



Republic of Costa Rica



mh Ministerio de
Hacienda
COSTA RICA

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XXXV REGIONAL SEMINAR ON FISCAL POLICY

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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Concessional Resources

Global Environment Facility
Global Concessional Financing Facility
Amount other.

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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

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

Instrument	Issue Date	Maturity Date
CR Republic 4 3/8% due 25	30-abr-13	30-abr-25
CR Republic 5 5/8% due 43	30-abr-13	30-abr-43
CR Republic 6 1/8% due 31	19-nov-19	19-feb-31
CR Republic 7% due 44	4-abr-14	4-abr-44
CR Republic 7.158% due 45	12-mar-15	12-mar-45

Even without an explicit label as an ESG , all Costa Rican International issuances are consider 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 +99% 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)

<i>Unconditional Nationally Determined Contribution</i>	% reduction compared to business-as-usual (BAU) by 2030 and a reduction of 25% of emission compared to 2012 emissions
<i>Nationally Determined Contribution 2</i>	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



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

**Is it an explicit ESG label important
for International 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)



Costa Rica is including a development impact section that highlights their main plans for environmental and social development, including specific metrics related to the following initiatives. The Sovereign has committed to report against these metrics annually, based on the following public plans:

- National Plan for Development and Public Investments 2023-2026¹
- National Decarbonization Plan 2018-2050²
- National Plan for Climate Change Adaptation 2022-2026³
- National Policy for Risk Management 2016-2030⁴

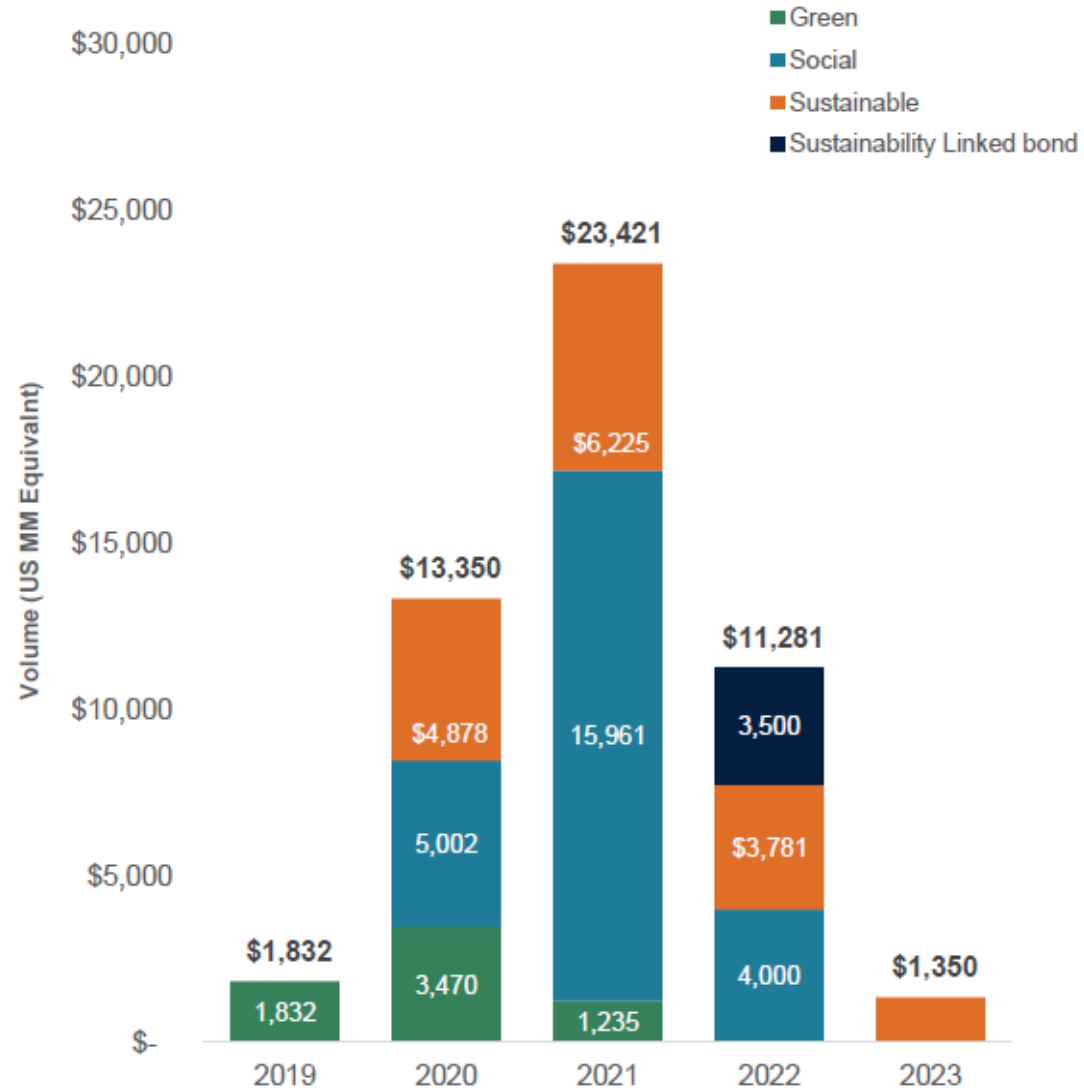
Development Initiatives	UN SDG Targets ⁵	
<p>Climate Change: Advocating for climate change adaptation, risk mitigation and sustainable energy sources</p>	 	<p>Target 7.2: By 2030, increase substantially the share of renewable energy in the global energy mix. Target 7.3: By 2030, double the global rate of improvement in energy efficiency Target 13.2: Integrate climate change measures into national policies, strategies and planning.</p>
<p>Social Development: Advancing social development including healthcare and alleviating poverty</p>	 	<p>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.</p>
<p>Economic Development: Promoting economic development and full employment</p>		<p>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.</p>
<p>Education: Advancing education and knowledge development, including relevant infrastructure</p>	 	<p>Target 4.7: Ensure that all learners acquire the knowledge and skills needed to promote sustainable development, through education. Target 4.a: 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.</p>

Costa Rica ESG Framework Construction

Some Trade off
and decision
making process

ESG o SLB

2017 to 2023YTD Latin America Sovereign Green, Social, Sustainable and Sustainability Linked Bonds - By ESG Bond Type



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

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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.

Costa Rica ESG Framework Construction

Some Trade off
and decision
making process

Governance

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

- Debt Management office
- Interdepartmental Committee

Interministerial Coordination

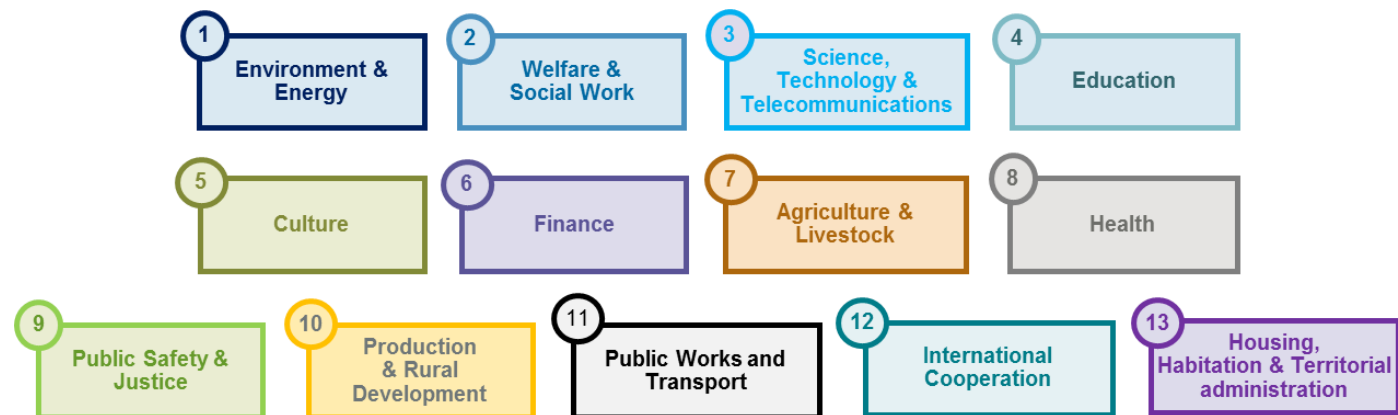
- Environmental (MINAE)
- Planning (MIDEPLAN)

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



Costa Rica ESG Framework Construction

Some Trade off
and decision
making process

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

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