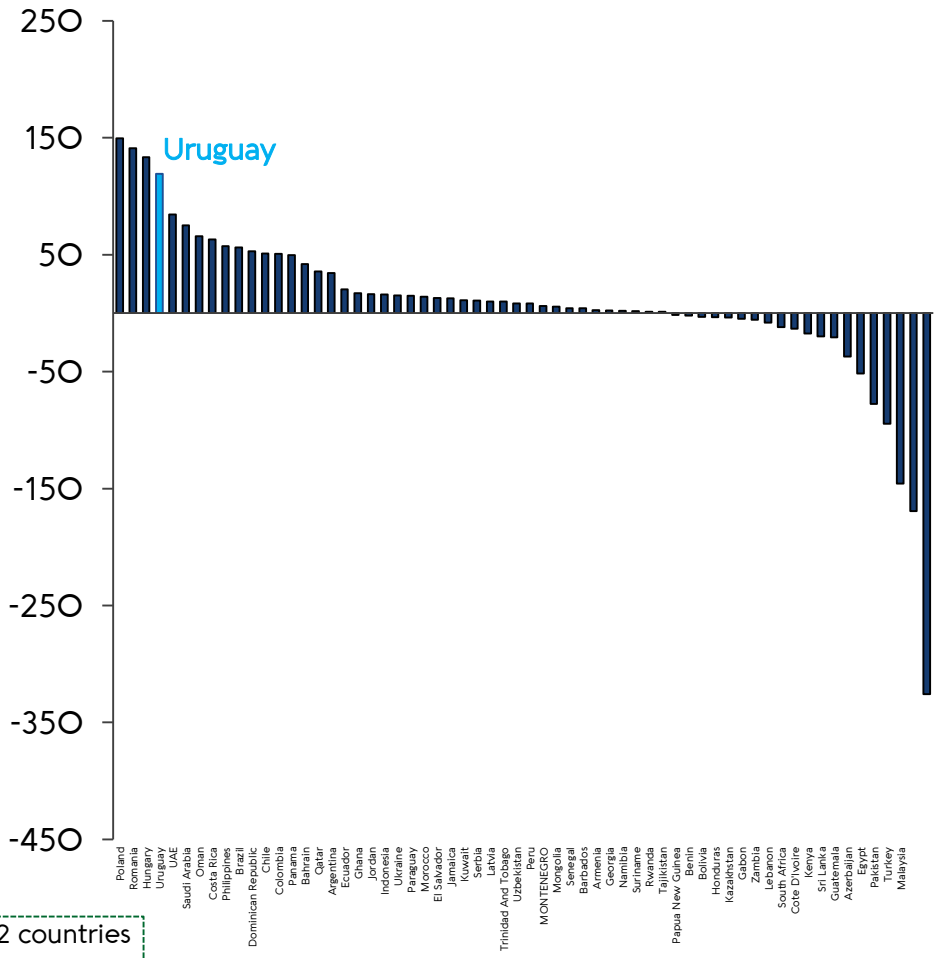
Emerging Markets' ESG Score

(Index, 100 = best performance; as of end-June 2024)



Change in index weight when moving from Conventional EMBI to ESG-Adjusted EMBI

(In basis points; as of end-June, 2024)

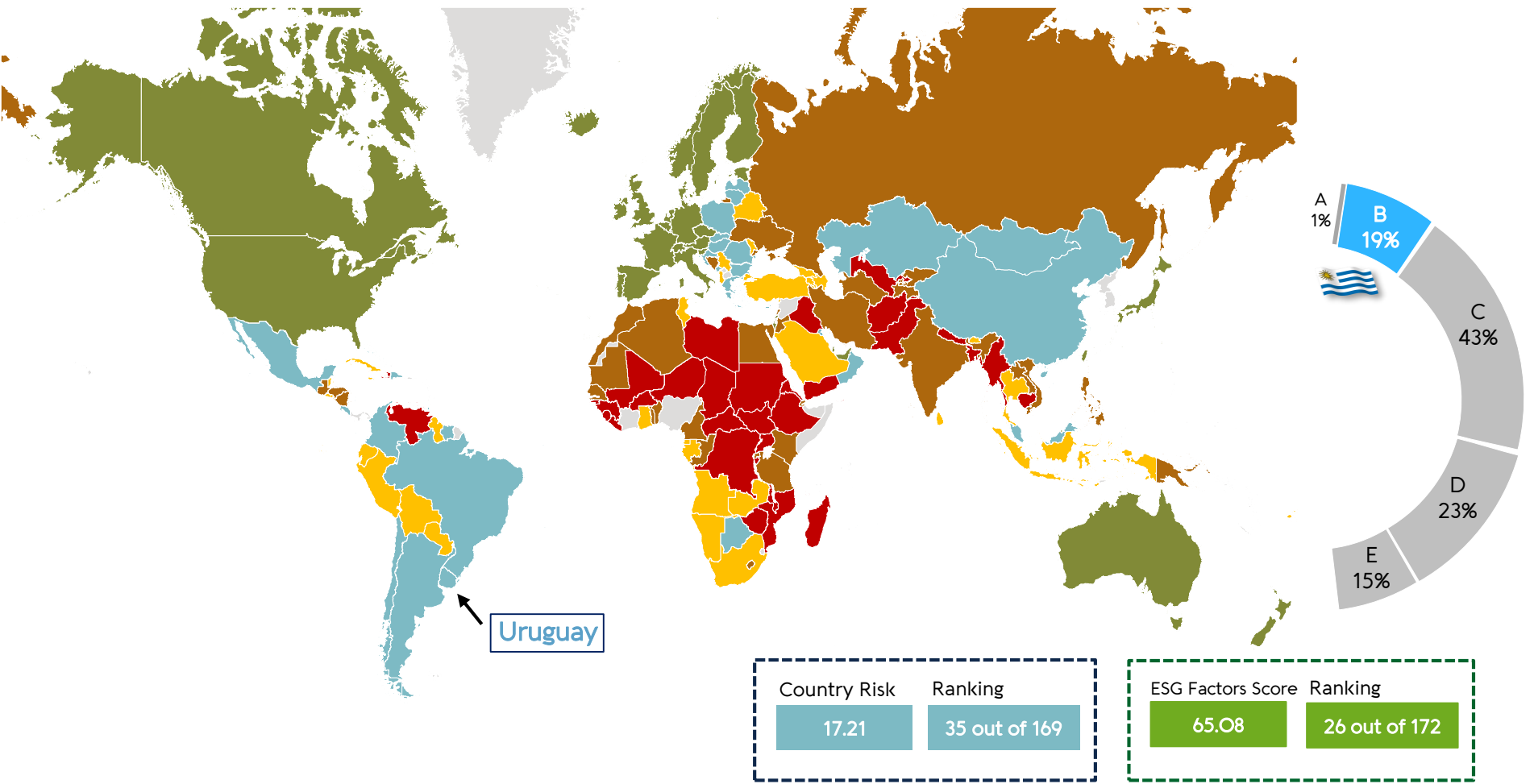


62 countries

Source: J.P. Morgan Chase & Co. using data from Verisk Maplecroft, Sustainalytics and Climate Bonds Initiative. Disclaimer: "Information has been obtained from sources believed to be reliable but J.P. Morgan does not warrant its completeness or accuracy. The Index is used with permission. The Index may not be copied, used, or distributed without J.P. Morgan's prior written approval. Copyright 2022 J.P. Morgan Chase & Co. All rights reserved."



Uruguay features favourably in the global ESG indicators ratings



Uruguay

Country Risk	Ranking
17.21	35 out of 169

ESG Factors Score	Ranking
65.08	26 out of 172

Source: J.P. Morgan Chase & Co. powered by Sustainalytics, as of 3Q2023.

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International Agreements

- Global loss and damage fund due to Climate Change (2022)
- Global Methane Pledge and Glasgow Leaders Declaration on Forest and Land Use (2021)
- Sustainable Development Goals (2016)
- Paris Agreement (2015)
- Kyoto Protocol (1997) and Doha Amendment (2012)
- Convention on Biological Diversity (1992) and Nagoya Protocol (2014)

Public Institutional Framework

- Sovereign Sustainability-Linked Bond Framework (2022)
- Green Hydrogen Roadmap (2022)
- National Adaptation Plans to Climate Change, Coastal, and for Cities and Infrastructures (2021)
- Long Term Strategy on Climate Change (2021)
- National Adaptation Plan for the Agricultural sector (2019)
- National Environmental Plan (2019)
- National Climate Change Policy (2017)
- Program to Reduce Emission Caused by Deforestation and Forest Degradation (2016)
- National Plan of Energy Efficiency (2015)
- National System of Response to Climate Change and Variability (2009)

Environmental / Fiscal Policy

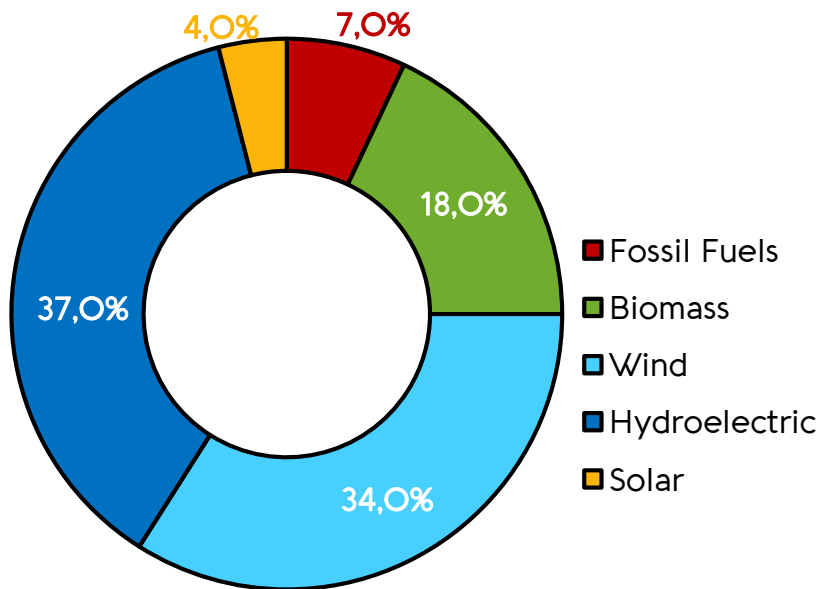
- Publication of second Nationally Determined Contribution (2022)
- The Budget Law contains additional tax incentives and budgetary resources to promote reforestation (2022)
- A tax on CO2 emissions from the use of gasoline was approved by Congress (2021)
- Inclusion of the 2019 “Helsinki Principles” into the 2020-2024 Budget Law, thereby aligning income and expenditure policies with the national objectives for adaptation to and mitigation of climate change effects (2020)
- Tax on single-use packages and goods, included in the Waste Disposition Management Comprehensive Law (2019)
- Tax exemptions to promote electric vehicles and subsidy program for electric-engine public buses (2018) and tax exemption applied to land parcels that contain native forest (Forest Act, 1987)
- Forbidden the use of non-biodegradable plastic bags and levy of USD 0.11 tariff per biodegradable plastic bag (2018)
- Publication of first Nationally Determined Contribution (2017)

Uruguay's electricity matrix is mostly based on renewable resources, partly due to a steady growth in wind energy in the last decade



Electricity Generation by Source

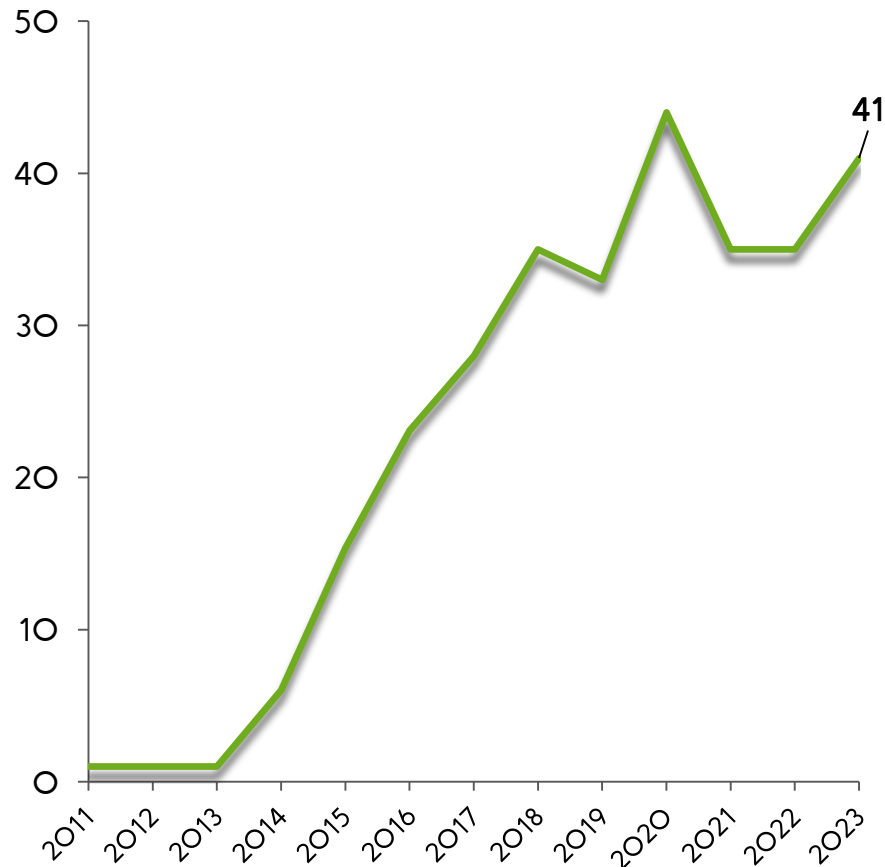
(% of total, Avg 2018-2023)



HYDROELECTRIC	37%	93% RENEWABLE
WIND	34%	
BIOMASS	18%	
SOLAR	4%	
FOSSIL FUELS	7%	

Wind and solar power generation of electricity

(% of total)

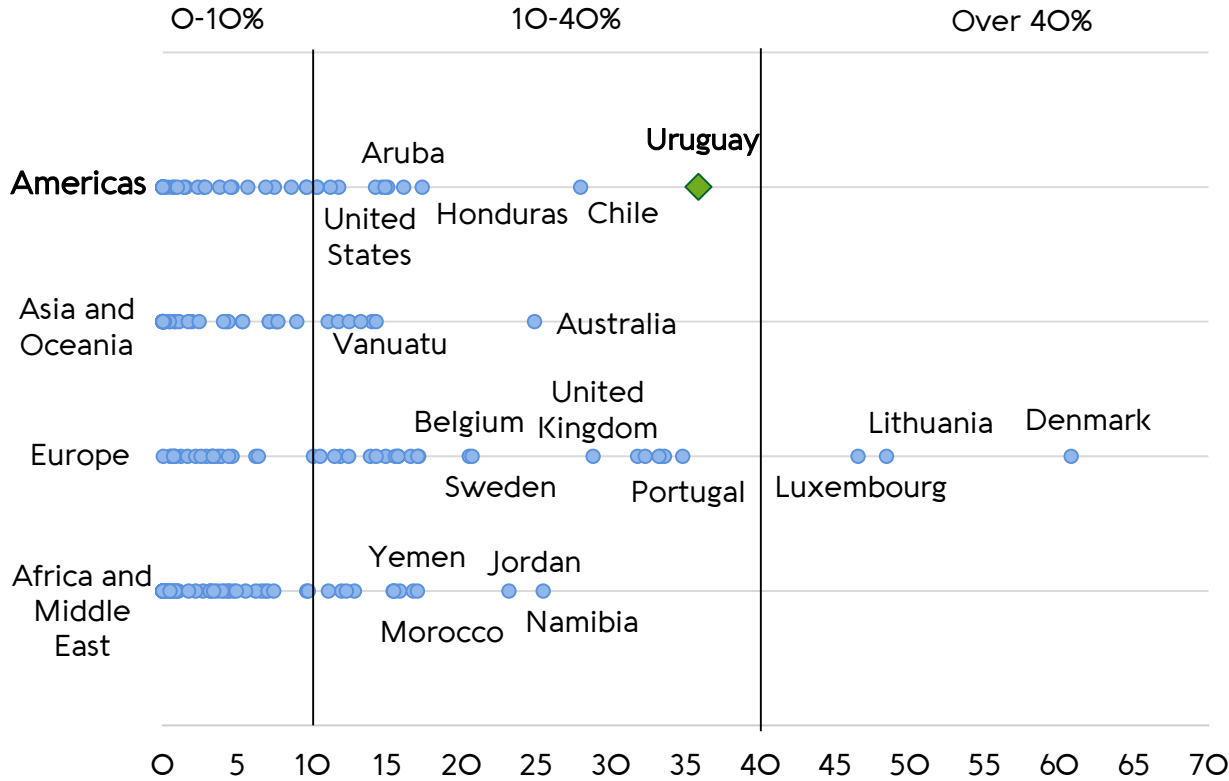


...as a result of building renewable foundations, Uruguay stands out when it comes to environmental fundamentals



Electricity generated from wind and solar sources⁽¹⁾

As a percentage of total electricity generation from all sources, 2022 (else 2021)



Uruguay ranked **#1** among Latin American and Caribbean countries and **#4** in the world in the share of electricity production from wind and solar sources in 2022 according to EMBER.

- Among emerging countries, Uruguay is ranked:
 - #1** in the **Environmental Pillar Index** from MSCI (2023)
- Among Latin American and Caribbean countries, Uruguay is ranked:
 - #2** in the **Energy Transition Index** from the World Economic Forum (as of 2023)
 - #2** in **The Green Future Index** from the MIT Technonology Review (2023).

Source: Ember's Global Electricity Review 2023. Total of 201 countries.

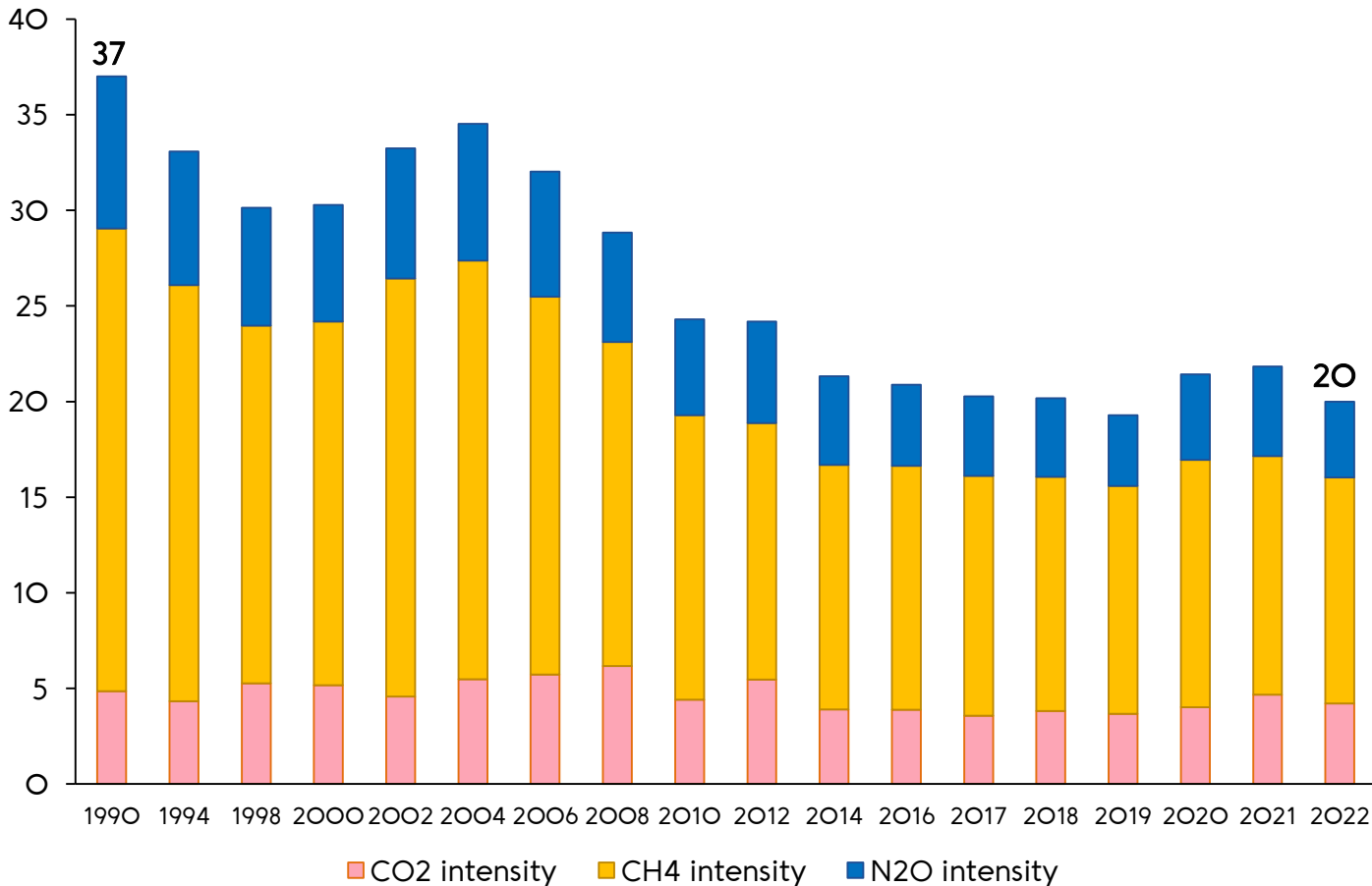


The country is at the forefront of environmentally-friendly policies, and is committed to continuing with the decarbonization in the economic activity



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

As a share of real GDP, by type of gas



Aggregate GHG emissions' decreased between 2021 and 2022 on the back of:

- Increasing share of electricity generation sourced with renewable sources, and
- Lower estimated N2O emissions tied to the use of synthetic nitrogen fertilizers for crop production.

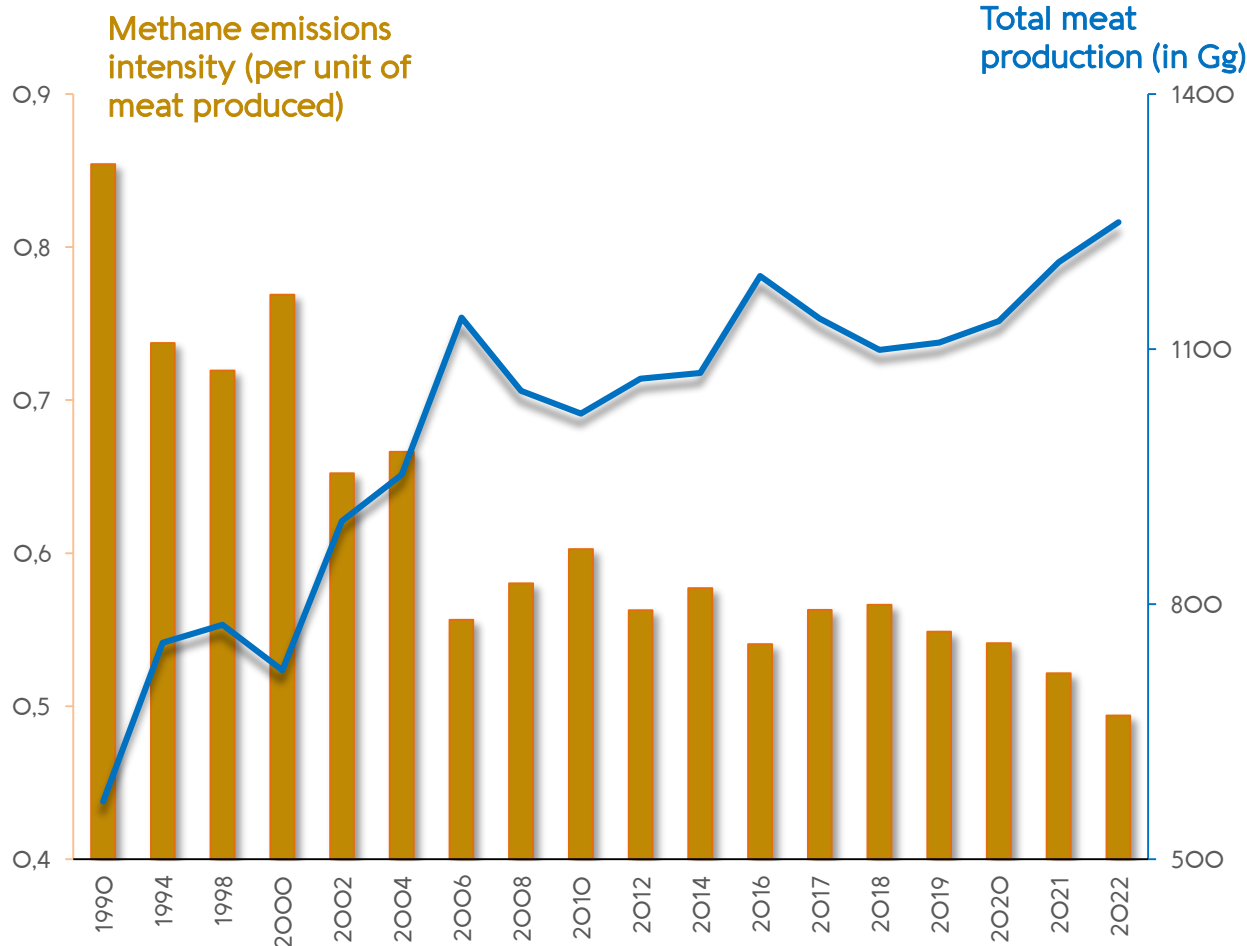
Gross GHG emissions in 2022 decreased 4.1 % with respect to 2021.

(*) Considers the main 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, 2021 and 2022 was estimated for the SSLB Annual Report. Source: SSLB Open Database as of May 2024.

Uruguay has also made consistent and significant improvements in the climate efficiency of its livestock and cattle production



Evolution of beef production and methane emissions per unit of beef produced(*)



Uruguay has introduced innovative processes and technological advances in the sector, including:

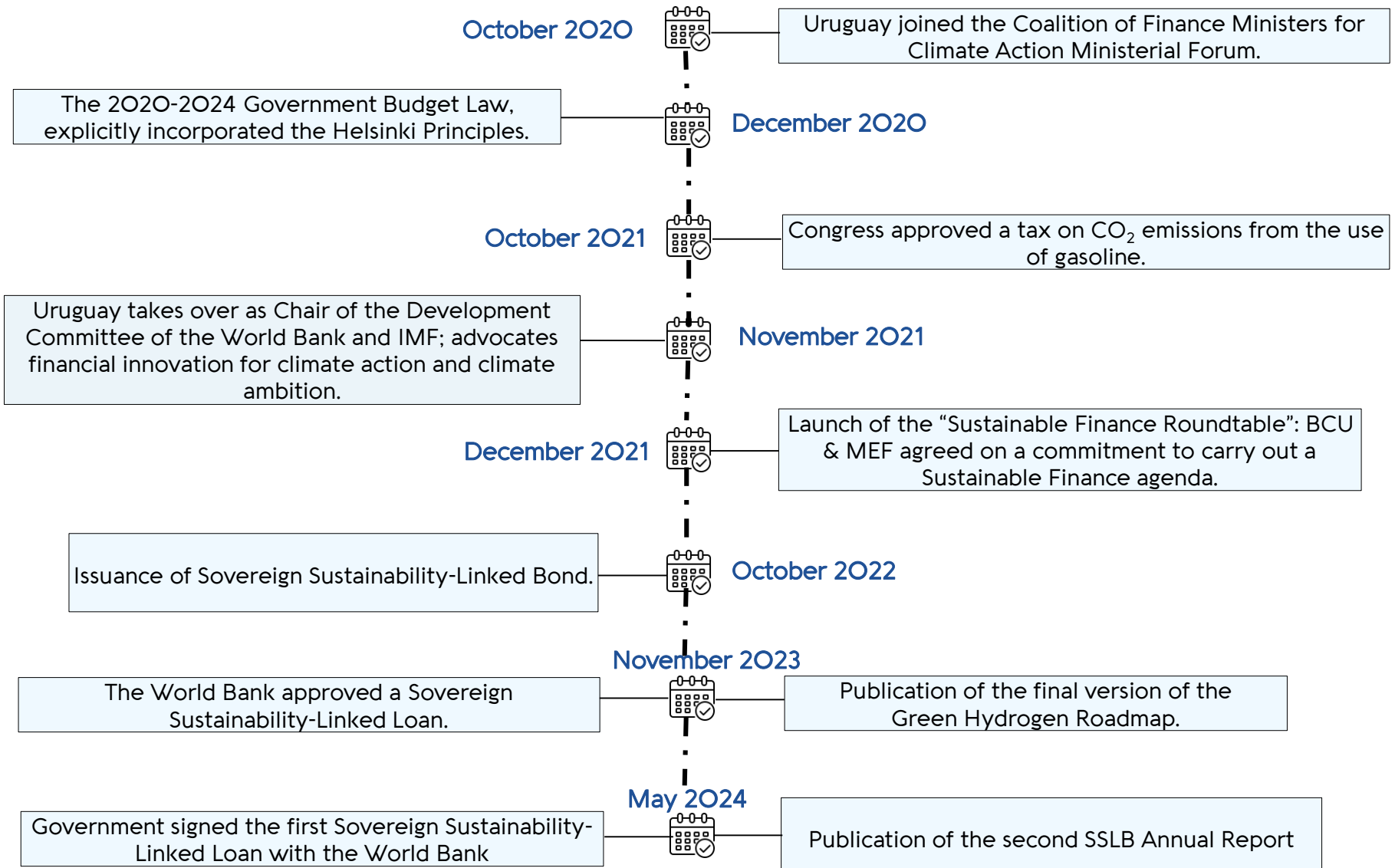
- ✓ Improvement in the feeding quality in cattle breeding and rearing phases (based on natural grassland feeding).
- ✓ Introduction of high-quality pasture and feedlots in the finishing phase as to reduce the age of slaughter steers.
- ✓ Implementation of measures and adoption of technologies in land and cattle management.

(*) CH₄ emissions intensity from beef production (LHS) is calculated as CH₄ emissions (Gg) from beef production as a share of beef production in Gg live weight in the same year. For the period 1990-2019, data is for years with official NGHGI publication and data for 2020, 2021 and 2022 was estimated for the SSLB Annual Report. Source: SSLB Open Database as of May 2024 and official data provided by MGAP.




Article 533.- “With the aim of making the economic recovery from the Covid-19 crisis sustainable and inclusive and in line with the Helsinki Principles of the Coalition of Finance Ministers for Climate Action, the Executive Branch will seek to generate the tools and adopt the necessary criteria for revenue and expenditure policy to *meet national targets for greenhouse gas emission mitigation and climate change adaptation*. These objectives will also be sought to include in the analysis and design of economic policy and in the planning of public finances.”

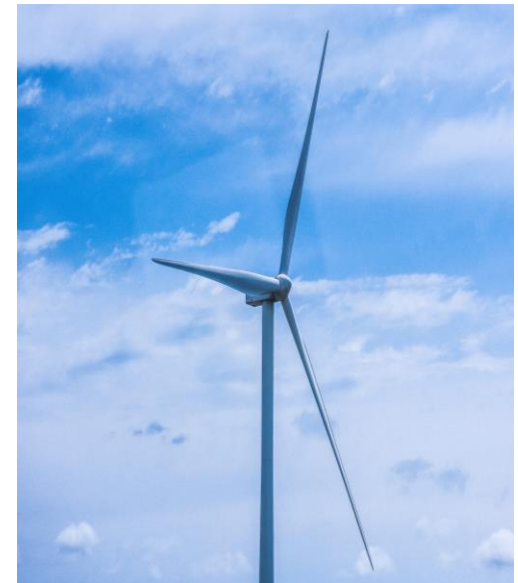
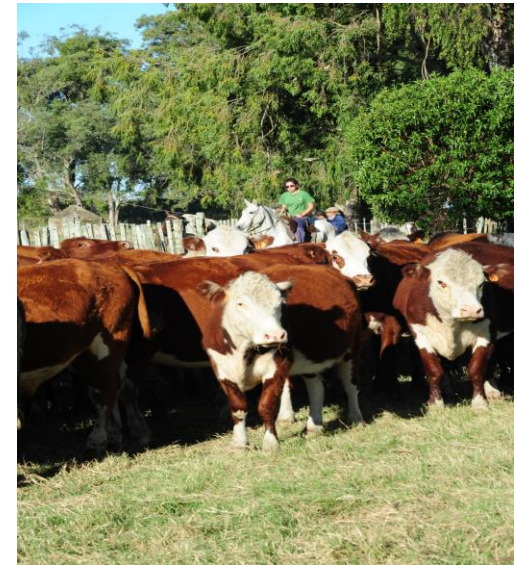
The Government is committed to climate action policies



(I) In October 2022, Uruguay issued a Sustainability-Linked Sovereign Bond (SSLB) tied to climate and nature conservation indicators



- In October 2022, the government issued a new global dollar-denominated SSLB due in 2034. The bond was reopened later in October 2023.
- The issuance was underpinned by the SSLB Framework published on September 20th, 2022, and developed a specific webpage with all the information related to this project (<http://sslburuguay.mef.gub.uy/>).
- The Framework describes Uruguay's strategic sustainability priorities and sets out goals with respect to two complementary Key Performance Indicators (KPIs) tied to climate change mitigation and nature conservation goals and is aligned with the Labeled Bond Principles (ICMA, EMIA):
 -  reducing the intensity of Greenhouse Gas emissions
 -  preserving the area of native forests
- The Sustainability Performance Targets (SPTs) are based on quantitative goals set for 2025 and are in line with Uruguay's Nationally Determined Contribution (NDC) under the Paris Agreement.



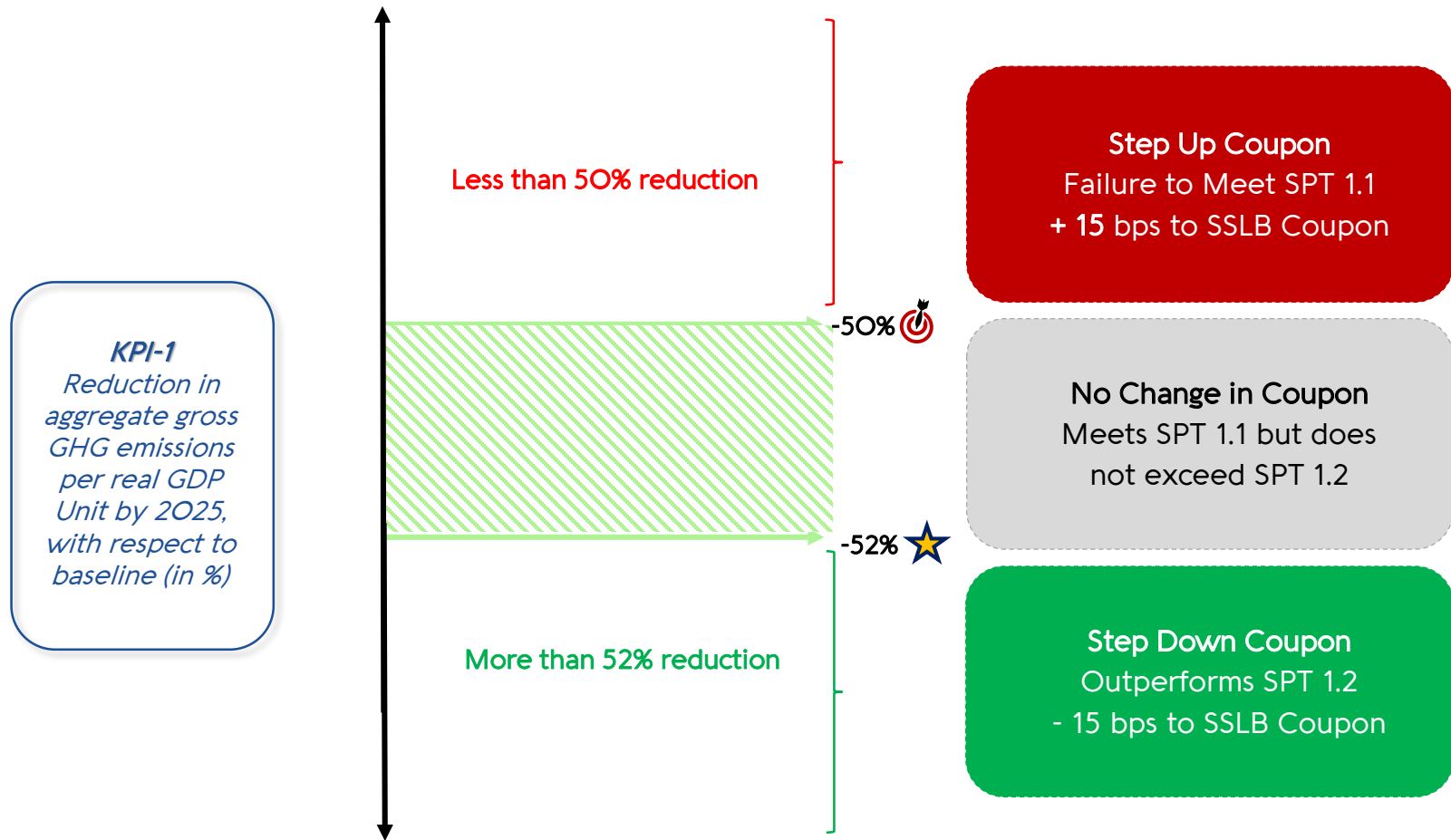
Innovative Step-up/step-down coupon structure linked to the provision of global public goods



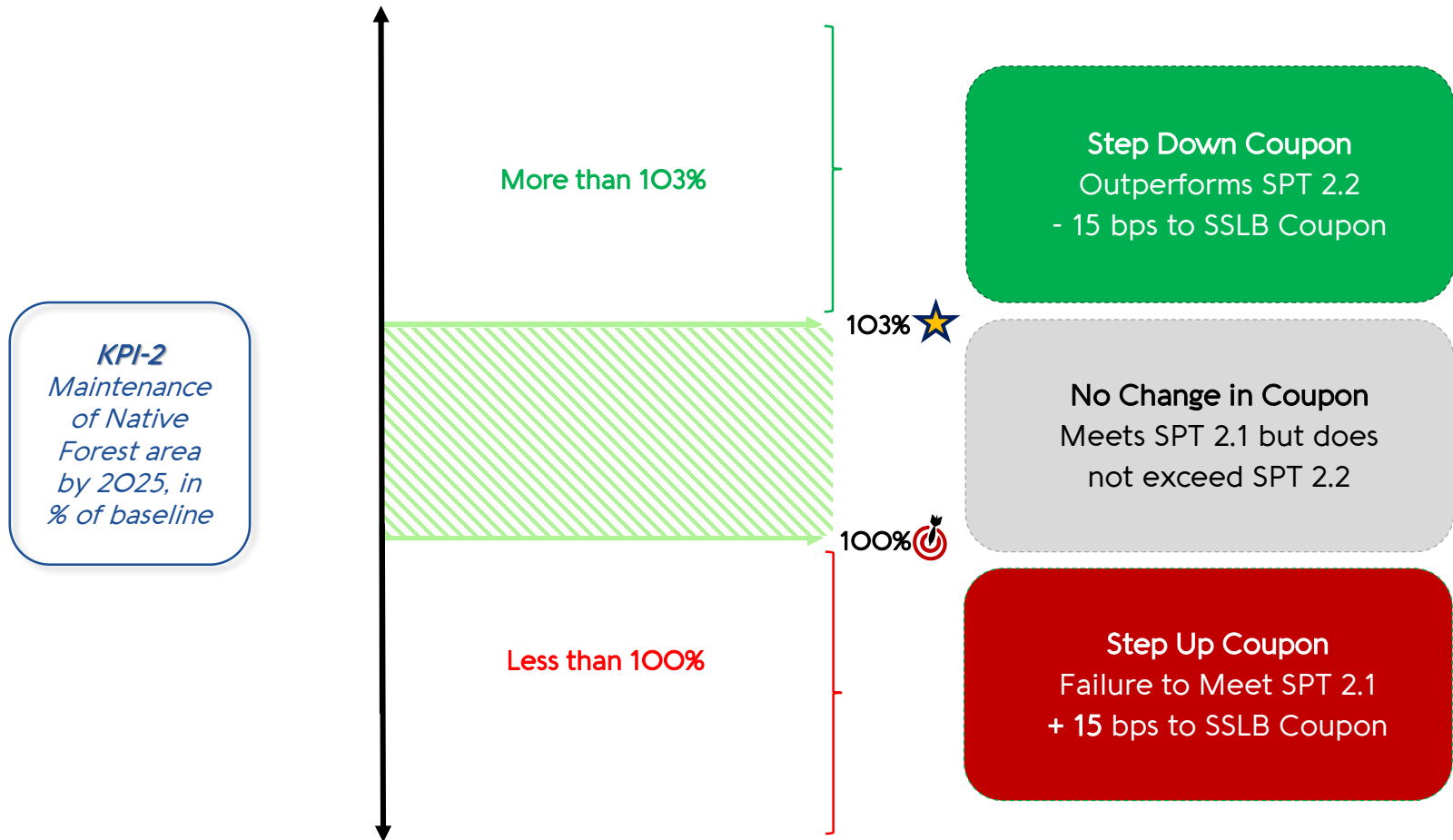
- It is the first global SSLB that incorporates a step-up / step-down interest rate structure, depending on the achievement of the established objectives.
- Through this two-way pricing mechanism, Uruguay intends to align its national financing strategy and cost of capital with its sustainability efforts, creating an incentive-compatible mechanism that binds borrowers and investors together in the effort to provide global public goods.

	KPI-1		KPI-2	
Key Performance Indicator ("KPI"):	<i>% Reduction in aggregate GHG emission intensity (CO2eq per real GDP unit), compared to reference year</i>		<i>% maintenance of native forest area with respect to reference year</i>	
Sustainability Performance Target ("SPT"):	SPT 1.1 Uruguay's NDC 1 commitment	SPT 1.2 Outperformance of Uruguay's NDC 1 commitment	SPT 2.1 Uruguay's NDC 1 commitment	SPT 2.2 Outperformance of Uruguay's NDC 1 commitment
	Achieve at least a 50.0% reduction in aggregate GHG emissions intensity by 2025 from the 1990 reference year	Achieve at least a 52.0% reduction in aggregate GHG emissions intensity by 2025 from the 1990 reference year	Maintain 100.0% of the native forest area compared to reference year 2012	Achieve a 3.0% increase of the native forest area compared to reference year 2012
Interest rate step-up:	15 basis points if SPT 1.1 is not achieved		15 basis points if SPT 2.1 is not achieved	
Interest rate step-down:	15 basis points if SPT 1.2 is achieved		15 basis points if SPT 2.2 is achieved	

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



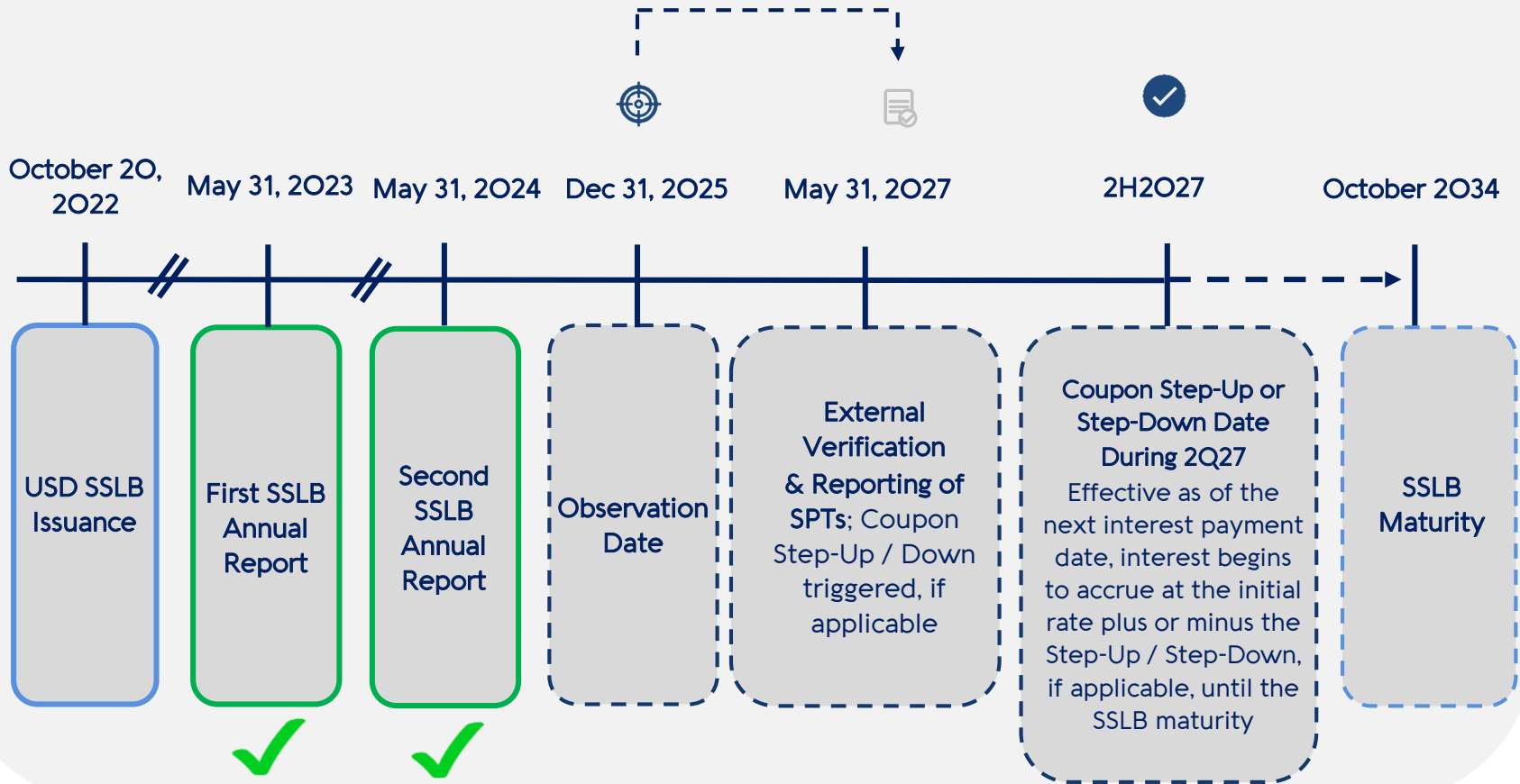
Contingent Payoff Structure that is Incentive Compatible: Step-Up / Neutral / Step-Down Mechanism



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



Accelerated timetable versus UNFCCC¹ Framework for Developing Countries



(1) United Nations Framework Convention on Climate Change.

As part of Uruguay’s commitment to deliver ambitious sustainability goals and timelines, on May 31st, 2024 the government submitted its second **SSLB Annual Report** and published PNUD’s second **External Verification Report**.



The second annual SSLB Report updates the evolution of the Key Performance Indicator tied to the intensity of Greenhouse Gas emissions (KPI-1), through the year 2022. It also provides quantitative and qualitative information on the Key Performance Indicator tied to the maintenance of native forests (KPI-2, which is reported every four years).

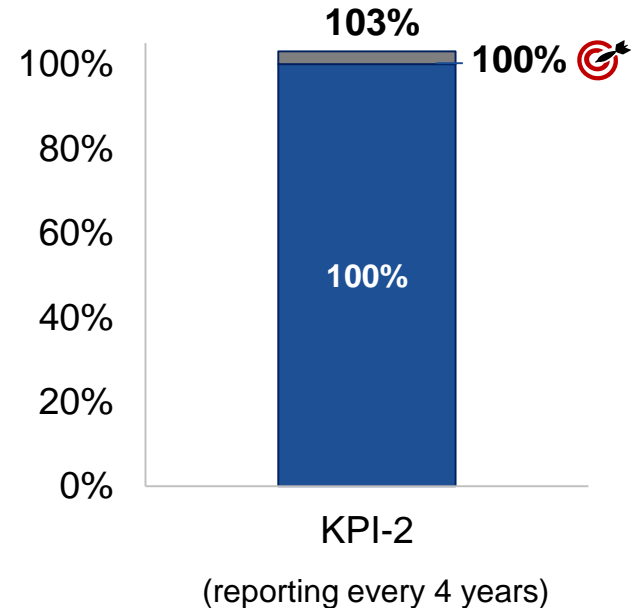
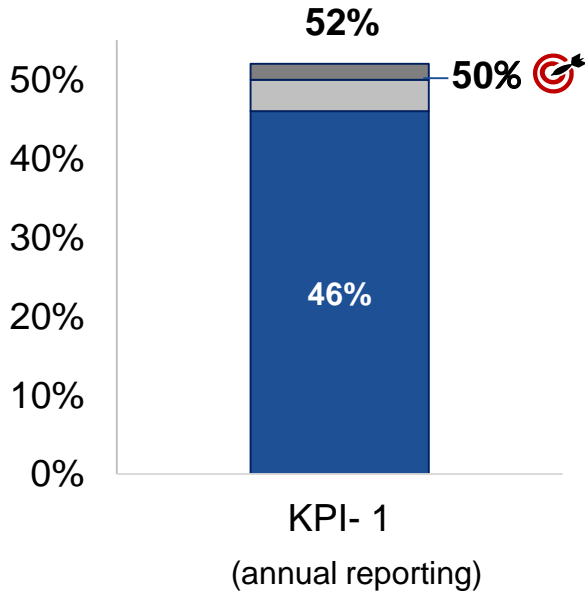


The **External Verification Report** conducted by the United Nations Developments Program (UNDP) concludes that the methodology and calculations applied for both KPIs are adequate, consistent, complete and transparent.



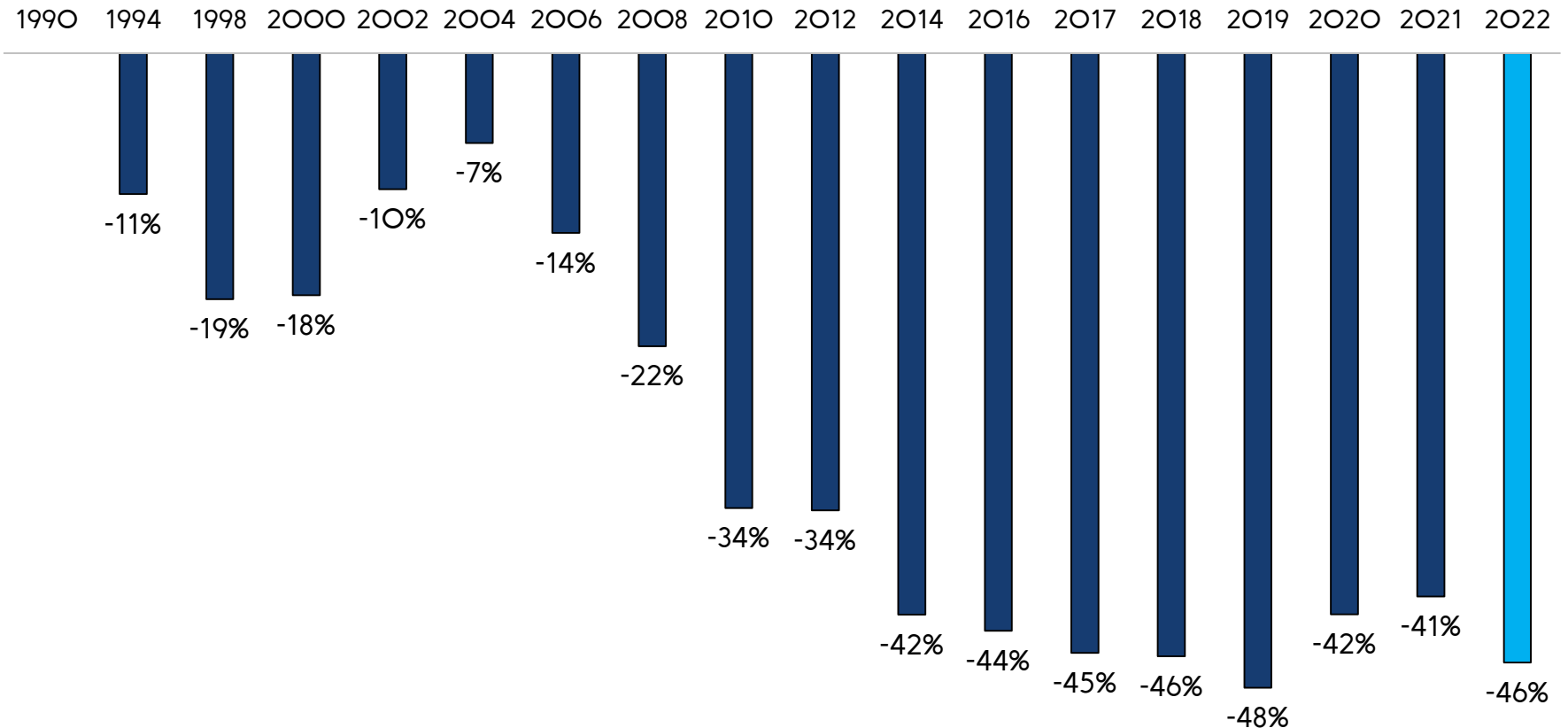
KPI-1: Reduction of GHG emissions intensity (compared to reference year 1990)		
SPT 1	-50%	
SPT 2	-52%	
Latest value	-46% (Year 2022)	

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





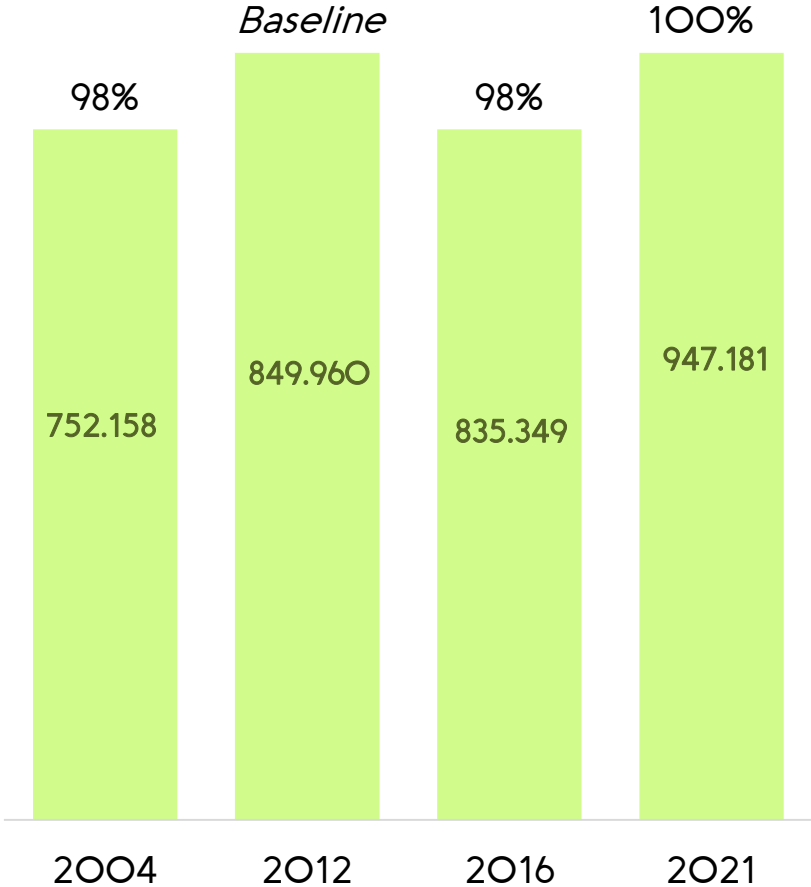
Uruguay's aggregate gross GHG emissions per GDP unit (% change compared to 1990)



(*) Considers the three global GHGs and the main 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.



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



Uruguay's Native Forest Cartography for 2021
Hectares, 2021



Source: Native Forest Report.

(II) In May 2024, Uruguay disbursed a Sovereign Sustainability Loan (SSL) from the World Bank.



- On May 2024, Uruguay signed the first ever environmental based loan with the World Bank.
- The loan embeds a:
 - **Key Performance Indicator (KPI):** Reducing the intensity of methane emissions of livestock per unit of beef produced
 - **Sustainable Performance Target (SPT):** Goals set for 2025 and 2030 under the Paris Agreement, with increasing ambition.
- **Innovative step down-only interest rate mechanism:** The interest rate will be reduced if Uruguay can lower the intensity of methane emissions from its livestock sector (which is an integral part of our economic fabric), beyond its Paris Agreement commitments. No financial penalty if targets are not met.





Only Positive financial incentives: the loan only has a **step-down mechanism**, reducing the interest rate paid if the country achieves its environmental performance targets. significant **evolution from the current paradigm in some MDBs**, where middle and high-income countries face negative financial incentives, as their borrowing rates for multilateral loans increase as they grow their GDP per capita.



Any potential reduction of the interest charged will be financed through the **repurposed IBRD's Fund for Innovation on Global Public Goods (FIGPG)**. Resources for this Trust Fund should not come only from WB's own balance sheet, but also through donors from advanced economies.



Sequential ambition: Uruguay committed to the achievement of incremental targets on climate and nature indicators.



Ongoing incentives: The assessment of interest buy-down will occur annually throughout the performance period, aiming to incentivize the continuous attainment of KPI targets throughout the loan's maturity.

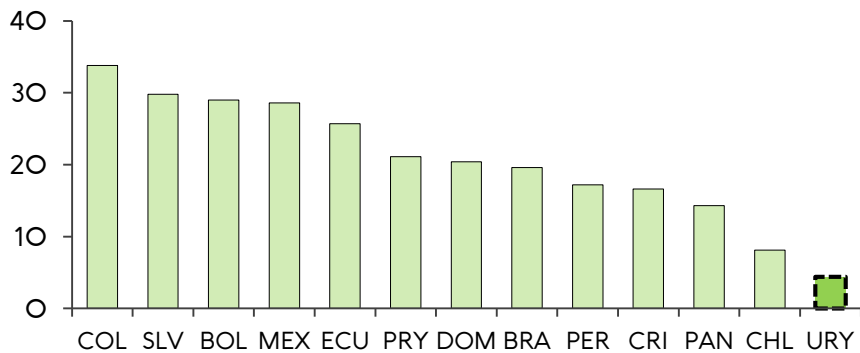


Multilateral collaboration: United Nations Development Program will independently verify the key environmental performance indicators, for enhanced transparency and accountability.

Uruguay has a relatively low poverty rate and gender inequality, and the highest share of middle class people in LatAm

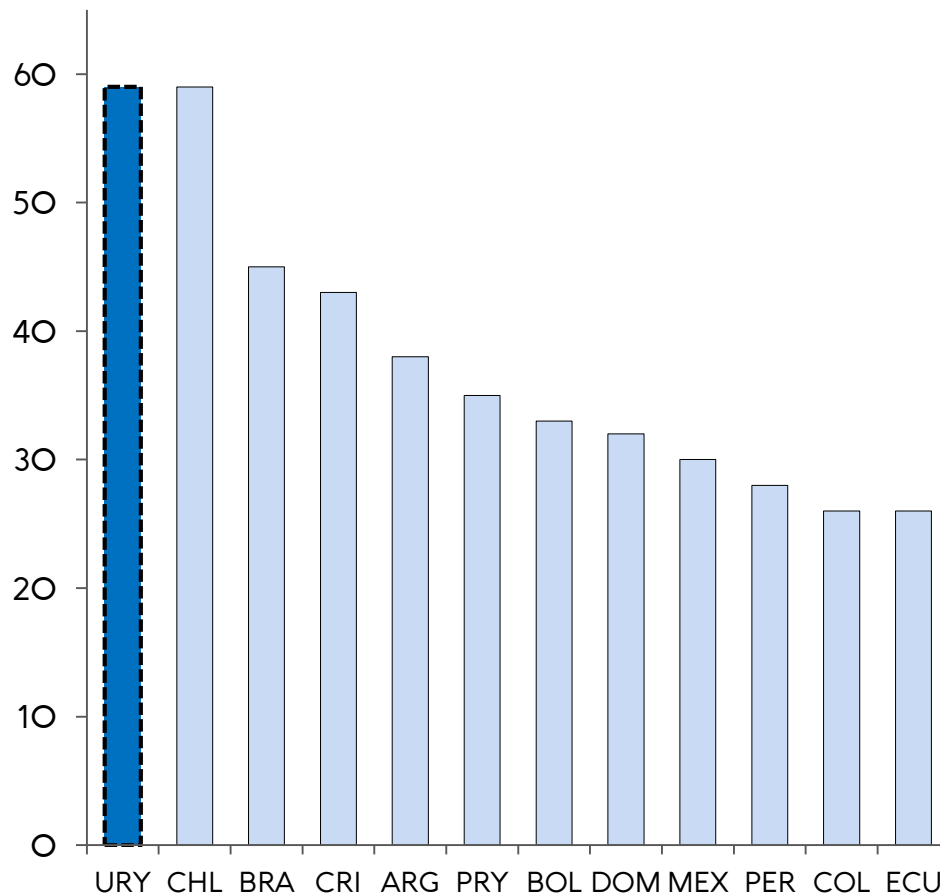


Poverty compared to LatAm (1)
(In % of total population, year 2022)*



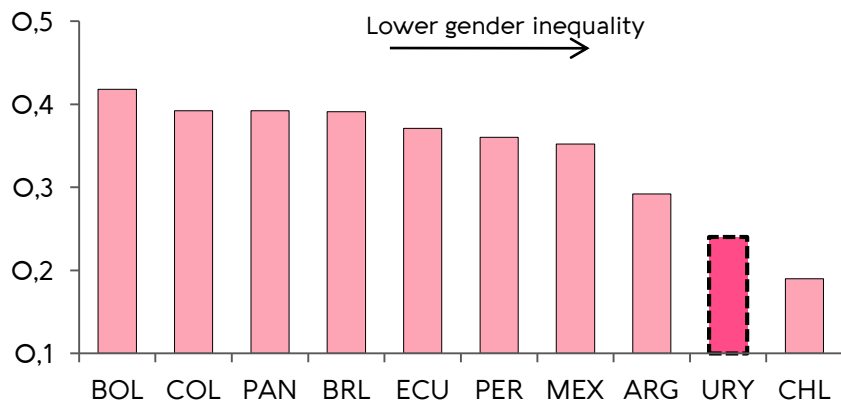
(* Except for Bolivia (2021) and Colombia (2021). Poverty rate for Argentina is not including because only considers urban areas)

Share of middle class people compared to LatAm (3)
(Year 2022, in % of total population)*



(* Except for Bolivia (2021), Colombia (2021), Dominican Republic (2021) and Peru (2021).

Gender inequality compared to LatAm (2)
(Inequality Index, 2022)



Lower gender inequality →

1) Source: ECLAC.

2) Source: United Nations Development Program (UNDP), Human Development Reports 2022; Gender Inequality Index is a composite measure reflecting inequality in achievement between women and men in three dimensions: reproductive health, empowerment and the labour market.

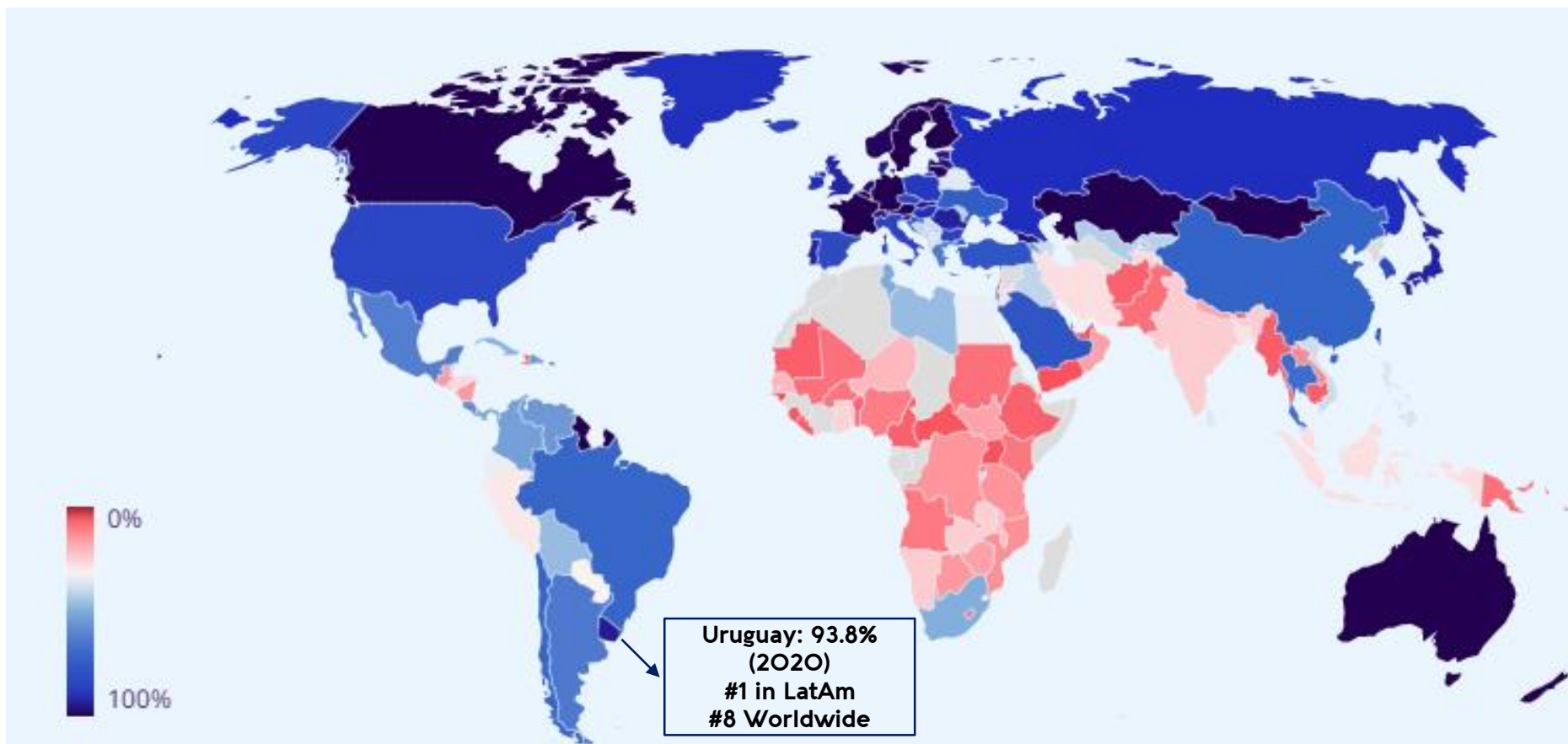
3) Source: Inter-American Development Bank; Middle class defined as percentage of population that lives in households with per capita income between USD 12,4 and USD 62 a day.

Uruguay provides the broadest social safety net in LatAm, which is also among the highest in the world



Social protection coverage

(Share of population covered by at least one social protection benefit, in %, latest year)



Source: International Labour Organization (ILO), ILOSTAT; The boundaries shown on this map do not imply endorsement or acceptance by the ILO; Last updated on 9 September 2022.

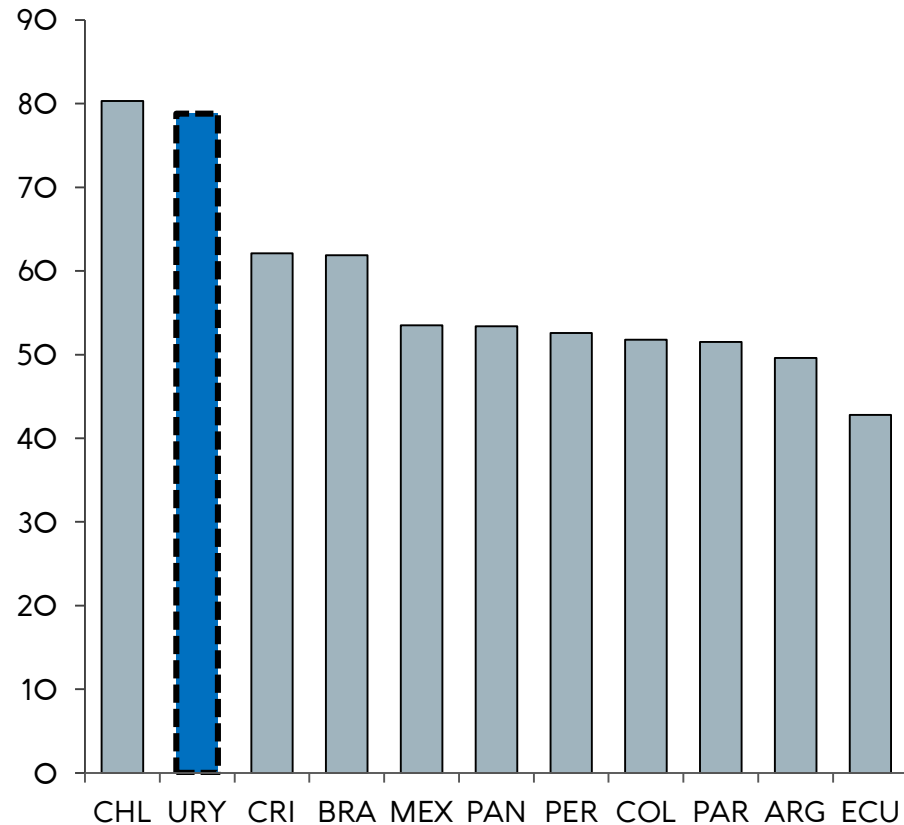
Proportion of the population covered by at least one social protection cash benefit: ratio of the population receiving cash benefits, excluding healthcare and sickness benefits, under at least one of the contingencies/ social protection functions (contributory or non-contributory benefit) or actively contributing to at least one social security scheme to the total population.

Uruguay has the highest GDP per capita and the most fair income distribution in LatAm



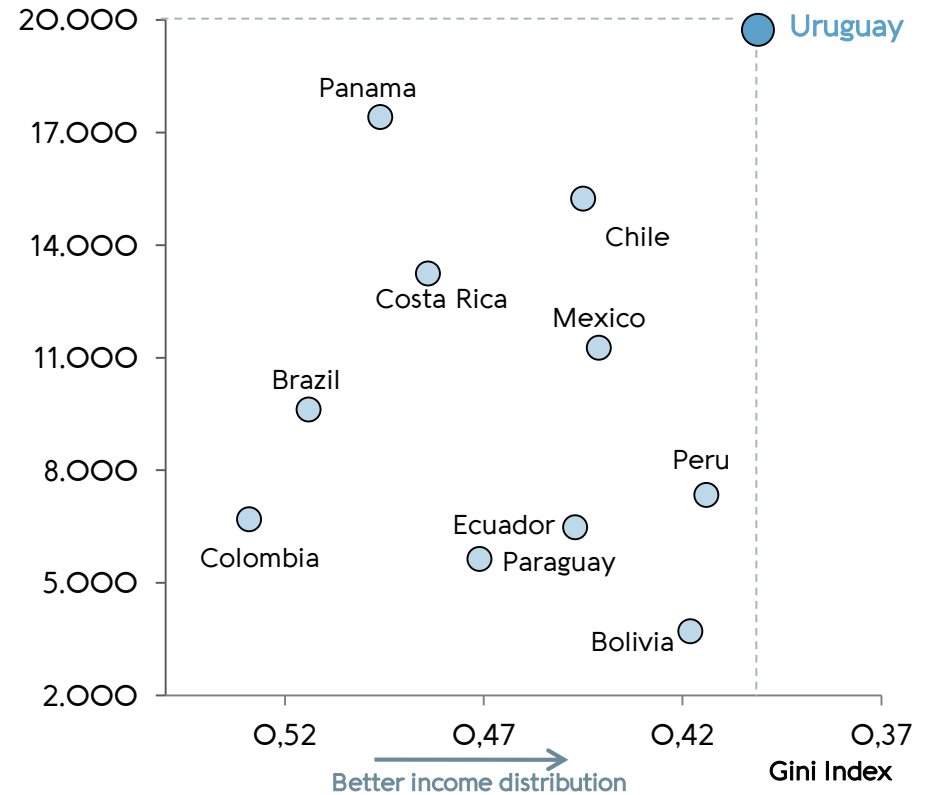
Labour market formality compared to LatAm (1)

(Formal employment rate, in %, year 2023)



GDP per capita and income distribution compared to LatAm (2)

(Gini Index year 2022; GDP per capita in nominal US\$ in 2022)



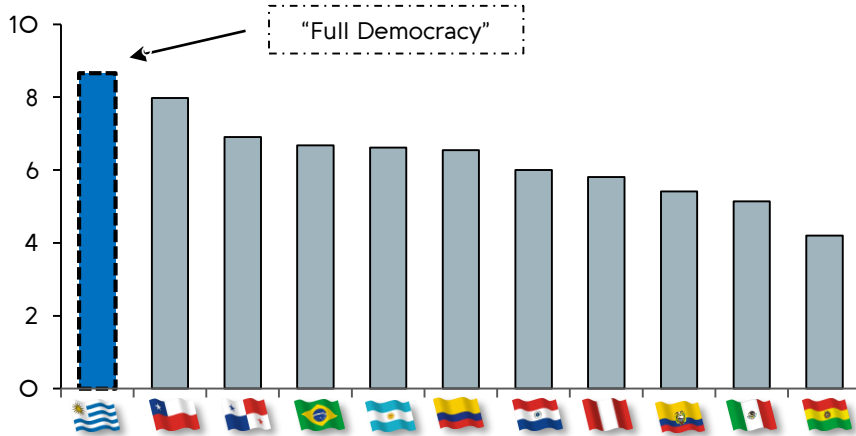
(*) Gini Index for Argentina is not including for only considers urban areas. Bolivia and Colombia Gini index are from 2021.

(1) Source: International Labour Organization (ILO), ILOSTAT, except for Uruguay. According to the ILO: Employees are considered to have informal jobs if their employment relationship is, in law or in practice, not subject to national labour legislation, income taxation, social protection or entitlement to certain employment benefits (advance notice of dismissal, severance pay, paid annual or sick leave, etc.). In the case of Uruguay, it uses the National Statistics Institute data, total data of 2023 referring to the "non-registered employees", i.e. a person who declares not to have the right to perceive a contributory retirement benefit from its current job.

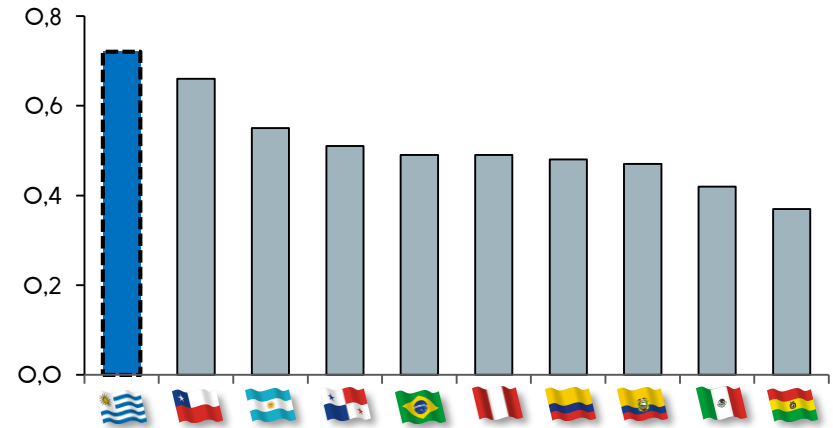
(2) Sources: ECLAC and IMF - WEO April 2024.



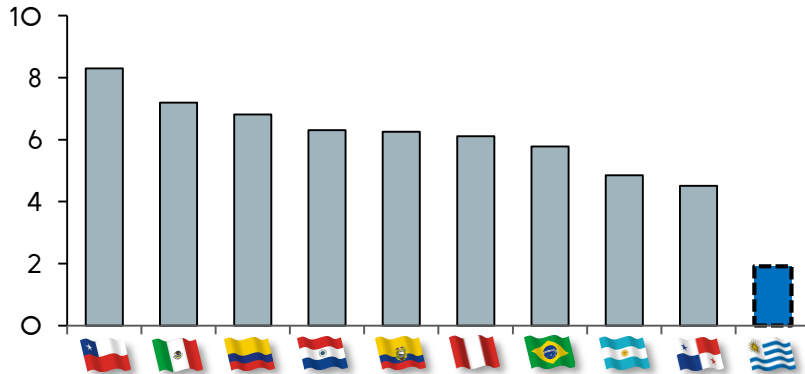
Democracy Index ⁽¹⁾
(Rank, year 2023)



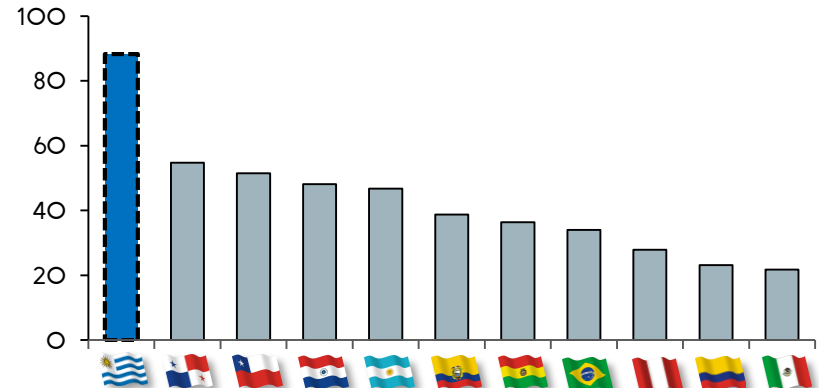
Adherence to the Rule of Law ⁽²⁾
(Numerical score out of 1, year 2023)



Civil Unrest ⁽³⁾
(Index out of 10, first quarter of 2020)



Political Stability and Absence of Violence/Terrorism ⁽⁴⁾
(Percentile rank, year 2022)



(1) Source: The Economist Intelligence Unit (2023).

(2) Source: World Justice Project (2023).

(3) Source: Verisk Maplecroft (2020).

(4) Source: Worldwide Governance Indicators (2022). World Bank.



CORRUPTION PERCEPTIONS INDEX 2023

With a Score of **73**, Uruguay has significantly lower perceived corruption that average of the main regions of the world

WESTERN EUROPE & EUROPEAN UNION

65/100

AVERAGE SCORE

ASIA PACIFIC

45/100

AVERAGE SCORE

AMERICAS

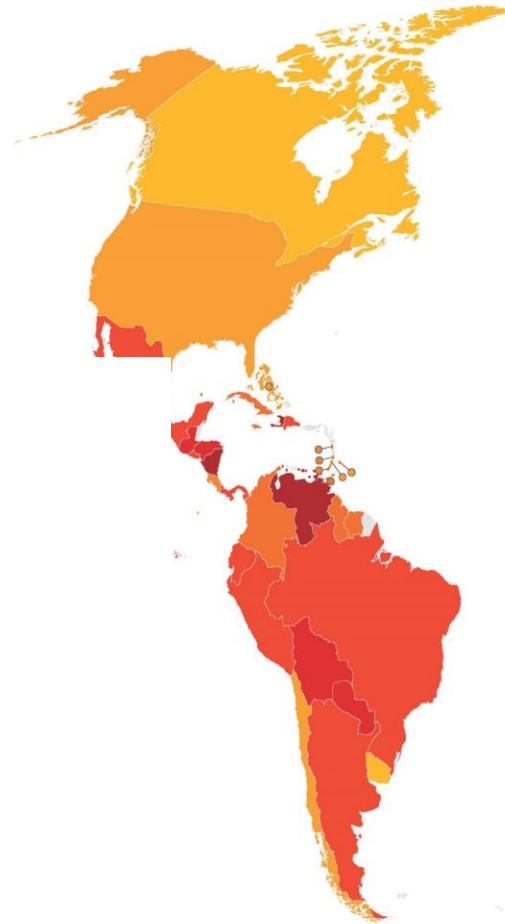
43/100

AVERAGE SCORE

ARAB STATES

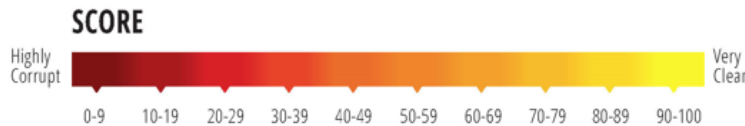
34/100

AVERAGE SCORE



SCORE COUNTRY/TERRITORY

76	Canada
73	Uruguay
69	Barbados
69	United States
66	Chile
64	Bahamas
60	Saint Vincent and the Grenadines
56	Dominica
55	Costa Rica
55	Saint Lucia
53	Grenada
44	Jamaica
42	Cuba
42	Trinidad and Tobago
40	Colombia
40	Guyana
40	Suriname
37	Argentina
36	Brazil
35	Dominican Republic
35	Panama
34	Ecuador
33	Peru
31	El Salvador
31	Mexico
29	Bolivia
28	Paraguay
23	Guatemala
23	Honduras
17	Haiti
17	Nicaragua
13	Venezuela



#CPI2023

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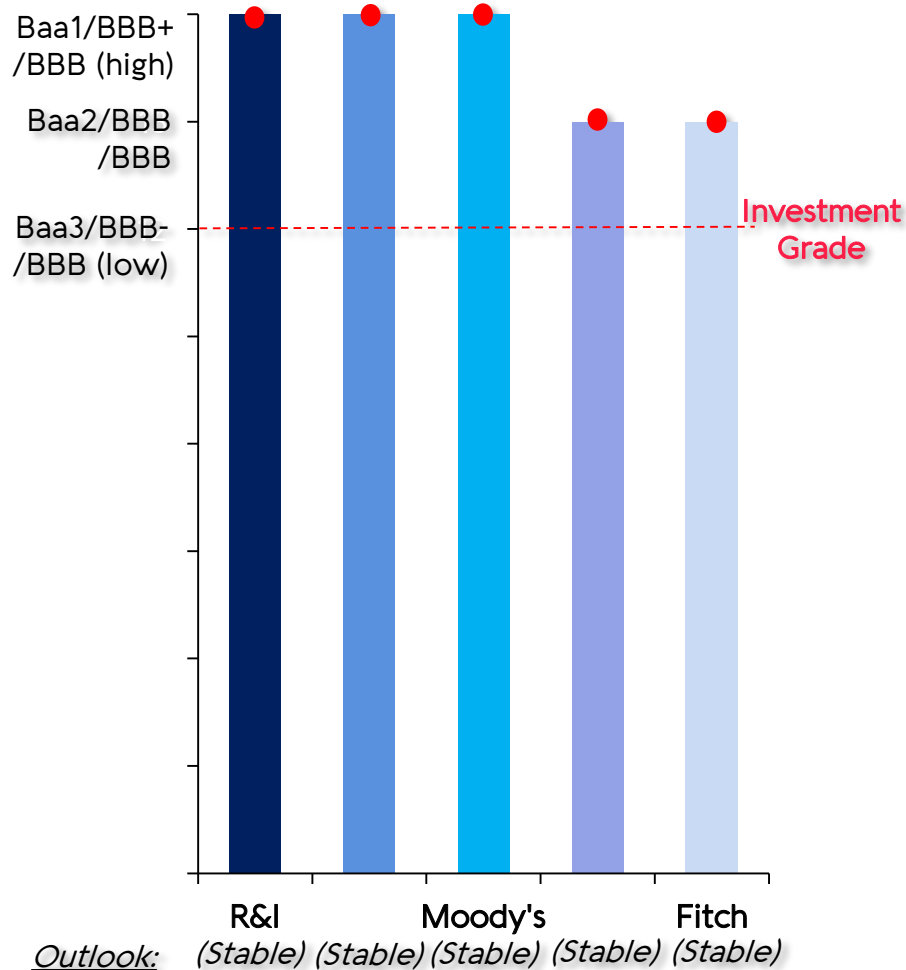
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Uruguay's is an investment grade, low-beta country, and has the lowest EMBI in Latam



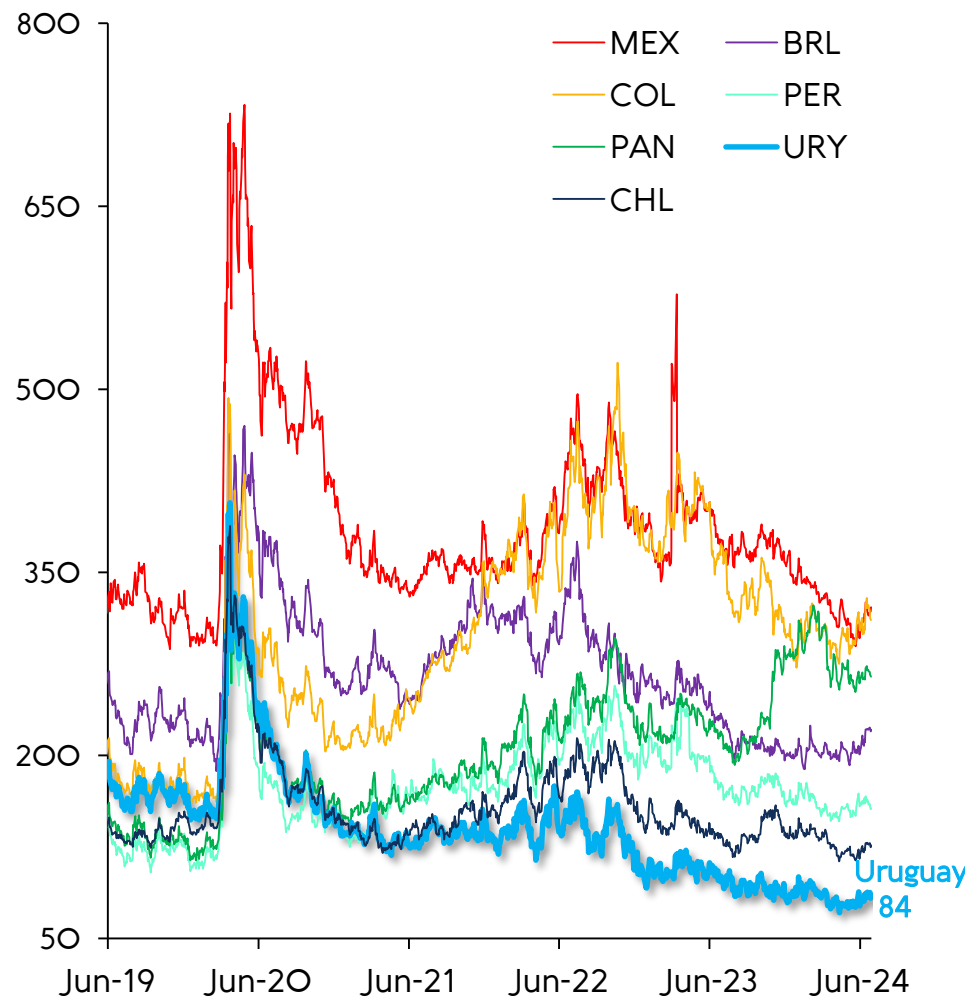
Uruguay's sovereign credit ratings (1)

(As of June, 2024)



Sovereign risk premia (2)

(EMBI spread, in bps. As of June 27, 2024)



(1) Source: Moody's, S&P, R&I, DBRS-Morningstar and Fitch.

(2) Source: Bloomberg.