Republic of Costa Rica

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Session 5

Innovative sovereign financing instruments

Melvin Quirós Romero
DMO Director.
16 de Mayo, 2023
Debt Overview

- 63.5% Debt/GDP 2022
- 2.1% Primary Deficit
- 7.5% Averg Gross Financial Needs to 2027
- BB Credit Rating last review
- Risk Metrics
  - 10% of Debt Stock Redemption in a Year
  - Almost 50% of Stock in next 5Y
  - 38% of Debt in US$
- 6.30% Yield to maturity 10Y Int. Market
- Local Market
  - 76% Local Market Debt
  - 8.35% YTM 10Y Benchmark CRC
  - Less than 2% hold by no residents
- 2.44% Interannual Inflation
Ministry of Finance is working with some Financial instruments around Climate Chance and Environmental Sustainability

**Multilateral and Bilateral Support**

Conventional PBL or DPL are use to promote and focus on Climate Chance Decarbonization Agenda and Natural Disaster Resilience. Including RSF from IMF.
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Global Environment Facility
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Amount other.
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- Amount other.

**ESG International Capital Market**

- Carbon Capture Certificated Deb for Natural Swap
- ESG Global Bonds. ESG framework under work.
### ESG International Capital Market

#### JP Morgan ESG EMBI

<table>
<thead>
<tr>
<th>Country</th>
<th>Average of ESG Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>CROATIA</td>
<td>83,5</td>
</tr>
<tr>
<td>BARBADOS</td>
<td>82,5</td>
</tr>
<tr>
<td>HUNGARY</td>
<td>81,9</td>
</tr>
<tr>
<td>URUGUAY</td>
<td>78,7</td>
</tr>
<tr>
<td>POLAND</td>
<td>77,2</td>
</tr>
<tr>
<td>CHILE</td>
<td>73,8</td>
</tr>
<tr>
<td>COSTA RICA</td>
<td>71,0</td>
</tr>
<tr>
<td>ROMANIA</td>
<td>70,5</td>
</tr>
<tr>
<td>UNITED ARAB EMIRATES</td>
<td>70,0</td>
</tr>
<tr>
<td>GEORGIA</td>
<td>68,9</td>
</tr>
<tr>
<td>PANAMA</td>
<td>66,5</td>
</tr>
<tr>
<td>JAMAICA</td>
<td>65,9</td>
</tr>
<tr>
<td>TRINIDAD AND TOBAGO</td>
<td>65,0</td>
</tr>
</tbody>
</table>

Even without an explicit label as an ESG, all Costa Rican International issuances are considered ESG and they are included in the JP Morgan ESG EMBI Index.
Costa Rica is a Global Leader in Environmental & Sustainable Development Matters

Recognized as a Leader in ESG Factors by Independent Entities Globally

Costa Rica is developing ambitious plans to become the world’s greenest nation

- Holds 5% of the world’s land-based biodiversity
- Holds 4% of the world’s marine life
- Produces +95% of its electricity from renewable resources
- Approximately 30% of its territory is protected natural land
- Electrical grid is over 95% free of emissions
- Forest area exceeds 52% of its territory

Costa Rica is committed to the Paris Agreement, demonstrated by its Nationally Determined Contribution (NDC)

<table>
<thead>
<tr>
<th>Unconditional Nationally Determined Contribution</th>
<th>% reduction compared to business-as-usual (BAU) by 2030 and a reduction of 25% of emission compared to 2012 emissions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nationally Determined Contribution 2</td>
<td>The revised mitigation target will comply with the 1.5°C roadmap of the long term strategy, strengthen adaptation pathways and targets for nature-based solutions, and clarify the scope of gases included in the first NDC</td>
</tr>
</tbody>
</table>

- WEF: Energy Transition Index (2021)
  Latin America and the Caribbean
- FRA: Naturally Regenerating Forest (2020)
  Latin America and the Caribbean
- Climate Watch: GHG emissions as a share of GDP (2019)
  Latin America and the Caribbean
- Climate Watch: GHG emissions as a share of GDP (2019)
  Latin America and the Caribbean
- World Bank Governance Indicators (WBGI) ranking (2022)
  Americas

Source: Costa Rica; WEF; FRA; Climate Action Tracker; World Bank; Fitch; World Economics
Is it an explicit ESG label important for Internacional Capital Market?
Costa Rica Intends to Measure, Monitor and Report on its Development Impact to Advance 7 of the 17 UN Sustainable Development Goals (SDGs)

- National Plan for Development and Public Investments 2023-2026
- National Decarbonization Plan 2018-2050
- National Plan for Climate Change Adaptation 2022-2026
- National Policy for Risk Management 2016-2030

**Development Initiatives**

- **Climate Change:** Advocating for climate change adaptation, risk mitigation and sustainable energy sources
  - Target 7.2: By 2030, increase substantially the share of renewable energy in the global energy mix.
  - Target 7.3: By 2030, double the global rate of improvement in energy efficiency.
  - Target 13.2: Integrate climate change measures into national policies, strategies and planning.

- **Social Development:** Advancing social development including healthcare and alleviating poverty
  - Target 1.1: By 2030, eradicate extreme poverty for all people everywhere, currently measured as people living on less than $1.25 a day.
  - Target 3.8: Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all.

- **Economic Development:** Promoting economic development and full employment
  - Target 8.3: Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services.

- **Education:** Advancing education and knowledge development, including relevant infrastructure
  - Target 4.7: Ensure that all learners acquire the knowledge and skills needed to promote sustainable development, through education.
  - Target 4.8: Build and upgrade education facilities that are child, disability and gender sensitive.
  - Target 9.c: Significantly increase access to information and communications technology and strive to provide universal and affordable access to the Internet in least developed countries by 2030.
Costa Rica
ESG
Framework
Construction

Some Trade off and decision making process
Costa Rica ESG Framework Construction

Some Trade off and decision making process

ESG o SLB

Benefits

• Positions Costa Rica as a leader in the sustainable finance space, potentially becoming one of only three sovereigns to issue an SLB
• Mainstreams Costa Rica's NDC
• Shows the market and different stakeholders the commitments of Costa Rica in a clear and measurable fashion.
• More flexible than use of proceed bonds
ESG o SLB

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**Considerations**
- Issuers who are already outperforming peers will likely find it more challenging to demonstrate the ambition of the given targets.
- Costa Rica last updated of NDCs was December 2020 and thus will resubmit its updated targets around December 2025.
- Requires major Inter-Ministerial coordination effort to manage annual SPT performance reporting and annual external verification
- Sustainability-Linked instruments are generally more sensitive to “greenwashing” claims than proceed based bonds.
- More political risk.
Governance

Who is going to lead the process and Process for Project Evaluation and Selection.

- Debt Management office
- Interdepartmental Committee

Interministerial Coordination

- Environmental (MINAE)
- Planning (MIDEPLAN)
Costa Rica
ESG
Framework
Construction

Some Trade off and decision making process

Project and Eligible Budget allocation

- Eligible Green Project Categories and Eligibility Criteria
- Definition of Target Population for Eligible Social Project Categories
- Eligible Social Project Categories and Eligibility Criteria
- Relationship with SDG
- Impact Indicators for Eligible Project Categories
Instruments to be Labeled

- Internacional Bonds
- Local Bonds
- Loans

Who will support the construction of Framework

- There is great interest from the entire international cooperation community to work together for the development of the Frameworks
- But don’t forget Investor point of view.
Thank You
Session 5

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