

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

CHILE

**PROGRAM FOR TRANSITION TOWARDS A
CARBON-NEUTRAL AND RESILIENT ECONOMY**

(CH-L1179)

LOAN PROPOSAL

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ABBREVIATIONS	
AFD	Agence Française de Développement (French Development Agency)
CAF	Corporación Andina de Fomento (Andean Development Corporation)
CGR	Contraloría General de la República (Office of the Comptroller General of the Republic)
CO ₂ eq	Carbon dioxide equivalent
DIPRES	Dirección de Presupuestos (Budget Directorate)
ECLP	Estrategia Climática de Largo Plazo (Long-term Climate Strategy)
EIAS	Environmental Impact Assessment System
ENB	Estrategia Nacional de Biodiversidad 2017-2030 (National Biodiversity Strategy 2017-2030)
EPR	Environmental performance review
GHG	Greenhouse gas
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (German Agency for International Cooperation)
IEMA	Informe del Estado del Medio Ambiente 2020 (Environmental Status Report)
ILO	International Labour Organization
IMF	International Monetary Fund
LMCC	Ley Marco de Cambio Climático (Framework Law on Climate Change)
MDB	Multilateral development bank
MMA	Ministry of the Environment
NDC	Nationally Determined Contribution
OECD	Organisation for Economic Co-operation and Development
PBP	Programmatic policy-based loan
PCR	Project completion report
SEA	Servicio de Evaluación Ambiental (Environmental Assessment Service)
SINADER	Sistema Nacional de Declaración de Residuos (National Waste Declaration System)
SINIA	Sistema Nacional de Información Ambiental (National Environmental Information System)
SMA	Superintendencia del Medio Ambiente (Environmental Superintendent's Office)
SOFR	Secured Overnight Financing Rate

PROJECT SUMMARY

CHILE

**PROGRAM FOR TRANSITION TOWARDS A CARBON-NEUTRAL AND RESILIENT ECONOMY
(CH-L1179)**

Financial terms and conditions						
Borrower:			Flexible Financing Facility^(a)			
Republic of Chile			Amortization period:	20 years		
Executing agency:			Disbursement period:	2 years		
Borrower, acting through the Ministry of the Environment			Grace period:	5.5 years ^(b)		
Source	Amount (US\$)	%	Interest rate:	SOFR-based		
IDB (Ordinary Capital):	100,000,000	100	Credit fee:	^(c)		
			Inspection and supervision fee:	^(c)		
Total:	100,000,000	100	Weighted average life:	12.75 years		
			Currency of approval:	U.S. dollar		
Project at a Glance						
<p>Objective/description: The program's general objective is to support Chile's transition towards a carbon-neutral and resilient economy. The specific objectives are: (i) to accelerate climate planning in strategic sectors and at the national, regional, and municipal government levels; (ii) to strengthen the institutional structure related to environmental and climate management; and (iii) to incentivize public and private carbon-neutral and resilient investments through the introduction of regulations and policies. This is the first of two consecutive loan operations, each with a sole disbursement, that are technically linked but financed independently under the programmatic policy-based loan (PBP) modality, in accordance with document CS-3633-2, "Policy-based Loans: Guidelines for Preparation and Implementation."</p>						
<p>Special contractual conditions precedent to the sole disbursement of the financing: The sole disbursement of the loan proceeds for this operation is contingent on the borrower's fulfillment, to the Bank's satisfaction, of the policy reform conditions as established in the Policy Matrix (Annex II), the Policy Letter, and the other conditions established in the loan contract (paragraph 3.3).</p>						
<p>Exceptions to Bank policies: None.</p>						
Strategic Alignment						
Objectives:^(d)	O1 <input type="checkbox"/>		O2 <input checked="" type="checkbox"/>		O3 <input checked="" type="checkbox"/>	
Operational Focus Areas:^(e)	OF1 <input checked="" type="checkbox"/>	OF2-G <input checked="" type="checkbox"/> OF2-D <input checked="" type="checkbox"/>	OF3 <input type="checkbox"/>	OF4 <input checked="" type="checkbox"/>	OF5 <input type="checkbox"/>	OF6 <input checked="" type="checkbox"/> OF7 <input type="checkbox"/>

^(a) Under the terms of the Flexible Financing Facility (FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency, interest rate, commodity, and catastrophe protection conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

^(b) Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.

^(c) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with applicable policies.

^(d) O1 (Reduce poverty and inequality); O2 (Address climate change); and O3 (Bolster sustainable regional growth).

^(e) OF1 (Biodiversity, natural capital, and climate action); OF2-G (Gender equality); OF2-D (Inclusion of diverse population groups); OF3 (Institutional capacity, rule of law, and citizen security); OF4 (Social protection and human capital development); OF5 (Productive development and innovation through the private sector); OF6 (Sustainable, resilient, and inclusive infrastructure); and OF7 (Regional integration).

I. PROJECT DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

- 1.1 **Macroeconomic context.** Chile's GDP grew steadily between 2010 and 2019 at an average of 3% a year. In 2020, the economic crisis in the wake of the pandemic led to a GDP decline of 6.2%. In response, the Government of Chile increased public spending and implemented intensive immunization programs. The economy recovered in 2021 (+11.9%) and saw higher year-on-year growth (+5.6%) than in the majority of countries of the Organisation for Economic Co-operation and Development (OECD). The gradual withdrawal of fiscal and monetary stimulus was one of the factors behind GDP growth of just 2.4% in 2022 and 0% in 2023.¹ For the next two years, GDP is expected to grow 1.9% in 2024 and 2.5% in 2025.² The fiscal deficits in 2020 and 2021, chiefly intended to counteract the economic contraction caused by the pandemic (7.3% and 7.7% of GDP respectively), pushed the central government's gross public debt to 36.3% of GDP in 2021 and 38% in 2022, higher than observed pre-pandemic, when the numbers were around 27% of GDP.³
- 1.2 **Chile is facing challenges in decoupling its economic growth from the generation of emissions of greenhouse gases (GHGs) and other atmospheric pollutants.** Despite progress on climate, including passage in 2022 of the Framework Law on Climate Change (LMCC) and an increased share of renewables in the energy matrix,⁴ Chile needs to step up the decoupling of economic growth from a series of environmental pressures rising as a consequence of the country's high vulnerability to the impact of climate change.⁵ In the last 10 years, GHG emissions have grown apace with the economy. In 2023, GHG emissions were 101,558 kilotons of carbon dioxide equivalent (ktCO₂eq), a 95% increase since 1990. The main source of GHG emissions in Chile is the energy sector, which accounts for 73% of the total.⁶ The remaining emissions are distributed among the agricultural sector (11%), waste (6%), and industrial processes (10%). The main GHG emission is carbon dioxide (76%), followed by methane (14%), nitrous oxide (6%), and fluoridated gases (4%). Chile has the highest per capita CO₂ emissions of any country in Latin America and the Caribbean, more than double the figure for Brazil (2.1), Uruguay (1.9), and Peru (1.7) and near the levels of industrialized countries such as the United Kingdom

¹ IMF, 2024.

² IMF, 2024

³ Central Bank of Chile, Statistical Database.

⁴ Between 2012 and 2022, Chile's [electricity generation matrix has seen growth in the share of nonconventional renewable sources](#). Solar, wind, and geothermal energy, taken together, have increased their capacity from 197 MW (2012) to 12,428 MW (2022). When hydraulic generation is included, renewable energies (in 2022) accounted for 62% of installed capacity and 58% of generation. However, electric power generation based on fossil fuels is still substantial with 12,632 MW installed capacity in 2022, a figure that has remained relatively unchanged since 2013.

⁵ Environmental Performance Review (EPR): Chile 2024, OECD.

⁶ EPR, 2025. The data are for the year 2023. In the energy sector, emissions mainly come from burning coal and natural gas to generate electricity and from fuel for transportation. About 30% comes from fossil fuels burned for transportation, [National Greenhouse Gas Inventory \(INGEI\), 2022](#).

(5.2), France (4.5), or Spain (5.1).⁷ Apart from GHG emissions, the continuing dependence on fossil fuels for power generation, transportation, and industrial activities affects air quality, which continues to be a major challenge for the country.⁸ Chile has made progress in reducing PM10 particulates and sulfur dioxide emissions, which fell, respectively, by 3% and 80% between 2016 and 2021. However, in that same time frame, other atmospheric pollutants such as fine particulate matter (PM_{2.5}), nitrogen oxides (NO_x), nonmethane volatile organic compounds, and carbon monoxide grew 8%, 17%, 21%, and 25%, respectively. In some cases, such as PM_{2.5}, they exceed World Health Organization guidelines.⁹

- 1.3 **Chile is highly vulnerable to the impact of climate change, which has deepened the water crisis, the frequency and intensity of natural disasters, and the loss of natural capital.** According to the Global Climate Risk Index, Chile ranks 25th out of 182 countries studied, and presents seven of the nine characteristics that denote climate vulnerability.¹⁰ At the local level, the ARClm Climate Risks Atlas indicates that 84% (307) of the country's 345 communes are subject to one or more high climate risks, including heat waves, forest fires, and floods. According to the Climate Threats Explorer, in the period 2035-2065 temperatures everywhere in the country are expected to rise by between 1.15°C and 2°C compared to 1980-2010.¹¹ This is reflected in an increase in extreme temperatures with more frequent and intense heat waves, which affect economic productivity as well as public health, particularly for vulnerable groups.¹²
- 1.4 **Climate change is intensifying the water crisis.** Chile has been suffering from drought and water deficit for more than a decade now. Average rainfall has declined significantly, particularly in the central zone. Counting 2022, 16 consecutive years have been recorded with precipitation below the 1961-1990 average with a reported water shortage of 20%.¹³ In the coming years, the Andes snowpack is expected shrink significantly as a result of the decline in rainfall and an increase of 0°C in the isotherm.¹⁴ The hardest hit areas will be the foothills and the fiords in the far south, where the reduction may reach 100%.¹⁵ In the center of the country, the shrinkage of the snowpack will reduce meltwater runoff by up to 40%. The rise in temperature and water stress have also reduced the surface area of the glaciers, which are the country's main reserve of fresh water, affecting the capacity to recharge aquifers. More than 2000 square kilometers of glacial surface

⁷ [CO₂ emissions](#) based on Climate Watch. 2020. [Human-caused green-house gas \(GHG\) emissions](#). Washington, D.C.: World Resources Institute.

⁸ Chile has the highest mortality attributable to air pollution in Latin America. OECD (2020), Environmental risks and health: Exposure to air pollution.

⁹ EPR, 2024.

¹⁰ Chile presents seven of the nine characteristics defined by the United Nations Framework Convention on Climate Change, including: low-lying coastal areas, arid and semiarid areas, forested areas and areas liable to forest decay, areas prone to socio-natural disasters, areas liable to drought and desertification, areas of high urban atmospheric pollution, and areas with fragile ecosystems, including mountainous ecosystems.

¹¹ Long-term Climate Strategy (ECLP), 2021.

¹² [Talbot-Wright and Vogt-Schilb, 2023](#).

¹³ [Reporte anual de la evolución del clima en Chile 2022](#) (Annual report on climate change in Chile 2022).

¹⁴ [Intergovernmental Panel on Climate Change \(IPCC\), 2022](#).

¹⁵ EPR, 2024.

area and more than 200 glaciers have disappeared in recent years.¹⁶ These climate change impacts on the hydrological cycle are generating increased competition for water and a rise in social confrontations, including conflict with Indigenous communities.¹⁷

- 1.5 **Climate change is increasing the frequency and intensity of natural disasters.** Over the last ten years, the country has experienced an increase in the frequency and severity of different kinds of natural disasters. The increase in forest fires has been particularly significant and has had a major impact on agriculture, ecosystems, and infrastructure in much of the country.¹⁸ In 2023 the Chilean government assessed the losses and damage associated with biggest extreme hydrometeorological events that had occurred in the period 2012-2023, estimating their cost at US\$1.73 billion.¹⁹
- 1.6 **Climate change is affecting natural capital and biodiversity.** In Chile, a country with more than 1,300 species of flora and fauna,²⁰ natural capital is a pillar of the economy, not just because of its contribution to the agriculture, aquaculture, forestry, and tourism sectors, but because of the ecosystem services it provides, including higher water availability, carbon absorption, reduced air pollution, temperature control, and disaster risk mitigation, which are fundamental for mitigating GHG emissions and building resiliency to the adverse impacts of climate change.²¹ Forests, for example, are the country's main carbon sink, capturing around 0.9 to 1.2 megatons of carbon dioxide equivalent (MtCO₂eq) per year. Accordingly, ecosystem conservation is prioritized by the government as a means of increasing its adaptation capacity.²² Although Chile has made significant gains in expanding its protected land areas (22% of the total), climate change is having a negative impact on natural capital and biodiversity throughout the country.²³ Although the central-south zone is most exposed to climate risk, the central zone is experiencing a significant reduction in the surface area of its ecosystems, with 19 classified as critically endangered, endangered, or vulnerable. The rise in temperatures is also increasing the frequency and intensity of forest fires, which destroyed over 50,000 hectares of forest in 2023 alone.
- 1.7 To deal with these challenges, **Chile has been addressing climate change as a government policy.** In recent years, the Government of Chile has taken

¹⁶ According to the [Atlas del agua y glaciares andinos \(2018\)](#) (Atlas of Andean water and glaciers), the glaciers in temperate zones of the Andes are receding, including the Jorge Montt Glacier (19.5 km) and O'Higgins Glacier (14.6 km).

¹⁷ EPR, 2024.

¹⁸ Recent forest fires in the urban-rural interface near Viña del Mar caused more than 120 fatalities and [economic losses exceeding US\\$1 billion and a fiscal cost of nearly US\\$500 million](#).

¹⁹ Methodology and evaluation of losses and damage cause by extreme climate events for Chile. MMA, 2024. The events studied include droughts, mudslides, floods, tidal waves, heat waves, and forest fires and took account of damage to housing, victims, deaths, and fiscal spending reported.

²⁰ Fifth Biennial Update Report to the United Nations Framework Convention on Climate Change, 2022.

²¹ Katz, E (2024): [Enfoques de capital natural: Experiencia internacional y recomendaciones para su implementación en Chile](#) (Natural capital approaches: International experience and recommendations for their implementation in Chile).

²² The [National Biodiversity Strategy \(ENB\)](#) establishes that "by 2030 at least 15% of the degraded and threatened ecosystems prioritized by the country will be restored for adaptation to climate change."

²³ National Registry of Protected Areas, Biodiversity and Information Monitoring System (SIMBIO).

significant steps on its environmental and climate agenda, becoming one of the Latin American and Caribbean countries with the highest levels of climate commitment, according to the [Climate Action Tracker](#).²⁴ In 2015, the government approved its first Nationally Determined Contribution (NDC), committing to achieve GHG neutrality and climate resilience by 2050 in line with the Paris Agreement objectives.²⁵ In April 2020, deepening its climate commitment, Chile presented the Update of its NDC, adding intermediate targets for the period 2025-2030 related to GHG mitigation and short-lived climate pollutants, adaptation and resilience, including such aspects as water security, the circular economy, and ecosystem protection. The commitment to halt growth in GHG by 2025 and limit aggregate GHG emissions to 1,1000 MtCO₂eq between 2020 and 2030 stands out among the medium-term targets. In 2022, the country strengthened its commitments by adding an annex to the NDC on the specific reduction of methane.²⁶

- 1.8 **Chile is one of the few countries of Latin America and the Caribbean with a Long-term Climate Strategy and a climate change law.** In 2021 Chile prepared its first Long-term Climate Strategy as the roadmap for the country's climate policy that defines, among other things, a carbon dioxide equivalent emissions budget (cap) by sector. In August 2022 Chile took another important step with the promulgation of its Framework Law on Climate Change (LMCC) ([Law 21455](#)), whose objective is to establish the institutional scaffolding for addressing climate change and formalize the legally binding commitment established in its NDC to achieve a resilient economy and zero net emissions by 2050. Accordingly, the LMCC defined: (i) a governance system; (ii) instruments for managing climate change in both mitigation and adaptation; and (iii) specific roles for the sector ministries and subnational governments. The law tasked the Ministry of the Environment (MMA) with coordinating implementation of climate policy, delegating the power and authority to implement policy to the sector ministries and regional and municipal governments. One of its provisions requires the regional and municipal governments to prepare climate action plans with the objective of speeding up emissions reduction and improving resilience in their jurisdictions and fields of action. Within this framework, the LMCC established the need to put the following climate planning tools in place by 2025: (i) sector mitigation plans to reduce or absorb GHGs and not exceed the emissions budget allocated to each sector authority (national ministry);²⁷ (ii) sector adaptation plans to facilitate climate change adaptation for the most vulnerable sectors of the economy and define

²⁴ Chile calculated the net benefits of the transition to carbon neutrality as 5.2% of GDP, demonstrating that the transition will bring economic benefits and opportunities. More than 10,000 green jobs were estimated to exist in 2018 ([Benavides et al., 2021](#)).

²⁵ Article 6 establishes guidelines for developing a carbon market between countries and private parties, for example, trading carbon credits between countries or selling international credits that a company can use to offset its GHG emissions by investing in emissions-reduction projects elsewhere.

²⁶ NDC, 2022.

²⁷ The law mandates the development of sector mitigation plans by the following seven ministries: (i) energy; (ii) transportation and telecommunications; (iii) mining; (iv) health; (v) agriculture; (vi) public works; and (vii) housing and urban development, which are to be ready by 2025 at the latest.

tangible actions and targets for resilience;²⁸ (iii) regional and communal climate change action plans to consolidate the actions of the sector plans implemented locally and define additional actions to be taken in the same region; and (iv) watershed strategic water resource plans to define measures for safeguarding water security against the adverse impacts of climate change. The LMCC also required climate change to be included in the Environmental Impact Review System, making it mandatory for project proposals to be evaluated on climate change, and established the need to develop a national climate information system that makes all relevant information associated with climate change available to the public.

- 1.9 The NDC, the Long-term Climate Strategy, and the LMCC form the government's framework for moving towards a resilient economy with zero net emissions by 2050. Despite the progress represented by developing a legal and regulatory framework of this kind, it is now necessary to make climate action a reality in the public and private sectors, to reduce the cost of climate change inaction and enable the transition towards economic growth that has low emissions and greater adaptive capacity.²⁹ Chile needs to progress in developing a body of policies to govern and accelerate implementation of this legal and regulatory framework, including the adoption of climate targets in the different sector ministries and subnational governments, as well as in the private sector. According to a recent OECD report, the country is not on course to reach its carbon neutrality and resilience target by 2050.³⁰ To reverse this trend (Figure 1), it will be necessary to surmount a series of limiting factors for the country to meet its climate commitments and targets. The factors are: (i) limited climate planning capacity in the different areas and levels of government (national and subnational), aggravated by the short deadlines stipulated in the LMCC for developing the different climate planning tools mandated in that law; (ii) the weak and fairly recent institutional structure for environmental and climate change management; and (iii) insufficient regulations and policies to facilitate the alignment of public and private investments with carbon neutrality and resilience.³¹

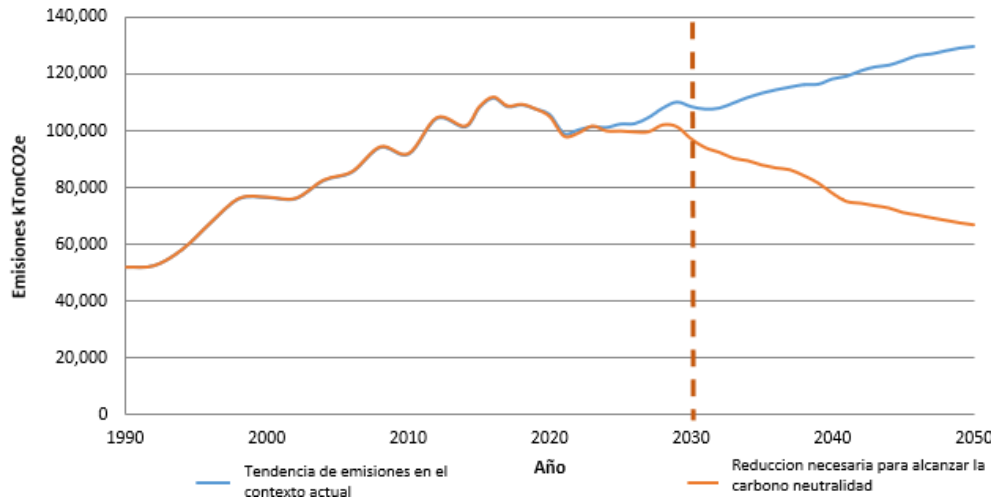
²⁸ In Article 9, the law calls for the preparation of the following 12 sector adaptation plans: (i) biodiversity; (ii) water resources; (iii) infrastructure; (iv) health, with a focus on solid waste management; (v) mining; (vi) energy; (vii) forestry and agriculture; (viii) fishing and aquaculture; (ix) cities; (x) tourism; (xi) coastal zones; and (xii) transportation. The procedure for approving those plans (for both adaptation and mitigation) is given in [MMA Decree No. 16/2023](#), which establishes the following stages: (1) **starting resolution**; (2) **preparation of preliminary draft**; (3) **public consultation**; (4) **preparation of final version**; (5) **process completion**, which involves submitting the final version to Chile's president for consideration by the Sustainability and Climate Change Cabinet and subsequent approval via supreme decree issued by the responsible authority.

²⁹ The costs of inaction vary by sector. For example, income shrinkage in a scenario without adaptation policies translates into a drop of 10% of GDP from forestry and agriculture. "[Los costos asociados a la inacción frente al CC en Chile, ECLAC, 2023](#)" (The costs associated with climate change inaction in Chile, ECLAC, 2023).

³⁰ [EPR: Chile 2024](#), OECD.

³¹ These limiting factors have been pointed out in various studies, in particular: [EPR: Chile 2024](#), OECD; and [National Biodiversity Strategy](#).

Graph1. Projected total GHG emissions by 2050



Source: MMA, 2024. The data on emissions do not include GHG absorption by agriculture, forestry, and other land uses (AFOLU).

1.10 **Factor 1. Limited climate planning capacity in the different areas and levels of government.** Achieving carbon neutrality and resilience by 2050 calls for crosscutting actions, not just in strategic sectors (national ministries) but at subnational levels of government. The impacts of climate change occur ultimately at the local level, making it highly important to build regional and municipal government capacity for planning and activating the climate agenda at the local level. For this reason, to promote the incorporation of climate targets into public sector management at all levels, the LMCC mandates the development of climate planning tools not just at the ministry level but at subnational levels of government. Under this approach, the tools envisaged by the law include: (i) 7 sector climate change mitigation plans; (ii) 12 sector climate change adaptation plans; (iii) 16 regional climate change adaptation plans, one per region; (iv) 345 communal climate change action plans, one per municipality; and (v) one strategic water resource plan for each watershed (Chile has 101 watersheds). The law establishes that these instruments must contain priority actions and targets and must be approved by 2025 (except for the watershed strategic plans) and updated periodically. Additional to the absence of plans for mainstreaming the climate agenda across the different areas of government, the other limitation is that the large majority of sector ministries lack the necessary capacity and know-how to design and implement those action plans.³² Progress has been uneven. Some ministries, such as Energy or Public Works, have created specialized climate change units, whereas others are lagging behind, and their ability to design tools and act on them remains limited. The institutional capacity to design and implement climate actions is also weak at the subnational level.³³ Both the regional and municipal governments have climate responsibilities in key areas, such as conservation and solid waste management, but they do not have work crews or

³² World Bank [Climate Risk Country Profile](#), 2021; OECD, EPR: Chile 2024; [Los costos asociados a la inacción frente al CC en Chile, ECLAC, 2023](#) (The costs associated with climate change inaction in Chile).

³³ To address this challenge, the IDB prepared the guide, "Planning Climate Action in Cities and Regions: Towards Carbon-neutral and Resilient Territories in the face of Climate Change" ([IDB, 2023](#)).

budgets to move ahead with climate policy, and rely heavily on the central government.

- 1.11 **Factor 2. Weak and fairly recent institutional structure for environmental and climate change management.** Up to the early 1990s, environmental management was distributed among different regulatory frameworks and public sector agencies. To create a sector governance structure, Law 19300 (General Framework Law for the Environment) was promulgated in 1994, establishing the first guidelines for the environmental institutional structure in Chile and creating the Environmental Impact Review System as an environmental protection management tool. The General Framework Law was later amended in 2010 (via Law 20417) to create the MMA, the Environmental Assessment Service (SEA), and the Environmental Superintendent's Office (SMA). Promulgation of the LMCC in 2022 strengthened the climate institutional structure and governance, establishing the MMA as the national department responsible for the design and implementation of policies and regulations associated with the environmental agenda. Internally, with the promulgation of the LMCC, the MMA established a Climate Change Division responsible for: (i) coordinating the national climate change policy; (ii) providing climate data for use by the general public; (iii) developing methodological guidelines to facilitate compliance with the law by other government institutions; and (iv) designing economic instruments to facilitate implementation of the climate objectives.
- 1.12 Although the promulgation of Law 19300 and the LMMC helped to establish a better integrated and coordinated environmental and climate institutional structure, a consensus exists on the need to strengthen, modernize, and optimize management tools, including the existing Environmental Impact Review System. The Presidential Advisory Commission for Evaluation of the Environmental Impact Review System identified a series of weaknesses in project evaluation processes. They include the need to: (i) review types of projects at entry, so that projects that require environmental assessments can be processed more efficiently; (ii) specify the content of the environmental impact statements and the environmental impact studies; (iii) strengthen the SEA so it can fully perform its administrator and assessor role; and (iv) update the Environmental Impact Review System Regulations to make them consistent with the obligations imposed by the framework law. According to Ministry of Economy data, there are more than 380 sector permits in Chile for approving investment projects, which are processed by more than 30 government services with no centralized information available. Some key projects for carbon neutrality, such as photovoltaic generation, are thus subject to processing times of nearly five years.³⁴ Chile also faces the challenge of fortifying the institutions responsible for addressing the threats posed by climate change to natural capital and biodiversity (both land and marine). The NDC establishes the commitment of reducing emissions from the forestry sector caused by the degradation and deforestation of native forests by 25% by 2030, which will require strengthening of the public institution responsible for this area. The MMA needs greater authority and institutional capacity to monitor and conserve ecosystems and native species, including jurisdiction over the country's protected forests. To sustainably manage the country's biodiversity, Chile needs to develop

³⁴ Ministry of Economy, 2024.

a new institutional structure with staff and a specific budget for biodiversity protection and restoration in line with its [National Biodiversity Strategy \(ENB\)](#) and international best practices in this field.³⁵ Creation of the Biodiversity and Protected Areas Service and its resourcing would enable the country to meet the targets set in the ENB, which include an increase in the area under conservation and the mobilization of resources for conservation. According to the recent OECD review, the deepening water crisis calls for strengthening governance of this resource by reinforcing institutions at the watershed level.³⁶

- 1.13 **Factor 3. Absence of regulations and policies to mobilize public and private investments aligned with carbon neutrality and resilience.** To meet the target of carbon neutrality by 2050, it is estimated that Chile will need investments on the order of US\$50 billion.³⁷ Bridging this gap will require introducing regulations and policies to mobilize financing and create the necessary conditions that incentivize investments aligned with carbon neutrality and resilience. Two types of regulations and policies are notably missing: (i) **economic and fiscal instruments that incentivize investments associated with carbon neutrality.** In 2017, the Chilean government introduced a carbon tax of US\$5 per ton of CO₂ emitted (commonly known as the “green tax”) with the result (by 2021) that 28% of GHG gas emissions were subject to an effective carbon tax. Taxes on emissions, such as Chile’s green tax, typically have three objectives: (i) incentivize decarbonization by modifying the relative prices of cleaner technologies; (ii) generate fiscal resources to finance climate action; and (iii) promote the mobilization of private resources towards projects aligned with carbon neutrality.³⁸ Complementing this last objective, carbon markets allow businesses wishing to offset emissions to finance, through the purchase of credits, projects that capture, reduce, or avoid emissions. Carbon markets can thus operate in conjunction with taxes on emissions, so the tax burden can be fully or partially offset through the purchase of carbon credits by firms (emitters). Chile has no regulated carbon market that allows firms subject to the green tax to offset their GHG emissions as an alternative to full or partial payment of the tax. Development of a carbon market of this kind requires regulations to identify and define taxpayers subject to the green tax and the procedures for offsetting it, in addition to an institutional structure that applies standardized methodologies and validates and registers projects that can issue credits. (ii) **Regulations and policies that accelerate the transition towards the circular economy.** Chile’s economy is characterized by a linear logic of extraction, production, and disposal with negative impacts on carbon neutrality and resilience. This linearity is reflected in indicators associated with municipal solid waste management. In Chile, approximately 58% of solid waste is organic (4.6 million tons per year), but less than 1% is recycled (reused). One of the country’s main limitations, which worsens environmental impacts and climate change vulnerability, is the absence of policies and incentives for recycling this highly-polluting waste. Although the country developed a national organic waste strategy

³⁵ There is evidence that the creation of a specific institutional structure for managing protected areas and provide resources strengthens conservation: [Cavieres, 2019](#); [Auditoria tras la creación de Área de Parques Nacionales en Argentina](#). (Audit after the creation of the national parks area in Argentina).

³⁶ EPR, 2024.

³⁷ [Benavides et al., 2021](#).

³⁸ [Talbot-Wright et al., 2024](#).

through 2040, the absence of a legal framework that promotes recycling hinders progress in this area.³⁹

1.14 **A just transition requires actions focused on gender and diversity.** Climate change is a phenomenon that affects everyone, but unequally. Gender inequalities, such as less access to property ownership, fair wages, education, or formal-sector work, financial services, civic participation, etc., make women one of the groups most vulnerable to the impacts of climate change.⁴⁰ The gender gap is 32% in land tenure⁴¹ and 17% in water rights.⁴² In disasters and floods, menstrual hygiene becomes difficult for displaced women and girls. In Chile, women face a significant wage gap, with incomes 21.7% lower than men's.⁴³ Their workforce participation rate is 51%, compared to 74.2% for men.⁴⁴ Nor does the transition towards decarbonization impact men and women equally. More than 80% of the new jobs created by the decarbonization agenda in Latin America and the Caribbean are in currently male dominated sectors.⁴⁵ In 2019, the women's workforce in Chile's energy sector was just 23%,⁴⁶ with women earning 24% less than men and holding just 18% of total managerial positions.⁴⁷ The Indigenous population accounts for 10.6% of all Chileans and is marked by higher than average levels of income poverty (13.2% versus 10.5%).⁴⁸ In Chile, the Indigenous population typically lives in ecosystems that are vulnerable to climate change,⁴⁹ making them agents for change in mitigation and adaptation. Yet their knowledge is generally excluded from climate change considerations. In Chile, an estimated 2,836,818 people (16.7%⁵⁰ of the population) have some degree of disability. Persons with disabilities are often affected by climate change because, on average, they have fewer resources to repair damaged infrastructure.⁵¹ The International Labour Organization (ILO) stresses the importance of accompanying the transition to carbon-neutral economics with measures to ensure that persons with disabilities are not excluded from the process.⁵² For these reasons, the LMCC stresses the need to mainstream gender vulnerable groups in the development of climate change instruments.

³⁹ EPR, 2024.

⁴⁰ Long-term Climate Strategy (ECLP), 2021.

⁴¹ This means that just 32% of the land is owned by women, whereas men own the remaining 68% (Environmental status report (IEMA), 2020), MMA

⁴² IEMA, 2020, MMA.

⁴³ [Observatorio del Contexto Económico \(Economic Context Observatory\), 2022.](#)

⁴⁴ IEMA, 2020.

⁴⁵ Saget et al., 2020.

⁴⁶ IEMA, 2020.

⁴⁷ IEMA, 2020.

⁴⁸ Social development report. Ministry of Social Development and Family, 2022.

⁴⁹ ILO (2017). Indigenous peoples and climate change. From victims to agents through decent work. International Labour Office. Gender, Equality and Diversity Branch. Geneva. ILO.

⁵⁰ Social development report, Ministry of Social Development and Family, 2022.

⁵¹ [Climate Investment Funds \(CIF\), "Disability inclusion in climate finance," 2024.](#)

⁵² [International Labour Organization, "Persons with disabilities in a just transition to a low-carbon economy," policy brief, 2019.](#)

1.15 **Program strategy.** In order to introduce a series of policy reforms that address the challenges of limited climate planning capacity, a weak or nonexistent institutional framework, and the absence of regulations and policies to mobilize investments aligned with carbon neutrality and resilience, the Chilean government has asked the Inter-American Development Bank (IDB) to process a programmatic policy-based loan (PBP), which is a credit instrument used when a country, like Chile, is navigating a complex and progressive process of reforms. The program seeks to introduce a series of policy measures that will permit Chile to transition towards low-emission development and adapt to climate change, making it less vulnerable and more resilient. In Chile, accelerating climate planning, strengthening the institutional structure, and introducing regulations and policies that incentivize investments are necessary and interconnected conditions for progressing on the path of carbon neutrality and resilience. The policy measures promoted by this program put Chile in a position of leadership on climate policy and action, not just in the region, but internationally.

B. Objectives and components

1.16 **Objectives.** The program's general objective is to support Chile's transition towards a carbon-neutral and resilient economy. The specific objectives are: (i) to accelerate climate planning in strategic sectors and at the national, regional, and municipal government levels; (ii) to strengthen the institutional structure related to environmental and climate management; and (iii) to incentivize public and private carbon-neutral and resilient investments through the introduction of regulations and policies. The program will have the following components:

1.17 **Component 1: Macroeconomic stability.** This component will focus on promoting the maintenance of a macroeconomic context conducive to achieving the program objectives and consistent with the guidelines established in the sector Policy Letter.

1.18 **Component 2: Climate planning.** This component contributes to the specific objective (i), seeking to accelerate climate planning in strategic sectors and at the national, regional, and municipal government levels in line with the instruments defined in the LMCC. It calls for seven policy measures: (i) approval of the following regulations established in the LMCC: (a) the regulation governing the phases of preparation, implementation, monitoring, evaluation, and updating of the climate management instruments provided in the LMCC, which will enable development of the plans mandated by the law; and (b) the regulation governing the establishment and operation of an Interministerial Technical Team for Climate Change with the MMA's collaboration in the design, preparation, implementation, updating, and monitoring of the climate change management instruments and the regional climate change committees; (ii) favorable determination obtained from the Council of Ministers for Sustainability and Climate Change regarding the final draft of Chile's 2025 NDC; (iii) preparation and submission of the draft update of the National Climate Change Adaptation Plan, containing guidelines for crosscutting adaptation actions to be implemented in Chile, to the Office of the Comptroller General of the Republic (CGR); (iv) approval of the preliminary draft sector plans for climate change adaptation and/or mitigation, defining actions and measures for adaptation of the most vulnerable sectors and/or for GHG reduction and absorption and for not exceeding the sector emissions budget allocated to each sector

- authority (ministry); (v) approval of the first eight regional and communal climate change action plans, which will include tangible actions to increase adaptation and mitigation capacity at the regional level and specific targets to be achieved with these actions; (vi) approval of the first 25 communal climate change action plans, to prioritize different types of climate action and targets at the local level; and (vii) launching of the preparation process for at least three watershed strategic water resource plans that include actions to address the adverse impact of climate change on water resources. Most of the measures under this component have a gender and diversity lens (paragraph 1.24).
- 1.19 The indicative policy measures of PBP operation II seek to consolidate, scale, and implement the measures defined in this first operation, including approval of the update of the Long-term Climate Strategy that will define Chile's climate commitments for the coming years; preparation of the climate change financial strategy with a biodiversity lens; preparation of the National Climate Change Impact and Adaptation Inventory, as provided in the National Climate Change Adaptation Plan; approval of all the sector plans for climate change adaptation and the sector plans for climate change mitigation called for in the LMCC; approval of the 16 regional climate change adaptation plans called for in the LMCC; approval of at least 50 new communal climate change action plans; and approval of three new watershed strategic water resource plans, thus giving tangible shape to most of the climate planning instruments established in the LMCC.
- 1.20 **Component 3: Climate institutional structure.** This component contributes to specific objective (ii), seeking to develop and strengthen Chile's environmental and climate institutional structure for meeting the challenges of climate change, including the institutions associated with the protection and conservation of natural capital and biodiversity. It calls for 10 policy measures: (i) enactment of a law establishing the Biodiversity and Protected Areas Service and the National Protected Areas System, whose purpose is to conserve Chile's biodiversity and protect its natural capital; (ii) preparation and submission of the draft regulation on biodiversity offsets to the CGR, setting criteria and standards, as part of the environmental evaluation of projects, for determining whether the proposed offsetting measures are appropriate under the Law Establishing the Biodiversity and Protected Areas Service and the National Protected Areas System; (iii) preparation of the preliminary draft regulation of the Biodiversity and Ecosystem Services Certification System, which will govern the scope of the certification system and the certification procedure, as well as the offset contracts for ecosystem services under the Law Establishing the Biodiversity and Protected Areas Service and the National Protected Areas System; (iv) implementation of at least the following actions contained in the 2024+ work plan of the Natural Capital Committee, whose mission is to advise and propose actions to the President of the Republic for measuring, protecting, and restoring Chile's natural capital: (a) preparation of ecosystem classification maps for at least one region of Chile; and (b) setting of the first public baseline on natural capital in least one region of Chile; (v) submission to Congress of the Proposed Amendment of Law 19300 (General Framework Law for the Environment) to strengthen Chile's environmental institutions and optimize and mainstream climate change criteria in its environmental management instruments; (vi) favorable determination obtained from the Council of Ministers for Sustainability and Climate Change regarding the

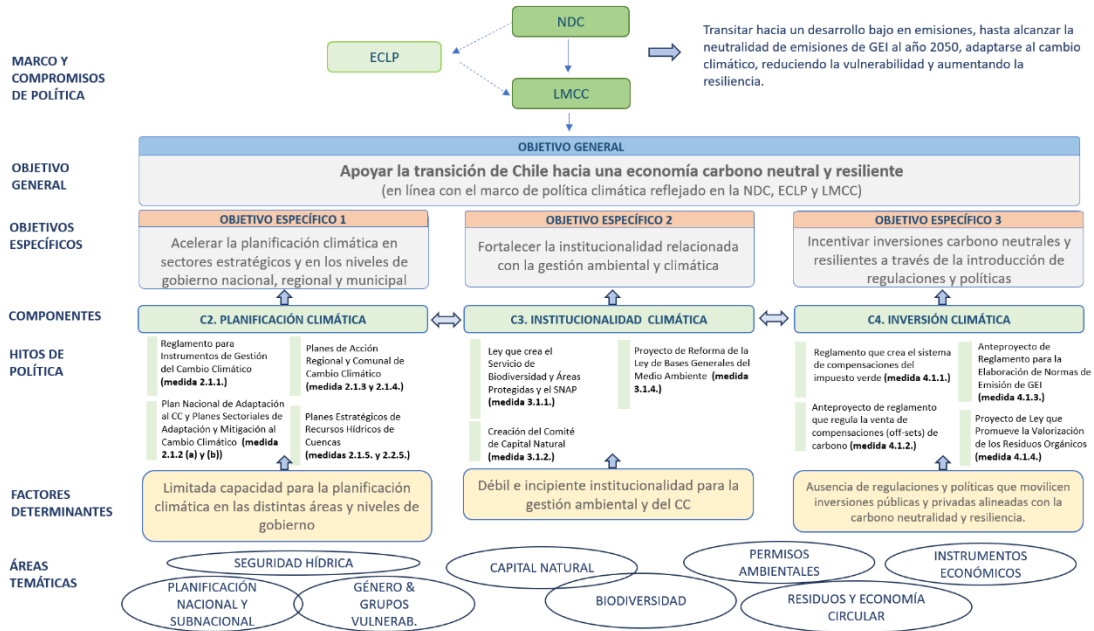
final draft amendment to the Regulation of the Environmental Impact Assessment System (EIAS), which includes the optimization of sector environmental permits and changes in the entry thresholds for investment projects in renewable energy and recycling of organic waste; (vii) preparation of a technical handbook by the MMA Environmental Assessment Service that provides guidelines for implementation of the EIAS Regulation and facilitates compliance with the new requirements associated with sector environmental permits; (viii) submission to Congress of the Framework Law on Sector Authorizations (“smart permits system”), establishing the Sector Regulation and Evaluation Service intended to standardize and coordinate the actions of the public administration agencies with the authority to authorize investment projects and setting rules for the environmental assessment and rating of projects; (ix) preparation of two preliminary draft regulations of sector agencies under the bill for the Framework Law on Sector Authorizations that include legal notices and/or sworn statements as alternatives to authorization; and (x) signature by the Ministry of Economy of at least two resource transfer agreements to accelerate existing dossiers at sector agencies. Most of the measures under this component have a gender and Indigenous peoples lens (paragraph 1.24).

- 1.21 The indicative policy measures of PBP operation II seek to consolidate, scale, and implement the measures defined in this first operation, including: (i) implementation of the Law Establishing the Biodiversity and Protected Areas Service and the National Protected Areas System, including approval of the regulation governing the operation of the National Biodiversity Fund and the regulation establishing the procedures and requirements for the creation of national protected areas, and the regulation governing a national system of payment for ecosystem services; (ii) implementation of actions on the Natural Capital Committee’s work plan and preparation of a methodological guide for mainstreaming natural capital in investment programs and/or projects; (iii) enactment of the Amendment of Law 19300 (General Framework Law for the Environment); amendment of the regulation governing the Environmental Impact Review System to include changes in the entry thresholds for renewable energy investment projects and organic waste recycling projects; and implementation of a capacity-building strategy for regional and municipal governments to implement the new regulation governing the Environmental Impact Review System; and (iv) enactment of the Framework Law on Sector Authorizations and approval of two regulations that include legal notices and/or sworn statements as alternatives to authorization.
- 1.22 **Component 4: Climate investment.** This component contributes to specific objective (iii), introducing regulations and policies that mobilize public and private investments to accelerate the transition towards carbon neutrality and resilience. It calls for six policy measures: (i) approval of the regulation governing the Green Tax Emissions Offset System; (ii) launch of a pilot by the MMA for certification of polluting emissions reduction as part of the green tax offset system; (iii) approval of the regulation establishing the necessary conditions and requirements for certificates of emissions reduction or absorption (offsets) as part of the international cooperation established in Article 6 of the Paris Agreement, with the purpose of avoiding double counting of emissions reductions; (iv) approval of the regulation on emissions standards called for in the LMCC, establishing the

maximum emissions of a GHG and/or a short-lived climate forcer from an emission source; (v) submission of a bill to Congress for the Law Promoting the Recycling of Organic Waste and Strengthening Waste Management at the Subnational Level, whose objective is to contribute to the reduction of GHGs, particularly methane, by reducing and recycling organic waste and increasing public sector investments associated with recycling that type of waste; and (vi) publication of a methodological guide for developing regional strategic waste recycling plans and local waste plans.

- 1.23 The indicative policy measures of PBP operation II seek to consolidate, scale, and implement the measures defined in this first operation, including creation of the national offset program for local pollutants under the Green Tax Emissions Offset System; creation of a national committee by the MMA to monitor compliance with Article 6 of the Paris Agreement; submission to the Sustainability Cabinet of the preliminary draft regulation for certificates of GHG emissions reductions or absorption, governing criteria for determining the maximum amount of certificates that can be used in a given period of time, etc.; and preparation of 25 local waste plans or equivalent municipal management plans under the bill for the Law Promoting the Recycling of Organic Waste and Strengthening Waste Management at the Subnational Level.

Figure 1. Vertical logic of the program



- 1.24 **Gender and diversity in the program.** Gender and diversity mainstreaming, inclusive of Indigenous peoples and persons with disabilities, will occur under Component 2 (climate planning) through actions such as: (i) promotion of full and equal participation by women in decision-making opportunities associated with the plan development process under the LMCC (policy measures 2.1.2(b) to 2.1.5); (ii) the LMCC mandate assigned for sector ministries to cooperate with Chile's Ministry of Women and Gender Equality when developing plans; (iii) compilation

of data on inequality, gaps, impacts, and vulnerabilities, and differentiated contributions based on gender, disability, and race/ethnicity, as part of the plan development process; (iv) development of gender and diversity equality indicators at all stages of the plans; and (v) compilation of the local lore and ancestral wisdom of Indigenous people for decision-making related to climate change. For the climate institutional structure (Component 3), gender and diversity are mainstreamed in Law 21600 (policy measure 3.1.1. (a)) through actions such as: (i) inclusion of the tradition lore of Indigenous communities as part of the scientific knowledge to be relied on by the studies, decrees, and protocols called for in the law; (ii) participation of local and Indigenous communities in managing protected areas; (iii) Indigenous representation on the public-private committees that will support management of the National Protected Areas System; and (iv) definition of Indigenous peoples conservation areas. In addition, gender will be mainstreamed in the criteria and considerations of the Natural Capital Committee (policy measure 3.1.2) for its proposed actions: (i) differentiated contributions by men and women to emissions reduction and resilience; and (ii) differentiated vulnerabilities of men and women to climate change ([optional link 3](#)). Note also that the LMCC and Chilean laws and regulations in general call for public consultations, including consultation of Indigenous peoples, which will facilitate the mainstreaming of such approaches in the development of policies under this operation.⁵³

1.25 The PBP's value-added. The program's main value-added lies in: (i) consolidating the climate agenda as national government policy, facilitating the achievement of medium-term (2030) and long-term (2050) climate commitments; (ii) mainstreaming the climate agenda as a crosscutting issue horizontally at strategic sector ministries through the sector plans, and vertically in subnational governments (regional and municipal governments) through the regional and communal climate change action plans; (iii) strengthening environmental and climate institutions to better enable the country to respond to the impact of climate change; (iv) consolidating the green fiscal reform in Chile through changes in the Green Tax Emissions Offset System; and (v) mobilizing public and private investments aligned with carbon neutrality and resilience. There is evidence of the positive impact of measures of this kind at both the regional and international levels.⁵⁴

1.26 The IDB Group's support. Ever since the NDC was approved in 2015 and discussion of the LMCC was in its early stages, the Bank's support has contributed

⁵³ Article 34 of the LMCC establishes the general requirements to ensure effective citizen participation by introducing obligations for citizen participation in several articles relevant to the loan: Article 5 on the preparation of the Long-term Climate Strategy; Article 9 on the sector plans for climate change adaptation; Article 11 on the regional and communal climate change action plans; and Article 14 on the watershed strategic water resource plans. In addition, the consultation of Indigenous peoples, as a formal part of public policy-making, is guaranteed by Decree 66 governing the Indigenous consultation procedure pursuant to Article 6, point 1(a) and point 2 of International Labour Organization Convention No. 169.

⁵⁴ IDB, 2024. [Expectations of economy and finance ministries on carbon pricing and evidence of their effectiveness](#); IDB, 2023. [The benefits and costs of reaching net-zero emissions in Latin America and the Caribbean](#); IDB, 2019. [Getting to net-zero emissions](#); IDB/ILO, 2020. [Jobs in a net-zero emissions future in Latin America and the Caribbean](#); IDB, 2021. [Opciones para lograr la carbono-neutralidad en Chile: una evaluación bajo incertidumbre](#). (Options for attaining carbon neutrality in Chile: an evaluation under uncertainty).

to significant progress in the carbon neutrality and resilience agenda in the areas of planning, institutional structure, and activation of investments, making the IDB a strategic partner for the country in addressing climate change. The policy measures pursued by this program form part of an intensive dialogue between the IDB and the Chilean government, mainly through the MMA, and in most cases they have received technical support from the Bank ([optional link 1](#)). Several operations, including nonreimbursable technical cooperation and fee-based advisory services, have been instrumental in supporting the sector dialogue and the policies considered in the proposed operation (see Figure 2 for more details).⁵⁵

- 1.27 Regarding the specific objective of accelerating climate planning, the technical-cooperation operations CH-T1273 ([ATN/CF-19896-CH](#), [ATN/OC-19345-CH](#)), CH-T1293 ([ATN/FR-20343-CH](#)), RG-T4252 ([ATN/OC-20056-RG](#)), and RG-T3553 ([ATN/CF-18025-RG](#)) are supporting the MMA, sector ministries, and regional and municipal governments in the preparation, design, and implementation of a series of sector adaptation and mitigation plans (milestones 2.1.2. (b)), and regional and communal climate change plans (2.1.3 and 2.1.4). Such support provides continuity for the efforts begun with operations CH-T1223 ([ATN/OC-17504-CH](#)) and RG-T3575 ([ATN/FR-18228-RG](#)), which supported building the climate institutional structure begun with promulgation of the LMCC, development of a series of studies being used as inputs for strategic water resource plans in priority watersheds for the country (Ligua and Petorca rivers) and for preparation of the regulations implementing the LMCC (2.1.1. (a)). Meanwhile, fee-based advisory services operation [CH-R1017](#) is supporting the Ministry of Public Works in preparing the climate change mitigation plan and adaptation plan for infrastructure services, which are two of the plans mandated by the LMCC. The Bank is also supporting the Government of Chile in updating its NDC (2.1.1. (b)) through technical-cooperation operations CH-T1273 ([ATN/CF-19896-CH](#), [ATN/OC-19345-CH](#)), CH-T1293 ([ATN/FR-20343-CH](#)), RG-T3658 ([ATN/OC-18176-RG](#)) and RG-T4279 ([ATN/CV-20044-RG](#)), RG-T4505 ([ATN/OC-20988-RG](#)).
- 1.28 Regarding the specific objective of strengthening the institutional structure, with Bank support the Chilean government has begun to structure financial instruments for leveraging private resources to increase and improve the management of conservation areas. Specifically, RG-T3728 ([ATN/OC-18247-RG](#)) supported the strategic plan to get the Natural Capital Committee up and running. Operation CH-T1247 ([ATN/OC-18428-CH](#)) helped create the Chile Nature Fund, whose objective is to mobilize financing for conservation of natural capital and support the committee's activities (3.1.2). Complementarily, CH-T1293 ([ATN/FR-20343-CH](#)) and RG-T4141 ([ATN/FM-20355-RG](#)) are supporting the country's efforts to develop a first pilot project for natural capital valuation in the Rio Bueno watershed (Los Ríos region). The Bank, through technical cooperation operation CH-T1293 ([ATN/FR-20343-CH](#)), is also supporting the development of the institutional structure associated with the Law Establishing the Biodiversity and Protected

⁵⁵ Particularly the following studies: IDB, 2023. [Planning climate action in cities and regions: Towards Carbon-neutral and resilient territories in the face of climate change in Chile](#); IDB, 2020. [Climate change public budget tagging](#); IDB, 2019. [Getting to net-zero emissions](#); IDB/ILO, 2020. [Jobs in a net-zero emissions future in Latin America and the Caribbean](#); and IDB, 2021 [Opciones para lograr la carbono-neutralidad en Chile: una evaluación bajo incertidumbre](#) (Options for attaining carbon neutrality in Chile: an evaluation under uncertainty).

- Areas Service and the National Protected Areas System (3.1.1(b) and (c)). Lastly, through technical cooperation operation CH-T1316 (now in preparation), support will be provided for the amendment to the Regulation of the Environmental Impact Assessment System (EIAS) with regard to sector environmental permits, changes in the entry thresholds for investment projects in renewable energy and recycling of organic waste (3.1.3. (b)), and the preparation of regulations under the Framework Law on Sector Authorizations (3.1.4. (a)).
- 1.29 Regarding the specific objective of introducing regulations and policies to accelerate investments, operations CH-T1272 ([ATN/MA-19263-CH](#), [ATN/OC-19262-CH](#)) and RG-T3775 ([ATN/MA-18545-RG](#), [ATN/OC-18546-RG](#)) are supporting the MMA in drafting a law to promote the recycling of organic waste and strengthen waste management at the subnational level (4.1.4. (a)). Meanwhile, operation CH-T1303 ([ATN/OC-19987-CH](#)) is building capacity at the MMA to implement policies and programs for increased waste recycling throughout the country (4.1.4. (b)). Operation CH-T1273 ([ATN/CF-19896-CH](#), [ATN/OC-19345-CH](#)) is contributing to a line of IDB support for implementing the green tax and the associated offset system (4.1.1(b)). Additionally, operation CH-T1305 ([ATN/FC-20357-CH](#)) supports the implementation of Article 6 of the Paris Agreement. Two technical-cooperation operations are now in preparation (CH-T1323 and CH-T1316) to support the PBP II policy measures, which will be approved in the second half of 2024.
- 1.30 **Complementarity with other operations.** This program builds on and supplements recent measures under other Bank PBPs and investment loans in Chile, as well as IDB Invest operations. Specifically: (i) the programmatic series of the Program to Support a Fair, Clean, and Sustainable Energy Transition ([5278/OC-CH](#) and [5548/OC-CH](#)), which supported policies for decarbonization of the energy matrix, including the use carbon pricing instruments in the market and policies to promote penetration of renewables in the energy matrix; (ii) the Digital Transformation and Sustainable Growth Program ([5450/OC-CH](#)), which included a component for transition toward circular production and consumption models with the goal of reducing GHG emissions; (iii) the Program to Support the Development of the Green Hydrogen Industry in Chile ([5757/OC-CH](#)), whose objective is to contribute to the development of that industry and its derivatives in Chile, to further the decarbonization of its economy. Work will be done under this PBP operation to optimize the procedures associated with sector and environmental permits and create investment incentives, like green tax offset mechanisms, that would contribute to the acceleration of investments aligned with carbon neutrality, including green hydrogen industry projects; and (iv) IDB Invest operations, which through capitalization national banks are facilitating adaptation by vulnerable groups and promoting green investments in key areas for the transition towards decarbonization, such as the introduction of renewable energies and energy efficiency practices.⁵⁶ The IDB Invest operations include a loan ([12995-01](#)) for the construction of a wind project with an installed capacity of 151.2 MW, which accelerated the early dismantling of a thermoelectric power plant; a loan ([13434-01](#)) to purchase the largest fleet of electric buses in Latin America and the Caribbean, under which nearly 1,000 buses were bought for use in the public

⁵⁶ For further details on the operations, see <https://idbinvest.org/en/countries/chile#portfolio>.

transportation system of Metropolitan Santiago; and programs that finance the development of sustainable corporate strategies and implementation of green taxonomies at companies and in the banking sector.⁵⁷

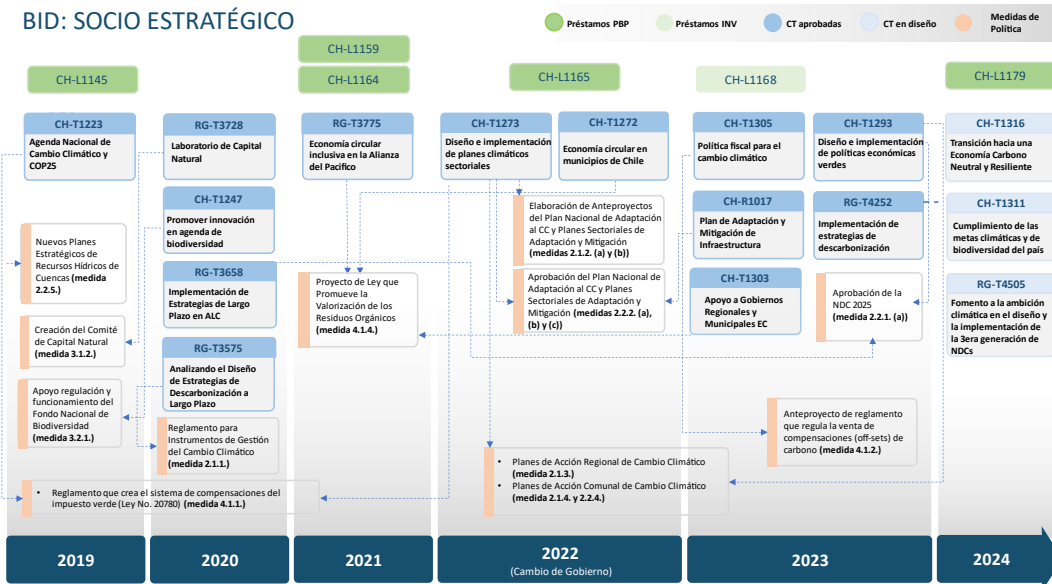
- 1.31 **Technical know-how and lessons learned.** The Bank's support for Chile has helped generate a series of lessons that have been reflected in the structuring of this operation and in defining the policy measures. (i) The importance of strengthening the climate institutional structure not only at the sector level but at the subnational level. In a country embarked on a gradual process of administrative decentralization, the authority and capacity for climate action resides with the sectors (national ministries) but also increasingly with the subnational governments, which as mandated in the LMCC are also responsible for designing and implementing policies and programs of action. (ii) When implementing mitigation and adaptation actions, it is important to explore local solutions (bottom-up approach), incorporating avenues for consultation and participation that feed and validate the proposals contained in the strategies and plans. The LMCC itself gives weight to this lesson by including citizen participation as one of the guiding principles for developing all plans and programs and other instruments under it, thus promoting participation by everyone in managing climate change at the national level, as well as the regional and local levels. (iii) The importance of taking the specific features of vulnerable groups into account in climate planning and actions, i.e., marginal or vulnerable population segments at high risk of being adversely impacted by climate change. (iv) Although planning and institution-strengthening are critical, climate action must be complemented by economic instruments that accelerate investments aligned with carbon neutrality and resilience. (v) For these to be effective, specific objectives need to be devised, considering synergies with other policy instruments, and framed within the strategy set out in such policies as the NDC, the Long-term Climate Strategy, and the sector plans.
- 1.32 **Coordination with other donors.** Various measures included in the program's Policy Matrix operate in coordination and complementarily with other donors, including the French Development Agency (AFD), the Andean Development Corporation (CAF), and the German Agency for International Cooperation (GIZ). In coordination with the AFD,⁵⁸ the Bank has been supporting the institutional strengthening of the MMA, measures associated with biodiversity protection, and the development of long-term climate scenarios. With AFD coordination and funding through a technical-cooperation operation ([ATN/FR-20343-CH](#)) the Bank is supporting the preparation of climate change sector plans, plans at the regional and communal levels, and the milestone associated with the work plan of the Natural Capital Committee. Coordination with these donors includes actions associated with the climate agenda that go beyond the proposed operation. With German government funding through operation [ATN/FC-20357-CH](#), work is being done to develop tools to promote the integration of climate action into the fiscal policy and management of the Ministry of Finance. This includes implementation of the green tax offset system and development of a taxonomy to identify economic

⁵⁷ <https://idbinvest.org/en/news-media/idb-invest-promotes-worlds-second-largest-fleet-electric-buses-chile>.

⁵⁸ The AFD is financing technical-cooperation projects CH-T1293 and CH-T1323.

activities aligned with climate criteria. The process of developing the taxonomy, led by the Ministry of Finance, involves working in coordination with GIZ and CAF.

Figure 2. IDB Group support for Chile on the climate agenda



1.33 **Strategic alignment.** The program is consistent with the IDB Group Institutional Strategy: Transforming for Scale and Impact (CA-631) and aligned with the following objectives: (i) address climate change, by including policy measures to promote climate change adaptation, emissions reduction, biodiversity conservation, and strengthening of resilience; and (ii) bolster sustainable regional growth, by introducing legal and regulatory changes to reduce the damage and losses associated with climate change. The program is also aligned with the following operational focus areas of the strategy: (i) biodiversity, natural capital, and climate action; (ii) institutional capacity and rule of law; (iii) gender equality and inclusion of diverse population groups; and (iv) sustainable and resilient infrastructure.

1.34 At the national level, the program is aligned with the **IDB Group Country Strategy with Chile 2022-2026** (GN-3140-3), and specifically with the following strategic objectives: (i) improvement of the efficiency and quality of Chilean institutions; and (ii) increase in the economy's environmental and social sustainability through decarbonization of the productive and consumption matrix and growth of the circular economy. The program is also consistent with the Water and Sanitation Sector Framework Document (GN-2781-13) and the Climate Change Sector Framework Document (GN-2781-13), by promoting water security and environmental sustainability through all policy measures in the Policy Matrix.

1.35 **Climate finance and Paris alignment.** According to the [Joint Methodology of the Multilateral Development Banks \(MDBs\) for Estimating Climate Finance](#), 100% of the loan amount counts as climate finance, since all policy measures support fulfillment of the country's climate commitments in its NDC, the Long-term Climate Strategy, and the LMCC; 100% of the operation contributes to green finance. The

operation has been reviewed using the [Joint MDB Assessment Framework for Paris Alignment](#) and the [IDB Group Paris Alignment Implementation Approach](#) (GN-3142-1), and has been determined to be: (i) aligned with the adaptation target of the Paris Agreement; and (ii) universally aligned with the mitigation target of the Paris Agreement ([optional link 2](#)).

C. Key results indicators

- 1.36 **Expected outcomes.** The impact of the program's general objective is associated with the reduction of CO₂eq emissions, which are expected to decline 6% by 2030 in line with the country's commitments. The main outcomes associated with the specific development objectives, which are expected to be attained in 2026, will be: (i) public investment of the national government in climate change issues, which is expected to increase 25%; (ii) climate planning implemented in the different national and subnational government areas through the development of sector mitigation and adaptation plans and regional and communal climate change plans with a gender and diversity lens, inclusive of the Indigenous population and persons with disabilities; (iii) increase in funds budgeted for conservation of biodiversity and national protected areas (+120%); (iv) increase in the land area under conservation, which is expected to be from 22% to 25% countrywide; (v) approval times for certain types of projects; (vi) increase in the number of emissions subject to the green tax that are offset with emissions reduction certificates; and (vii) the organic solid waste recycling rate, which is expected to increase from 0.02% to 2% countrywide.
- 1.37 **Economic analysis.** Based on the recommendations of the Office of Evaluation and Oversight (OVE) in its 2011 Evaluability Review of Bank Projects⁵⁹ and the results of the Review of Good Practice Standards for the Evaluation of Policy-based Lending, prepared by the Evaluation Cooperation Group⁶⁰ (ECG),⁶¹ as described in paragraph 1.3 of the Review of the Development Effectiveness Matrix for Sovereign Guaranteed and Non-Sovereign Guaranteed Operations (GN-2489-5), indicating, inter alia, that there is no need to include an analysis of efficiency in the use of financial resources,⁶² it was decided not to perform an economic analysis for loans of this type. Consequently, the economic analysis is not considered for purposes of measuring the evaluability score in this program's Development Effectiveness Matrix (DEM).
- 1.38 **Beneficiaries.** The program's main beneficiaries are: (i) the general public, who will benefit from the expected improvement in the effectiveness of public policies related to climate change by decreasing pollution levels and increasing the resilience of infrastructure; (ii) the most vulnerable population segments, which

⁵⁹ RE-397-1: Currently, the economic analysis section is computed as the maximum between the cost-benefit analysis and the cost-effectiveness analysis. Yet neither of these analyses is applicable to policy-based loans.

⁶⁰ Consisting of the MDB independent evaluation offices.

⁶¹ "Good Practice Standards for the Evaluation of Public Sector Operations." Evaluation Cooperation Group, Working Group on Public Sector Evaluation, 2012 Revised Edition. February 2012.

⁶² The Evaluation Cooperation Group calls for policy-based loans to be evaluated for relevance, effectiveness, and sustainability. Efficiency was not included as a criterion because policy-based loans are sized according to the country's financing gap, independent of project benefits.

tend to be hardest hit by the impact of climate change; (iii) public sector employees at the national, regional, and municipal levels, who will have greater capacity to manage climate action in their respective areas of responsibility; and (iv) private sector enterprises, which will have new economic instruments for investment decision-making.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 This operation is structured as a programmatic policy-based loan (PBP) and is the first in a series of two consecutive individual loans that are technically linked but financed independently, in accordance with document CS-3633-2, Policy-based Loans: Guidelines for Preparation and Implementation. Selection of the PBP modality divided into two loan operations is based on the borrower's interest in obtaining Bank support to promote sector policy reforms and institutional changes in the medium term, through an ongoing policy dialogue, and to perfect the implementation strategy during a dynamic reform process that will enable the actions begun under this first operation to be deepened in the second.
- 2.2 The programmatic modality is justified by: (i) the medium- and long-term reforms envisaged, as established in the Policy Matrix and the borrower's Policy Letter; (ii) the complex and progressive nature of the reforms; (iii) the different lengths of time required for implementation of the reforms; (iv) coordination among the institutions involved; (v) support for the policy dialogue in the country; and (vi) the oversight required for implementation of the reforms, their monitoring, and feedback on the results. This PBP will make it possible to design and consolidate the policy lines and institutional and legal/regulatory changes required to achieve the operation's objective, and will enable substantial reforms to be achieved during the period 2023-2025.
- 2.3 **Dimensioning of the operation.** The loan amount of this first operation is up to US\$100 million from the Bank's Ordinary Capital resources. The original disbursement period for the loan proceeds will be two years, running from the effective date of the loan contract.⁶³ As established in paragraph 3.27, item (b), of document CS-3633-2, Policy-based Loans: Guidelines for Preparation and Implementation, the operation's dimensioning was based on the country's fiscal resource needs, which were ratified by the Government of Chile in the negotiation process. According to the government's emissions program, Chile's net financing requirements for 2024 are 4.9% of GDP. The PBP represents 0.6% of those financing requirements and 2.6% of external financing.⁶⁴

⁶³ The disbursement period was requested by the Ministry of Finance's Budget Directorate (DIPRES). This same disbursement period has been used in previous PBP operations in Chile (CH-L1159, CH-L1164, CH-L1169). The borrowing decree approving the loan contract will be issued the first half of 2025, as part of Chile's public sector budget for 2025.

⁶⁴ Ministry of Finance, 2024.

B. Environmental and social safeguard risks

- 2.4 Under the Environmental and Social Policy Framework (GN-2965-23), this program does not require an ex ante impact classification. The operation supports the definition of policies, regulations, management instruments, and other institutional strengthening actions, so no significant direct impacts are anticipated on the environment or natural resources.

C. Fiduciary risks

- 2.5 No fiduciary risks associated with the operation have been identified. The resources of this operation will go into the Fiscal Single Account of the General Treasury to cover the country's financing requirements. The borrower has the necessary financial management instruments and control systems in place.

D. Other key issues and risks

- 2.6 Three risks associated with achievement of the policy measures were identified during preparation of the operation: (i) the progress level of the policy measures at the time of approval of the operation by the Bank's Board of Executive Directors (75% completion of policy measures) (medium-high risk); (ii) poor coordination of the Ministry of the Environment (MMA) with other agencies and levels of government. Since a number of policy measures are the responsibility of actors outside the MMA (other ministries and the subnational governments), they may not be delivered on time (medium-low risk); (iii) if the institutions responsible for the policy reforms do not have sufficient technical capacity or human resources, the reforms may not be completed on time, particularly those under PBP II (medium-high risk). Regarding the first risk, note that the LMCC mandates a series of policy measures and sets deadlines for their approval, specifically: November 2024 for the regional climate change action plans; December 2024 for the sector plans for climate change adaptation and mitigation; and June 2025 for the communal climate change action plans. Additionally, the completion times for all policy measures were reviewed jointly with the MMA and the respective sector ministries, which have or will have the support of nonreimbursable technical cooperation resources from the Bank (on the order of US\$2.7 million) to support their completion ([optional link 1](#)). Under this framework, the Bank and the MMA will hold monthly coordination meetings to monitor progress on completion of the policy measures. The second risk will be mitigated through the MMA's Climate Change Division, which will establish and coordinate an interagency and intergovernmental working group to track fulfillment of the program's policy measures. The third, more serious risk, will also be mitigated through nonreimbursable technical-cooperation resources contributed by the Bank, to support fulfillment of the PBP I and PBP II policy measures.
- 2.7 **Sustainability of the reform.** The policy measures supported by this first operation form part of a sound regulatory framework under the umbrella of the Framework Law on Climate Change (LMCC). The program's sustainability will stem from the alignment of all policy measures with the actions of the Republic of Chile to meet its long-term climate commitments. Additionally, several of this operation's reforms will be formalized in national legislation and institutionalized through different legal and regulatory instruments. Lastly, the sustainability of the

policy measures is aided by the ongoing technical support provided now and in the future by the Bank for the country in this reform process ([optional link 1](#)).

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 **Borrower and executing agency.** The borrower is the Republic of Chile, and the program executing agency is the borrower, acting through the Ministry of the Environment (MMA). The executing agency will have the following responsibilities: (i) coordinate the operation's policy measures with the different public institutions participating in the program,⁶⁵ including the subnational governments;⁶⁶ (ii) maintain official communications with the Bank; (iii) provide the Bank with evidence, to the Bank's satisfaction, that the policy measures in the Policy Matrix and the loan contract have been fulfilled, and provide whatever additional evidence related to the program that the Bank may require, to approve the respective disbursement; (iv) promote actions to attain the program's policy objectives; and (v) gather, retain, and deliver to the Bank all information, indicators, and parameters that contribute to the monitoring, measurement, and evaluation of the program outcomes.
- 3.2 **Coordination mechanism.** The MMA, as executing agency, will use the institutional means at its disposal to ensure effective coordination among the public agencies involved with the policy measures included in this operation. Specifically, the MMA's Climate Change Division will be responsible for coordination and for assuring fulfillment of the operation's policy measures with the different government bodies or areas participating in the program.
- 3.3 **Special contractual conditions precedent to the sole disbursement.** The sole disbursement of the loan proceeds for this operation is contingent on the borrower's fulfillment, to the Bank's satisfaction, of the policy reform conditions as established in the Policy Matrix, the [Policy Letter](#), and the other conditions established in the loan contract.

B. Summary of arrangements for monitoring results

- 3.4 **Monitoring and evaluation.** The MMA will ensure timely fulfillment of the policy measures of this program (PBP I) and will be responsible for providing information on the status of the agreed results indicators. The staff of the Water and Sanitation Division (INE/WSA), in close coordination with the Climate Change Division (CSD/CCS) and the Bank's Country Office in Chile (CSC/CCH), will monitor the fulfillment status of the policy measures on an ongoing basis via their means of verification. The preliminary versions of the Policy Matrix and the Means of

⁶⁵ In addition to the MMA, the Ministry of Finance, the Ministry of Public Works, and the Ministry of Economy will participate in the program.

⁶⁶ Two policy measures related to Component 2 of this operation involving regional action plans and communal action plans for climate change have been included, so the MMA will coordinate with the respective subnational governments and provide the Bank with the corresponding means of verification.

Verification Matrix are attached to this document. These will be key instruments for monitoring and evaluation of the reform process.

- 3.5 The Policy Matrix (Annex II), the Means of Verification Matrix ([required link 2](#)), and the Results Matrix (Annex III) provide the parameters for program supervision and evaluation. Fulfilment of the policy commitments will be through the MMA. The project evaluation is intended to determine whether the expected outcomes and impacts were achieved by the deadline for their fulfilment established in the program's monitoring and evaluation plan ([required link 3](#)). A project completion report (PCR) will be prepared by the project team at the end of the operation,⁶⁷ following the IDB's current guidelines, within no more than two years after the disbursement of the operation.

IV. POLICY LETTER

- 4.1 The draft [Policy Letter](#) describes the macroeconomic and sector policies being pursued by the Government of Chile, which are consistent with the policy measures to be supported through this operation. The letter ratifies the government's commitment to implement the agreed policy measures, as described in the Policy Matrix for this operation.

⁶⁷ If the second PBP operation is approved, the PCR will be performed two years after the close of the second operation.

Development Effectiveness Matrix		
Summary		CH-L1179
I. Corporate and Country Priorities		
Section 1. IDB Group Institutional Strategy Alignment		
Operational Focus Areas		-Biodiversity, natural capital, and climate action -Gender equality and inclusion of diverse population groups -Institutional capacity, rule of law, citizen security -Sustainable, resilient, and inclusive infrastructure
[Space-Holder: Impact framework indicators]		
2. Country Development Objectives		
Country Strategy Results Matrix	GN-3140-3	Acción contra el cambio climático y la protección del medio ambiente
Country Program Results Matrix	GN-3207	The intervention is included in the 2024 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution		8.1
3.1 Program Diagnosis		2.5
3.2 Proposed Interventions or Solutions		1.6
3.3 Results Matrix Quality		4.0
4. Ex ante Economic Analysis		N/A
5. Monitoring and Evaluation		9.5
5.1 Monitoring Mechanisms		4.0
5.2 Evaluation Plan		5.5
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Low
Environmental & social risk classification		N.A.
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)		Budget, Treasury, Accounting and Reporting, External Control, Internal Audit.
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project		

Evaluability Assessment Note: This is the first of two loan operations, technically linked to each other, but financed independently under the Programmatic Policy Reform Support Loan (PBP) modality. The overall objective of the Program is to support Chile's transition to a carbon-neutral and resilient economy. The specific objectives are: (i) to accelerate climate planning in strategic sectors and at the national, regional and municipal levels of government; (ii) strengthen the institutional framework related to environmental and climate management; and (iii) incentivize carbon-neutral and resilient public and private investments through the introduction of regulations and policies.

The diagnosis is adequate, as it clearly presents the problem on which the program is focused, as well as its determinants. The absence of evidence about the effectiveness of some policies is justified given the novelty of some of the mechanisms implemented. The Results Matrix has a clear vertical logic and SMART indicators that allow for the evaluation of the achievement of the specific objectives. Since this is a policy-based loan, an economic analysis is not included.

The program has a Monitoring and Evaluation Plan that specifies: (i) the methodology for measuring indicators; (ii) attribution of project results; (iii) data requirements; and (iv) those responsible and the estimated budget. The evaluation of the results will be done with a before-and-after analysis, where the attribution of the results depends on the link between the implemented policies and the associated results.

POLICY MATRIX

Objective: The program's general objective is to support Chile's transition towards a carbon-neutral and resilient economy. The specific objectives are: (i) to accelerate climate planning in strategic sectors and at the national, regional, and municipal government levels; (ii) to strengthen the institutional structure related to environmental and climate management; and (iii) to incentivize public and private carbon-neutral and resilient investments through the introduction of regulations and policies.

Components/ Policy objectives	PBP I Policy measures	Fulfillment status of PBP I policy measures I ¹	PBP II Indicative policy measures
1.1. Macroeconomic stability	1.1.1. The macroeconomic context is conducive to achieving the program's objectives and consistent with the Policy Letter.	Fulfilled	1.2.1. The macroeconomic context is conducive to achieving the program's objectives and consistent with the Policy Letter.
2.1. Climate planning: Accelerate climate planning in strategic sectors and at the national, regional, and municipal government levels.	2.1.1. (a) The following regulations provided in Law 21455 (Framework Law on Climate Change (LMCC)) have been approved and published in the Official Gazette: (i) the regulation establishing the procedures governing the phases of preparation, implementation, monitoring, evaluation, and updating of the climate management instruments (Climate Change Procedural Regulations); and (ii) the regulation governing the establishment and operation of an Interministerial Technical Team for Climate Change with the MMA's collaboration in the design, preparation, implementation, updating, and monitoring of the climate change management instruments and the regional climate change committees, which will coordinate and prepare, as applicable, the climate change management instruments at the regional and communal level. 2.1.1. (b) A favorable determination has been obtained from the Council of Ministers for Sustainability and Climate Change regarding the final draft of Chile's 2025 Nationally Determined Contribution (NDC) in line with the LMCC.	(a) Pending fulfillment (Q4, 2024) (b) Pending fulfillment (Q2, 2025)	2.2.1. (a) An update of Chile's Long-term Climate Strategy has been approved. 2.2.1. (b) The climate change financial strategy, incorporating biodiversity considerations, has been published on the Ministry of Finance's website.
	2.1.2. (a) The draft update of the National Climate Change Adaptation Plan, containing guidelines for crosscutting adaptation actions to be implemented in Chile, has been prepared and submitted to the Office of the Comptroller General of the Republic (CGR) as an adaptation component of the Long-term Climate Strategy.	(a) Pending fulfillment (Q2, 2025)	2.2.2. (a) The National Climate Change Impact and Adaptation Inventory has been prepared, as provided in the National Climate Change Adaptation Plan.

¹ This information is merely indicative as of the date of this document. As established in document CS-3633-2, Policy-based Loans: Guidelines for Preparation and Implementation, compliance with all the specified disbursement conditions, including maintenance of an appropriate macroeconomic policy framework, will be verified by the Bank at the time the borrower requests the disbursement, and reflected in the disbursement eligibility memorandum.

Components/ Policy objectives	PBP I Policy measures	Fulfillment status of PBP I policy measures I'	PBP II Indicative policy measures
	2.1.2. (b) As established in the Climate Change Procedural Regulations, the preliminary draft sector plans for climate change adaptation and/or mitigation, defining actions and measures for adaptation of the most vulnerable sectors and/or for greenhouse gas (GHG) reduction and absorption, have been approved, as provided in the LMCC.	(b) Pending fulfillment (Q4, 2024)	2.2.2. (b) As established in the Climate Change Procedural Regulations, all the sector plans for climate change adaptation called for in the LMCC have been approved for the following sectors: (i) biodiversity; (ii) water resources; (iii) infrastructure; (iv) mining; (v) energy; (vi) cities; (vii) health, (viii) forestry and agriculture; (ix) transportation; (x) fishing and aquaculture; (xi) tourism; and (xii) coastal zone.
			2.2.2. (c) As established in the Climate Change Procedural Regulations, all the sector plans for climate change mitigation called for in the LMCC have been approved and published for the following ministries: (i) energy; (ii) mines; (iii) health; (iv) public works; (v) housing and urban development; (vi) transportation and telecommunications; and (vii) agriculture.
	2.1.3. As established in the Climate Change Procedural Regulations, the first eight regional climate change action plans, containing objectives and instruments for climate change management at the regional level, as provided in the LMCC, have been approved with a gender lens.	Pending fulfillment (Q2, 2025)	2.2.3. As established in the Climate Change Procedural Regulations, regional climate change action plans have been approved for Chile's 16 regions.
	2.1.4. The first 25 communal climate change actions plans, defining a series of actions and targets for climate change mitigation and adaptation, have been approved.	Pending fulfillment (Q2, 2025)	2.2.4. At least 50 communal climate change action plans have been approved.
	2.1.5. The Ministry of Public works has launched the preparation process for at least three new watershed strategic water resource plans that include actions to address the adverse impact of climate change on water resources.	Pending fulfillment (Q4, 2024)	2.2.5. The Ministry of Public works has approved at least three new watershed strategic water resource plans that include actions to address the adverse impact of climate change on water resources.
3.1. Climate institutional structure: Strengthen the institutional structure related to environmental and climate management.	3.1.1. (a) The Law Establishing the Biodiversity and Protected Areas Service and the National Protected Areas System, whose purpose is to conserve Chile's biodiversity and protect its natural capital, and which, among other things, creates Indigenous peoples conservation areas as a protected area category in Chile, has been enacted and published in the Official Gazette. 3.1.1. (b) The draft regulation on biodiversity offsets, setting criteria and standards, as part of the environmental evaluation of projects, for determining whether the proposed offsetting measures are appropriate under the Law Establishing the Biodiversity and Protected Areas Service and the National Protected Areas System, has been prepared and submitted to the CGR.	(a) Fulfilled (Q3, 2023) (b) Pending fulfillment (Q2, 2025) (c) Pending fulfillment (Q2, 2025)	3.2.1. (a) The regulation governing the operation of the National Biodiversity Fund, as mandated in the Law Establishing the Biodiversity and Protected Areas Service and the National Protected Areas System, has been published in the Official Gazette. 3.2.1. (b) The following regulations have been prepared and submitted to the CGR: (i) the regulation establishing the procedure and requirements for the creation of national protected areas under the Law Establishing the Biodiversity and Protected Areas Service and the National Protected Areas System; and (ii) the regulation governing a national system of payment for ecosystem services.

Components/ Policy objectives	PBP I Policy measures	Fulfillment status of PBP I policy measures I'	PBP II Indicative policy measures
	3.1.1. (c) The preliminary draft regulation of the Biodiversity and Ecosystem Services Certification System, which will govern the scope of the certification system and the certification procedure, as well as the offset contracts for ecosystem services under the Law Establishing the Biodiversity and Protected Areas Service and the National Protected Areas System, has been prepared.		
	3.1.2. At least the following actions contained in the 2024+ work plan of the Natural Capital Committee have been implemented: (i) preparation of ecosystem classification maps for at least one region of Chile; and (ii) setting of the first public baseline on natural capital in least one region of Chile.	Pending fulfillment (Q2, 2025)	3.2.2. A methodological guide has been prepared for mainstreaming natural capital in investment programs and/or projects in line with the 2024+ work plan of the Natural Capital Committee.
	3.1.3. (a) The draft amendment of Law 19300 (General Framework Law for the Environment), clarifying the entry and classification of projects and activities subject to the environmental impact assessment system, such as the 3 MW threshold for electricity generating plants, and setting various rules for environmental assessment and classification of projects or activities, etc., has been drafted and submitted to Chile's National Congress. 3.1.3. (b) A favorable determination has been obtained from the Council of Ministers for Sustainability and Climate Change regarding the final draft amendment to the Regulation of the Environmental Impact Assessment System (EIAS), approved pursuant to Decree 40/2013, which includes the optimization of sector environmental permits and changes in the entry thresholds for investment projects in renewable energy and recycling of organic waste. 3.1.3. (c) The MMA Environmental Assessment Service has prepared a technical handbook that provides guidelines for implementation of the EIAS Regulation and facilitates compliance with the new requirements associated with sector environmental permits.	(a) Fulfilled (Q1, 2024) (b) Pending fulfillment (Q4, 2024) (c) Pending fulfillment (Q2, 2025)	3.2.3. (a) The Amendment of Law 19300 (General Framework Law for the Environment) has been enacted and published in the Official Gazette. 3.2.3. (b) The MMA has prepared and implemented a capacity-building strategy for regional and municipal governments to implement the amendment to the EIAS Regulation.
	3.1.4. (a) The Framework Law on Sector Authorizations, establishing the Sector Regulation and Evaluation Service intended to standardize and coordinate the actions of the public administration agencies with the authority to authorize investment projects, has been drafted and submitted to Congress.	(a) Fulfilled (Q1, 2024) (b) Pending fulfillment (Q4, 2024)	3.2.4. (a) The Framework Law on Sector Authorizations has been enacted and published in the Official Gazette. 3.2.4. (b) Two regulations of sector agencies that include legal notices and sworn statements as alternatives to authorization, as provided in the Framework Law on Sector Authorizations, have been approved and published in the Official Gazette.

Components/ Policy objectives	PBP I Policy measures	Fulfillment status of PBP I policy measures I'	PBP II Indicative policy measures
	<p>3.1.4. (b) Two preliminary draft regulations of sector agencies have been prepared under the bill for the Framework Law on Sector Authorizations that include legal notices and/or sworn statements as alternatives to authorization.</p> <p>3.1.4. (c) The Ministry of Economy has signed at least two resource transfer agreements to accelerate existing dossiers at sector agencies.</p>	(c) Pending fulfillment (Q1, 2025)	
<p>4.1. Climate investment: Incentivize public and private investments in carbon neutrality and resilience through the introduction of regulations and policies.</p>	<p>4.1.1. (a) The regulation governing projects for the reduction of polluting emissions to offset taxed emissions (green tax offset system), as provided in Article 8 of Law 20780 (Tax Reform Law Amending the Income Tax System and Introducing Several Changes in the Tax System), has been approved and published in the Official Gazette.</p> <p>4.1.1. (b) The MMA has launched the pilot for certification of polluting emissions reduction as part of the green tax offset system.</p>	<p>(a) Fulfilled (Q3, 2023)</p> <p>(b) Pending fulfillment (Q2, 2025)</p>	<p>4.2.1. The MMA has created the national offset program for local pollutants under the Green Tax Emissions Offset System.</p>
	<p>4.1.2. The regulation establishing the conditions and requirements for certificates of emissions reduction or absorption, as part of the international cooperation established in Article 6 of the Paris Agreement, has been approved and published in the Official Gazette.</p>	<p>Pending fulfillment (Q2, 2025)</p>	<p>4.2.2. The MMA has created the national committee, whose purpose is to monitor compliance with Article 6 of the Paris Agreement.</p>
	<p>4.1.3. The regulation for the preparation of rules on emissions of GHGs and short-lived climate forcers, setting a standard for benchmark emissions by technology, sector, and/or activity for one or more GHGs or short-lived climate forcers that may be emitted by an establishment, emissions source, or group of them, as provided in the LMCC, has been approved and published in the Official Gazette.</p>	<p>Pending fulfillment (Q1, 2025)</p>	<p>4.2.3. (a) The MMA has submitted to the Sustainability Cabinet the final draft regulation for certificates of GHG emissions reductions or absorption, governing criteria for determining the maximum amount of certificates that can be used in a given period of time, etc., as provided in the LMCC.</p>
	<p>4.1.4. (a) A bill for the Law Promoting the Recycling of Organic Waste and Strengthening Waste Management at the Subnational Level, to strengthen the planning and governance of waste management in Chile, has been prepared and submitted to Chile's National Congress.</p> <p>4.1.4. (b) The methodological guide for developing regional strategic waste recycling plans and local waste plans has been prepared and published on the MMA's website.</p>	<p>(a) Fulfilled (Q3, 2023)</p> <p>(b) Pending fulfillment (Q1, 2025)</p>	<p>4.2.4. Twenty-five local waste plans or equivalent municipal management plans to prevent waste from being generated and promote solid waste recycling at the municipal level, have been prepared under the Law Promoting the Recycling of Organic Waste and Strengthening Waste Management at the Subnational Level.</p>

RESULTS MATRIX

Program objective:	The program's general objective is to support Chile's transition towards a carbon-neutral and resilient economy. The specific objectives are: (i) to accelerate climate planning in strategic sectors and at the national, regional, and municipal government levels; (ii) to strengthen the institutional structure related to environmental and climate management; and (iii) to incentivize public and private carbon-neutral and resilient investments through the introduction of regulations and policies.
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GENERAL DEVELOPMENT OBJECTIVE

Indicator	Unit of measure	Baseline value	Baseline year	Expected year achieved	Target	Means of verification	Comments
General development objective: To support Chile's transition towards a carbon-neutral and resilient economy							
Annual emissions of CO ₂ equivalent	Megatons of CO ₂ eq	101.5	2023	2030	95	National inventory of GHG and other climate contaminants	

SPECIFIC DEVELOPMENT OBJECTIVES

Indicator	Unit of measure	Baseline		Target		Means of verification	Comments
		Value	Year	Value	Year		
Specific objective 1: To accelerate climate planning in strategic sectors and at the national, regional, and municipal government levels							
1.1. Public investment of the national government in climate change issues	US\$ million	297	2022	370	2026	Annual report on climate investment expenditure prepared by the Ministry of Finance's Budget Directorate (DIPRES)	Values were calculated in Chilean pesos at a rate of Ch\$872 to the US\$ for 2022, according to the Central Bank data. For 2026, an exchange rate of Ch\$820 to the US\$ is used, based on inflation and exchange rate assumptions in the most recent public finance report . The target is for 2025, which is reported in 2026.
1.2. Sector climate change adaptation and mitigation plans with a gender and diversity lens, ¹ in implementation	%	0	2023	36	2026	Sector plans monitoring report associated with the LMCC monitoring and reports system	"In implementation" means at least one mitigation or adaptation measure in the approved plan is being implemented. The numerator is the 7 sector plans included in the operation, and the denominator is the 19 sector adaptation and mitigation plans called for the LMCC.

¹ Diversity includes Indigenous people, persons with disabilities, and other vulnerable groups. The numerator will include the plans prepared with a gender and diversity lens according to the indicated criterion.

Indicator	Unit of measure	Baseline		Target		Means of verification	Comments
		Value	Year	Value	Year		
1.3. Regional climate change action plans with a gender and diversity lens, ¹ in implementation	%	0	2023	50	2026	Regional climate change action plans monitoring report in the National Access to Information and Citizen Participation System	“In implementation” means at least one measure in the plan is being implemented. The denominator is the 16 regional climate change action plans called for in the LMCC. The numerator will include the plans prepared with a gender and diversity lens that are in implementation, according to the indicated criterion. ¹
Specific objective 2: To strengthen the institutional structure related to environmental and climate management							
2.1. Funds budgeted for conservation of biodiversity and national protected areas	US\$ million	23.9	2023	52.9	2026	2026 budget law	The baseline calculation corresponds to Portfolio 13, Chapter 5, Program 4 of the Public Sector Budgets Law of 2024 . The calculation of 1 on national protected wilderness areas (which will be integrated into the Biodiversity and Protected Areas Service). The 2026 target is the sum of the current budget plus the incremental expenditure committed in DIPRES Financial Report 272/2022 .
2.2 Land area under conservation pursuant to a legal instrument	%	22	2023	25	2026	National Environmental Information System (SINIA) Report and State of the Environment Report	The land area in the SINIA is counted in addition to the priority sites declared under Law 21600. The percentage is with respect to the country's entire land area.
2.3. Time required to approve photovoltaic projects	Months	58	2023	46	2026	Ministry of Economy data	Refers to data observed in processing such projects.
Specific objective 3: To incentivize public and private carbon-neutral and resilient investments through the introduction of regulations and policies							
3.1. Emissions subject to the green tax that are offset with emissions reduction certificates	%	1	2023	2	2026	Annual report of the Environmental Superintendent to the Internal Revenue Service	Refers to emissions in the green tax offset system.
3.2. Organic solid waste recycling rate	%	0.02	2022	2	2026	National Waste Declaration System (SINADER)	Refers to the rate of recycling (use) of household organic solid waste.

OUTPUTS²

Indicator	Unit of measure	Baseline value	Baseline year	2023	2024	2025	End of PBP I 2025	Means of verification	Comments
Component II. Climate planning									
2.1.1. (a) (i) Regulation establishing the procedures associated with climate change management instruments approved and published; and (ii) regulation governing the establishment and operation of an Interministerial Technical Team for Climate Change approved and published	Regulation	0	2022	1	1		2	Publication in the 21 December 2023 Official Gazette of MMA Decree No. 16/2023. Decree approving the regulation governing the establishment and operation of an Interministerial Technical Team for Climate Change and the regional committees for climate change published in the Official Gazette.	
2.1.1. (b) Final draft of Chile's 2025 Nationally Determined Contribution (NDC) with favorable determination from the Council of Ministers for Sustainability and Climate Change	Draft	0	2002			1	0	Resolution of the Council of Ministers for Sustainability and Climate Change with favorable determination on the final draft of Chile's 2025 NDC.	
2.1.2. (a) National Climate Change Adaptation Plan updated and submitted to the Office of the Comptroller General of the Republic (CGR)	Plan	0	2022	0		1	1	(a) Official letter sending the draft update of the National Climate Change Adaptation Plan to the CGR.	
2.1.2. (b) Preliminary drafts of sector climate change adaptation and/or mitigation plans approved	Preliminary draft plan	0	2022	1	6	12	19	(b) Resolutions: (i) Publication in the 30 November 2023 Official Gazette of Exempt Resolution No. 664/2023 of the Ministry of Agriculture approving the preliminary draft sector climate change adaptation plan of the forestry and agriculture sector. (ii) Publication in the 26 April 2024 Official Gazette of Exempt Resolution No. 1022/2024 of the Ministry of Economy, Development, and Tourism approving the preliminary draft sector climate change adaptation plan of the fishing and aquaculture sector. (iii) Publication in the 30 April 2024 Official Gazette of Exempt Resolution No. 619/2024 of the Ministry of Health approving the preliminary draft	

² For details on indicators and means of verification (with electronic links) for outputs, see the Means of Verification Matrix.

Indicator	Unit of measure	Baseline value	Baseline year	2023	2024	2025	End of PBP I 2025	Means of verification	Comments
								sector climate change adaptation plan of the health sector. (iv) Publication in the 30 April 2024 Official Gazette of Exempt Resolution No. 620/2024 approving the preliminary draft sector climate change mitigation plan of the health sector. (v) Publication in the 3 February 2024 Official Gazette of Exempt Resolution No. 27/2024 of the Ministry of Agriculture approving the preliminary draft sector climate change mitigation plan of the agriculture sector.	
2.1.3. Regional climate change action plans approved with a gender lens	Plan	0	2022	4	0	4	8	(i) Exempt Resolution No. 81 of 25 January 2023. (ii) Exempt Resolution No. 223 of 8 May 2023. (iii) Exempt Resolution No. 447 of 28 July 2023. (iv) Exempt Resolution No. 598 of 25 August 2023. (v) Pending resolutions.	The plans will have a gender lens.
2.1.4. Communal climate change action plans approved	Plan	0	2022	4	1	20	25	(i) Decree No. 3018/2023 of 17 August 2023 approving the communal climate change action plan of the Municipality of Quisco . (ii) Decree No. 2980 of 13 October 2023 approving the communal climate change action plan of the Municipality of Punta Arenas 2023-2030 . (iii) Minutes of Regular Meeting No. 36 of the Municipal Council of 27 December 2023 (Resolution 281 So. 36/2023) approving the communal climate change action plan of the Municipality of San Antonio . (iv) Decree No. 01871/2024 of 18 March 2024 approving the communal climate change action plan of the Municipality of Valdivia. (v) Decree No. 3222 of 7 December 2023 approving the communal climate change action plan of the Municipality of Ancud. (v) Pending municipal decrees, municipal council minutes, or similar administrative records.	

Indicator	Unit of measure	Baseline value	Baseline year	2023	2024	2025	End of PBP I 2025	Means of verification	Comments
2.1.5. Watershed strategic plans in preparation with a gender lens	Plan	0	2022		3		3	Written communication from the Ministry of Public Works to the Bank attaching evidence that preparation has begun for the three watershed strategic plans.	
Component III. Climate institutional structure									
3.1.1. (a) Law Establishing the Biodiversity and Protected Areas Service and the National Protected Areas System enacted and published	Law	0	2022	1			1	Publication in the 6 September 2023 Official Gazette of Law 21600.	The law creates the Indigenous peoples conservation areas as a protected area category in Chile.
3.1.1. (b) Regulation on biodiversity offsets prepared and submitted to the CGR	Regulation	0	2022			1	1	Official letter sending the regulation on biodiversity offsets to the CGR.	
3.1.1. (c) Preliminary draft regulation of the Biodiversity and Ecosystem Services Certification System prepared	Preliminary draft regulation	0	2022				1	Written communication from the MMA to the Bank attaching evidence of preparation of this regulation of the Biodiversity and Ecosystem Services Certification System.	
3.1.2. (i) Ecosystem classification maps prepared for at least one region of Chile; and (ii) first public baseline on natural capital prepared in least one region of Chile	(i) Map (ii) Baseline	0	2022	1	1		2	(i) Written communication from the MMA to the Bank attaching evidence of preparation of ecosystem classification maps for at least one region of Chile. (ii) Setting of the first public baseline on natural capital in least one region of Chile.	
3.1.3. (a) Bill to amend Law 19300 (General Framework Law for the Environment) drafted and submitted to Chile's National Congress	Bill	0	2022		1		1	Presidential Message 292-371 of 10 January 2024.	
3.1.3. (b) Regulation of the Environmental Impact Assessment System (EIAS) with favorable determination	Regulation	0	2022		1		1	Resolution of the Council of Ministers for Sustainability and Climate Change with favorable determination on the final draft amendment to the EIAS Regulation.	The draft amendment will include the optimization of sector environmental permits and changes in the entry thresholds

Indicator	Unit of measure	Baseline value	Baseline year	2023	2024	2025	End of PBP I 2025	Means of verification	Comments
									for investment projects in renewable energy and recycling of organic waste.
3.1.3. (c) Technical handbook prepared that provides guidelines for implementation of the EIAS Regulation and facilitates compliance with the new requirements associated with sector environmental permits	Handbook	0	2022			1	1	Communication from the MMA to the Bank attaching the technical handbook that provides guidelines for implementation of the EIAS Regulation and facilitates compliance with the new requirements associated with sector environmental permits.	
3.1.4. (a) Bill for the Framework Law on Sector Authorizations establishing the Sector Regulation and Evaluation Service submitted to Chile's National Congress	Bill	0	2022	0	1		1	Presidential Message 292-371 of 10 January 2024.	
3.1.4. (b) Preliminary draft regulations of sector agencies under the bill for the Framework Law on Sector Authorizations prepared	Preliminary draft regulation	0	2022		2		2	Written communication from the Ministry of Economy to the Bank attaching evidence of preparation of two regulations of sector agencies under the bill for the Framework Law on Sector Authorizations.	
3.1.4. (c) Resource transfer agreements to accelerate existing dossiers at sector agencies signed	Agreement	0	2022			2	2	Agreements signed between the Ministry of Economy and two sector agencies.	
Component IV. Climate investment									
4.1.1. (a) Regulation governing projects for the reduction of polluting emissions to offset taxed emissions approved and published	Regulation	0	2022	1	0		1	Publication in the 29 September 2023 Official Gazette of Decree 4/2023.	

Indicator	Unit of measure	Baseline value	Baseline year	2023	2024	2025	End of PBP I 2025	Means of verification	Comments
4.1.1. (b) Pilot launched for certification of polluting emissions reduction as part of the green tax offset system	Pilot	0	2022			1	1	Written communication from the MMA to the Bank attaching evidence of launch of the pilot for certification of polluting emissions reduction as part of the green tax offset system.	
4.1.2. Preliminary draft regulation governing application of Article 6 of the Paris Agreement associated with the international sale of carbon offsets approved and published	Preliminary draft regulation	0	2022			1	1	Publication in the Official Gazette of the decree approving the regulation establishing the conditions and requirements for certificates of emissions reduction or absorption.	
4.1.3. Regulation for the preparation of GHG emission standards approved and published	Regulation	0	2022			1	1	Publication in the Official Gazette of the decree approving the regulation for the preparation of emissions standards for GHGs and short-lived climate forcers.	
4.1.4. (a) Bill for the Law Promoting the Recycling of Organic Waste and Strengthening Waste Management at the Subnational Level prepared and submitted to Chile's National Congress	Bill	0	2022	1	0		1	Presidential Message No. 132-371 of 9 August 2023.	
4.1.4. (b) Methodological guide for developing regional strategic waste recycling plans and local waste plans prepared and published	Guide	0	2022			1	1	Evidence that the guide for developing regional strategic waste recycling plans and local waste plans has been published on the MMA's website.	