

República Oriental del Uruguay

ESG Report



Ministerio
de Economía
y Finanzas

August 2023

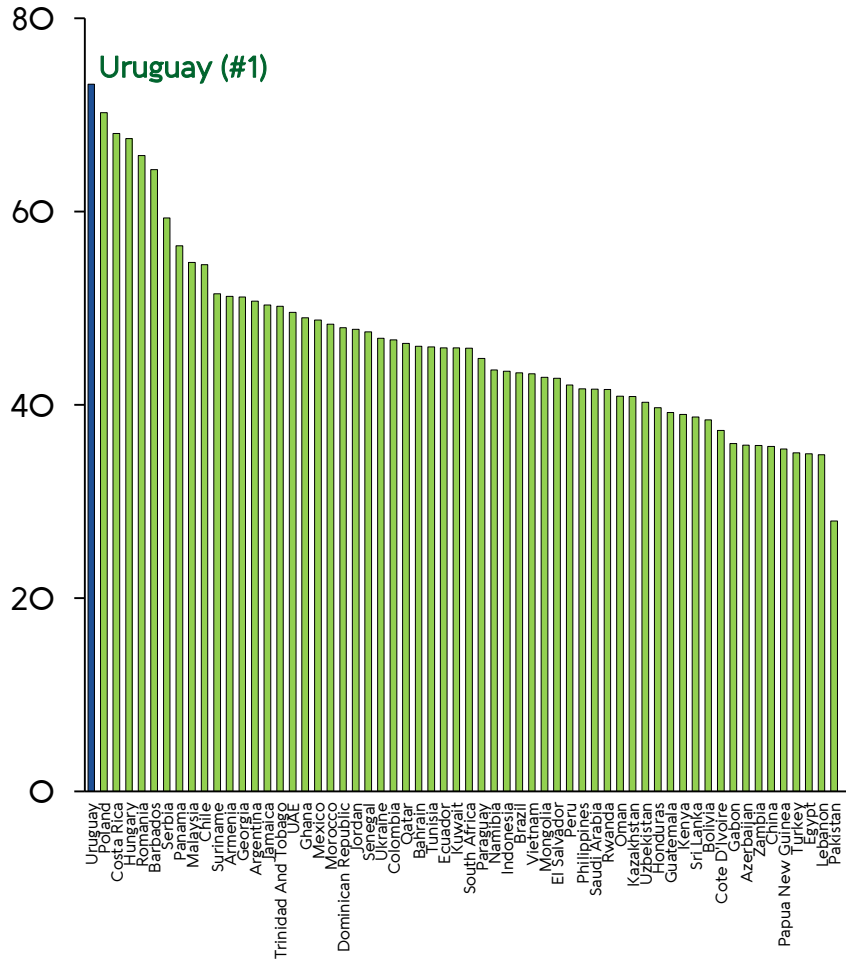


Uruguay is the top global performer on ESG fundamentals in emerging markets



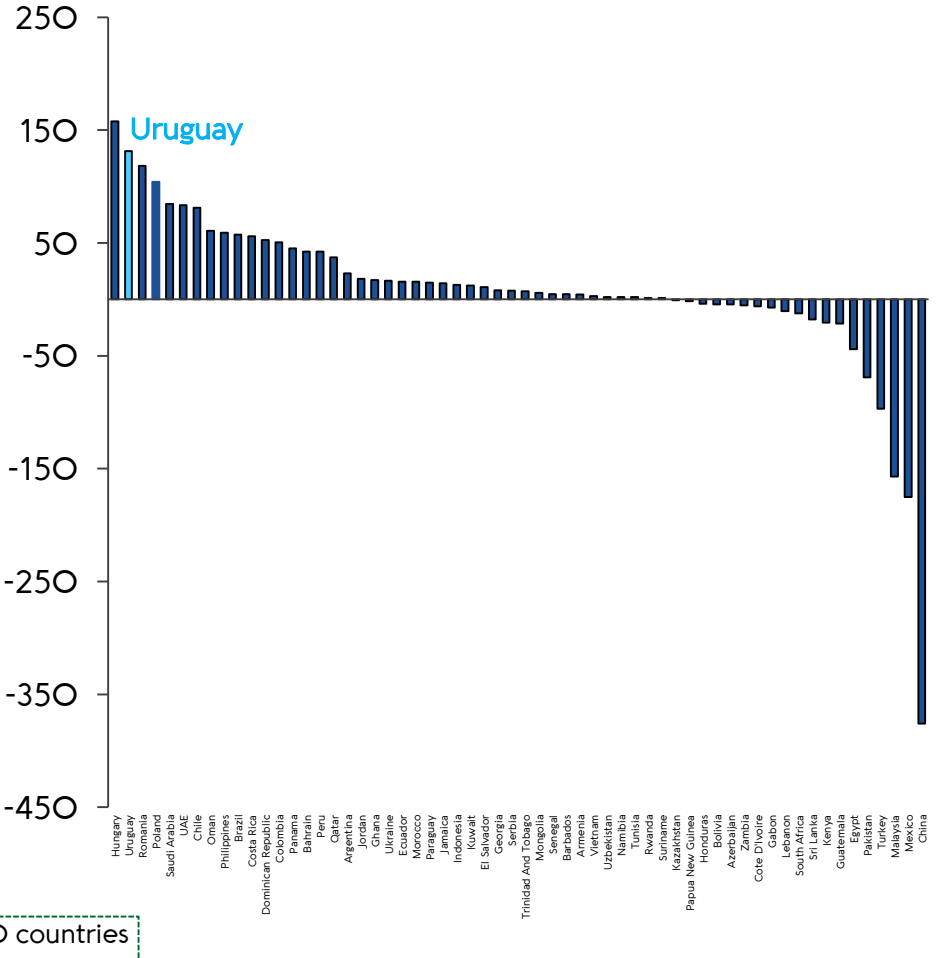
Emerging Markets' ESG Score

(Index, 100 = best performance; as of August 15th, 2023)



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

(In basis points; as of August 15th, 2023)

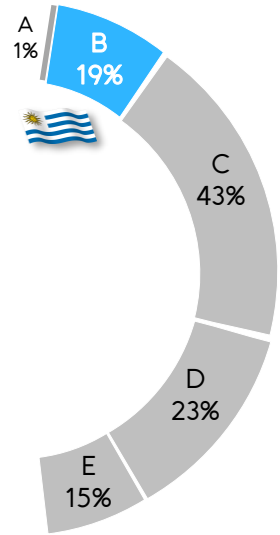
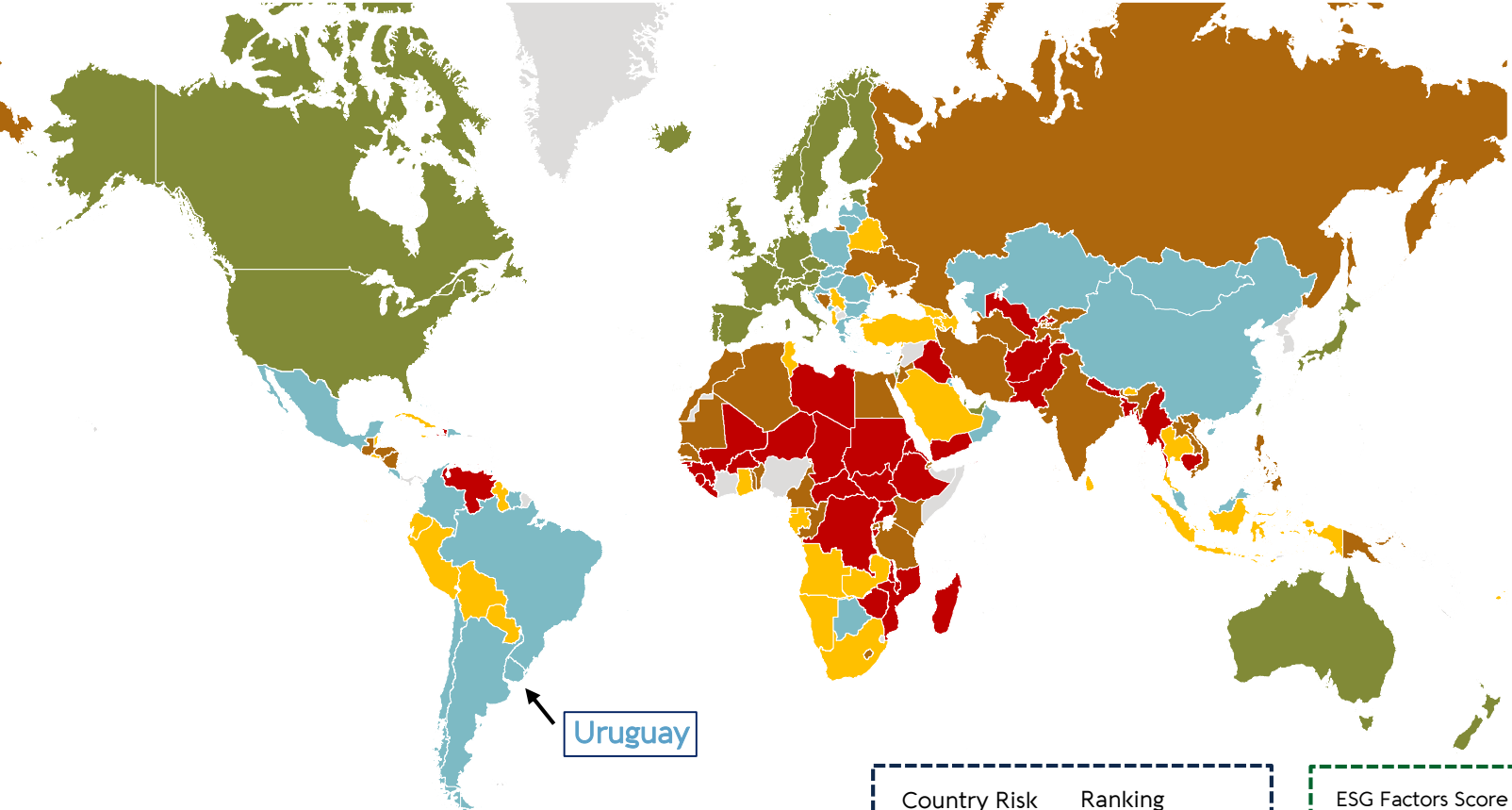


60 countries

Source: J.P. Morgan Chase & Co. using data from Verisk Maplecroft, Sustainalytics and Climate Bonds Initiative.
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Uruguay features favourably in the global ESG indicators ratings



Uruguay



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

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International Agreements

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

Public Institutional Framework

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

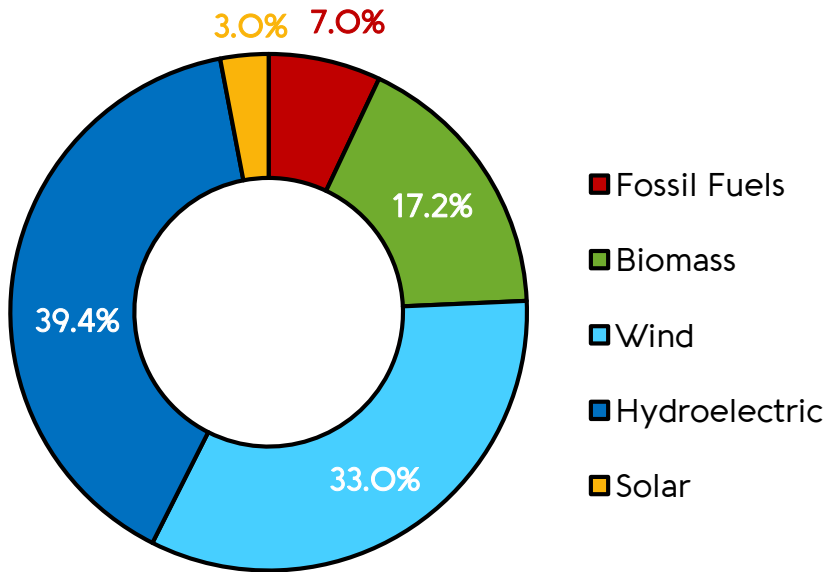
Environmental / Fiscal Policy

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

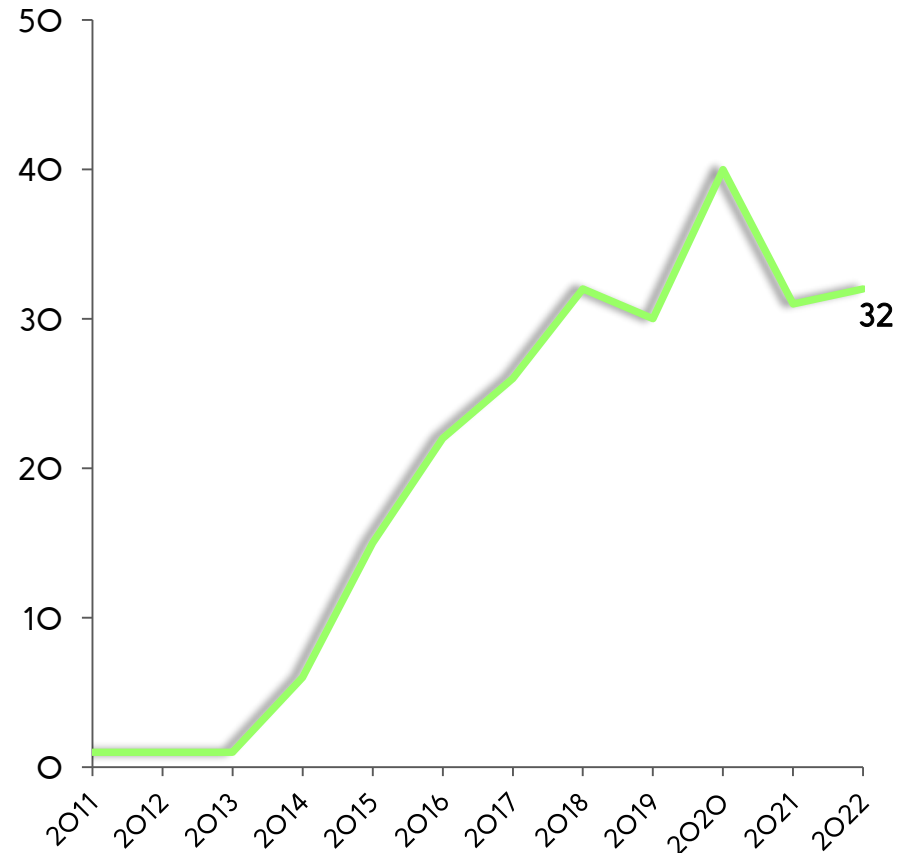
Uruguay's electricity matrix is mostly based on renewable resources, partly due to a steady growth in wind energy in the last decade



Electricity Generation by Source
(% of total, Avg 2018-2022)



Wind power generation of electricity
(% of total)



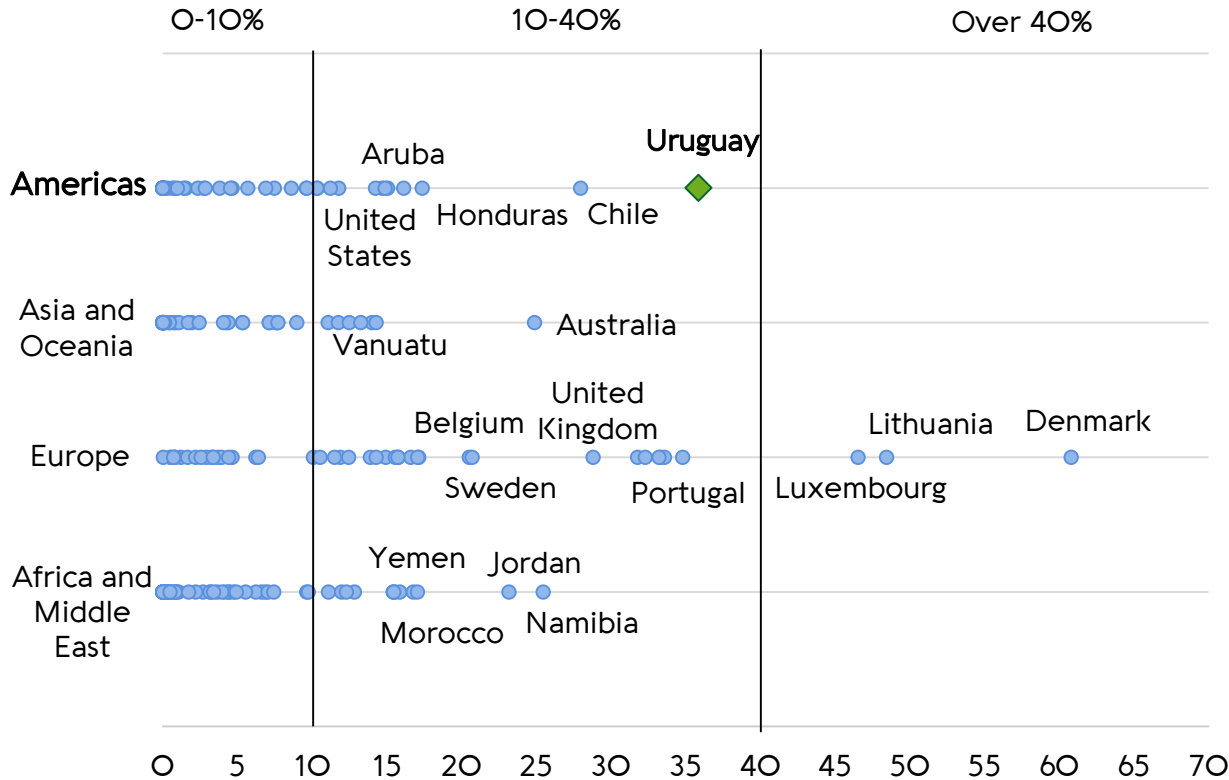
Source: National Energetic Balance 2022 Ministry of Industry, Energy and Mining.

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



Electricity generated from wind and solar sources⁽¹⁾

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



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

- Among emerging countries, Uruguay is ranked:
- **#1** in the **Environmental Pillar Index** from MSCI (2023)
- Among Latin American and Caribbean countries, Uruguay is ranked:
- **#1** in the **Energy Transition Index** from the World Economic Forum (as of 2021)
 - **#2** in **The Green Future Index** from the MIT Technology Review (2023).

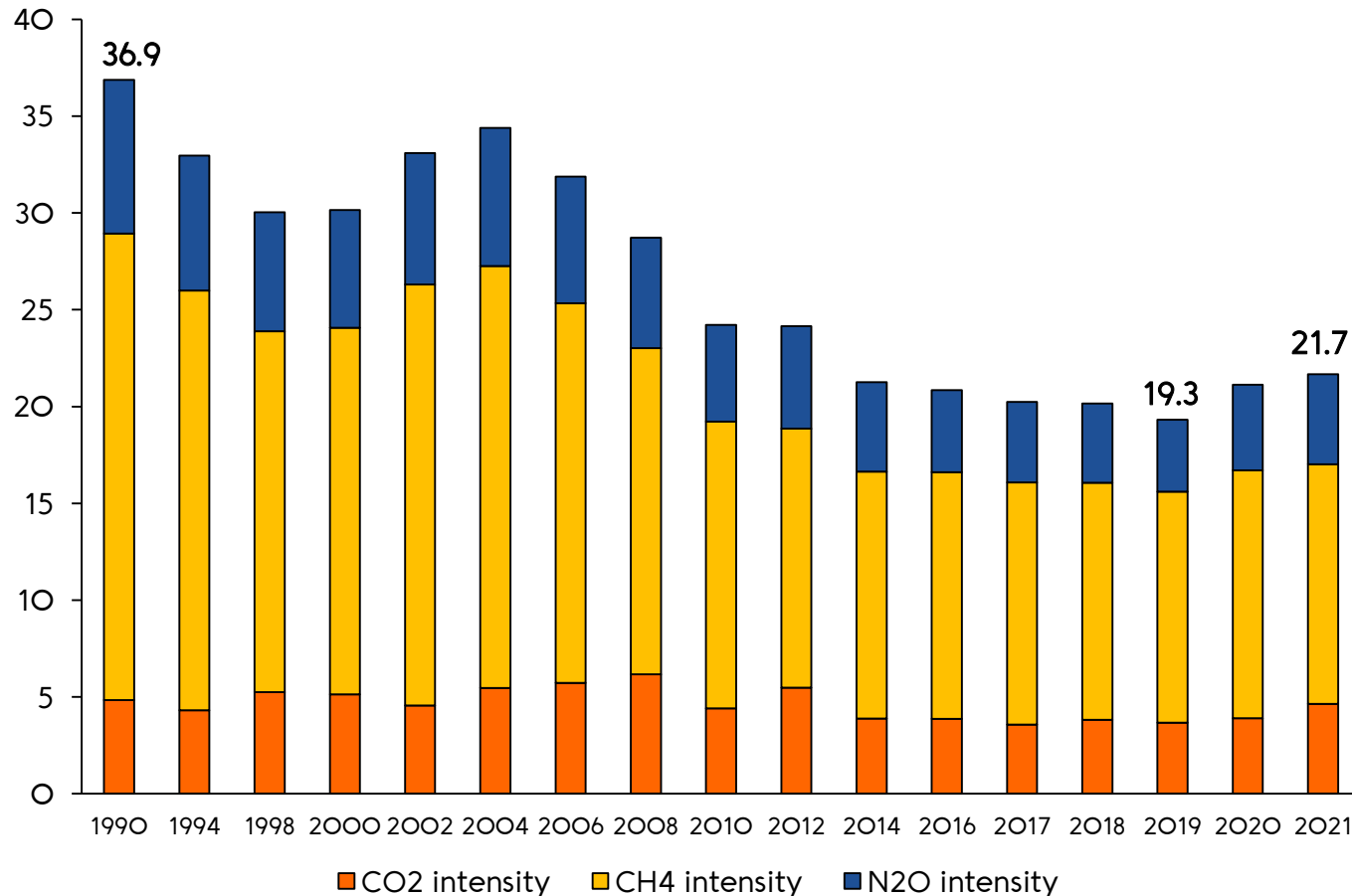
Source: Ember's Global Electricity Review 2023. Total of 201 countries.

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



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

As a share of real GDP, by type of gas



Aggregate GHG emissions' key drivers between 2019 and 2021:

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

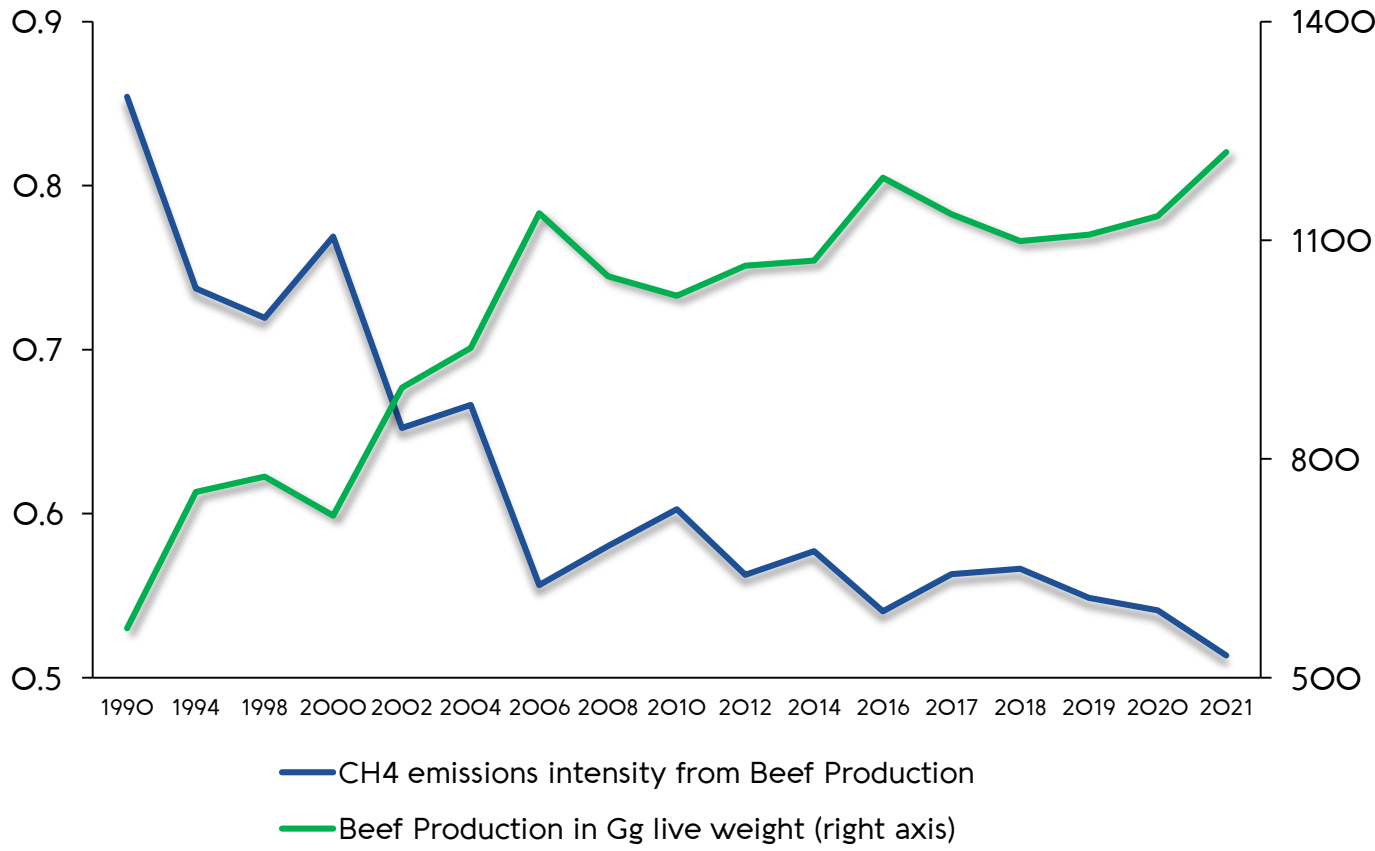
During the period of 2020-2021 real GDP experienced a cumulated contraction of 1.3 percent.

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

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



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



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

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

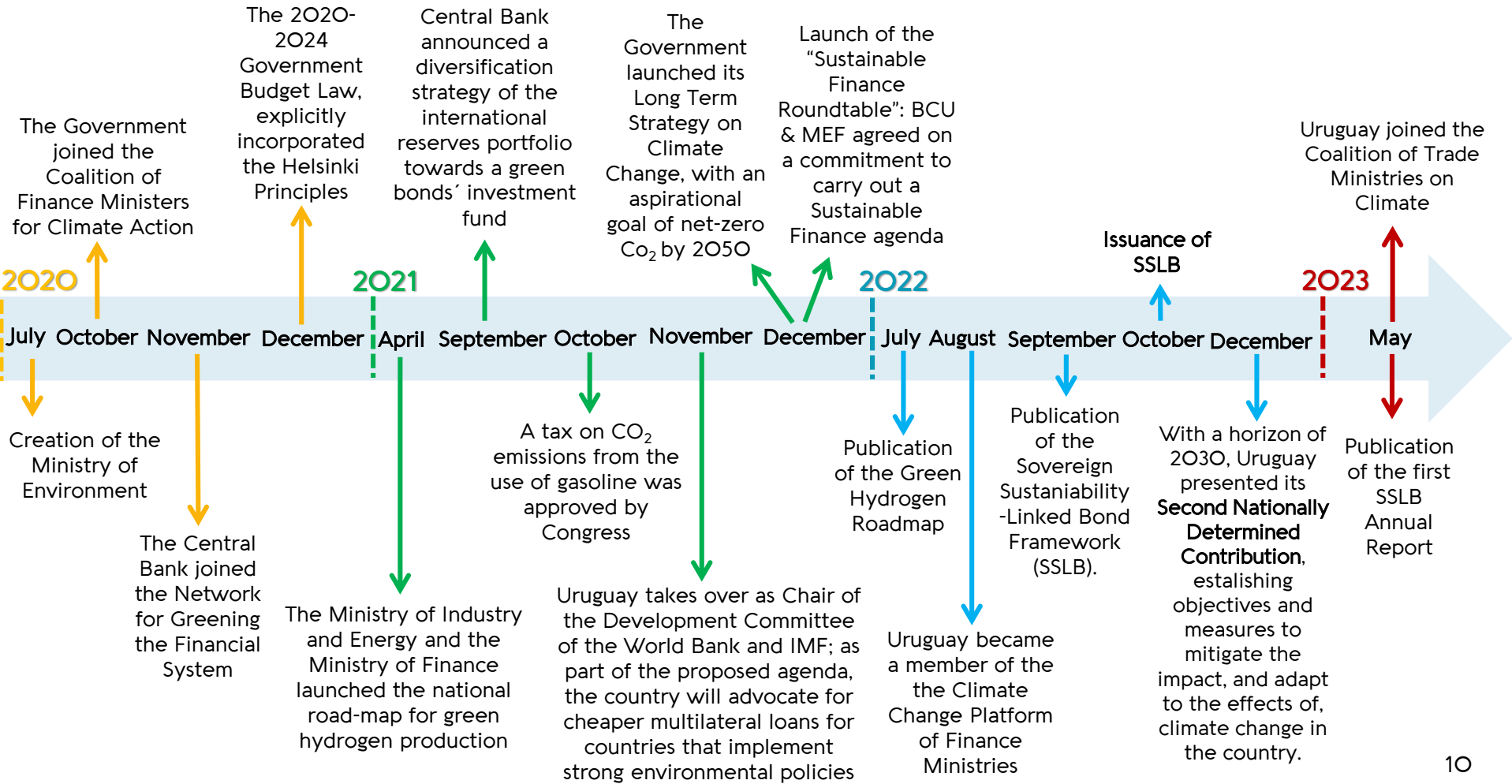
(*) CH₄ emissions intensity from beef production (LHS) is calculated as CH₄ emissions (Gg) from beef production as a share of beef production in Gg live weight in the same year. For the period 1990-2019, data is for years with official NGHGI publication and data for 2020 and 2021 was estimated for the SSLB Annual Report. Source: SSLB Open Database as of April 2023 and official data provided by MGAP.



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



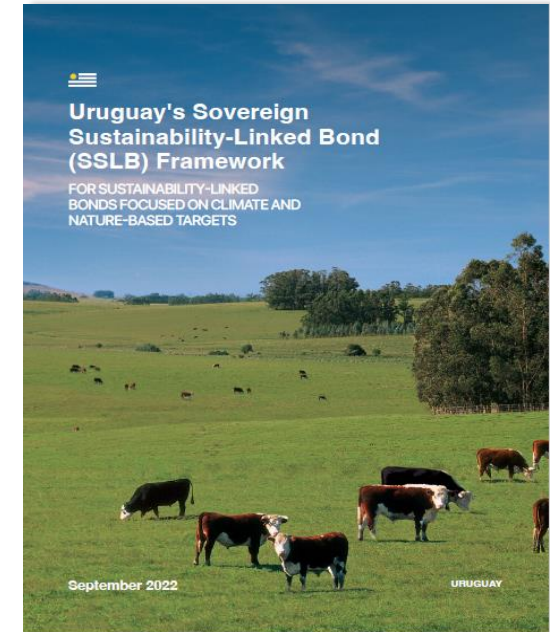
The goal is to make economic growth consistent with a pathway towards low greenhouse gas emissions and a climate-resilient economy, through macroeconomic, fiscal and financing policies.



Uruguay issued a Sustainability-Linked Sovereign Bond (SSLB) tied to climate and nature conservation indicators



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





Consistency with Sustainability-Linked and Labeled Bond Principles



According to Sustainalytics, the Second-Party Opinion provider (SPO), the Framework is aligned with the five core components of ICMA's 2020 Sustainability-Linked Bond Principles. According to its assessment, the KPIs chosen are strong and SPTs were considered ambitious.

Second-Party Opinion
Uruguay's Sovereign Sustainability-Linked Bond (SSLB) Framework

SUSTAINALYTICS
Second-Party Opinion

Evaluation Summary

Substantive to the opinion that the Uruguay's Sovereign Sustainability-Linked Bond (SSLB) Framework aligns with the Sustainability-Linked Bond Principles 2020. This assessment is based on the following:

- Selection of Key Performance Indicators:** Uruguay's Sovereign Sustainability-Linked Bond (SSLB) Framework includes two KPIs: Percentage change in aggregate GHG emissions per unit GDP and from the land-use, and marine forest area, % of municipalities with respect to baseline year (see Table 1). Sustainalytics considers the KPIs chosen to be strong.
- Calculation of Sustainability Performance Targets:** Sustainalytics considers the SPTs to be aligned with Uruguay's sustainability strategy. Sustainalytics further considers SPT 1 and 2 to be ambitious based on their implied improvement against historical performance. Sustainalytics considers SPT 1 to be ambitious given the performance against regional countries and SPT 2 to be highly ambitious given the target, historical performance and the performance against regional countries.
- Bond Characteristics:** Uruguay has listed the bond's financial characteristics to the achievement of the SPTs, setting a coupon step-up for a failure to achieve SPTs 1,1 and 2,1, which are in line with the National Government Contribution (NGC), and a coupon step-down for achieving SPTs 1,2 and 2,2 (overachievement of the NGC objectives). The achievement or failure to achieve of the respective SPTs will trigger the specified coupon-rate changes, as appropriate.
- Reporting:** Uruguay commits to publish official, externally verified reports on an annual basis for KPI 1, and every four years for KPI 2, interim updates will also be provided for KPI 2 on an annual basis. Reports and updates will be published on Uruguay's Economic and Financial Ministry (EFM) website. Uruguay commits to disclose relevant information that may affect the KPIs. The reporting commitments are aligned with the Sustainability-Linked Bond Principles 2020.
- Verification:** Uruguay commits to have external assurance conducted by the United States Development Program, against each SPT for each KPI at the reporting date and throughout the lifetime of the bond. This is aligned with the Sustainability-Linked Bond Principles 2020.

Overview of KPIs and SPTs

KPI	Indicator	SPT	Strength of KPI	Ambitiousness of SPT
Percentage change in aggregate GHG emissions per unit GDP and from the land-use, and marine forest area, % of municipalities with respect to baseline year	1990-2020	SPT 1.1: Achieve a 10% reduction in the environmental per unit of GDP by 2025 from a 1990 baseline SPT 1.2: Achieve a 20% reduction in GHG emissions per unit of GDP by 2025 from a 1990 baseline	Strong	SPT 1.1: Ambitious SPT 1.2: Ambitious
Ratio forest area, % of municipalities with respect to baseline year	2010	SPT 2.1: Achieve a 10% increase in the total forest area by 2025 compared to a 2010 baseline SPT 2.2: Achieve a 15% increase in the total forest area by 2025 compared to a 2010 baseline	Strong	SPT 2.1: Ambitious SPT 2.2: Ambitious

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FOR IMMEDIATE RELEASE

Emerging Markets Investors Alliance Announces Uruguay's SSLB USD Bond Is Consistent with EMIA's Enhanced Labeled Bond Principles

NEW YORK, Oct. 21, 2022 — Emerging Markets Investors Alliance (EMIA) today announced that bonds recently issued by the government of Uruguay are fully consistent with EMIA's Enhanced Labeled Bond Principles (ELBP).

"Compliance with the ELBP can go far toward allaying concerns about greenwashing," said Ashok Parameswaran, president of EMIA. "The ELBP raise the currently low bar for labeled-bond issuance by strengthening transparency and accountability, thereby helping to ensure that new debt better advances environmental, social, and governance (ESG) objectives."

The Uruguay SSLB 5.750% USD bond due in 2034, which settled on October 28, 2022, is fully consistent with EMIA's Enhanced Labeled Bond Principles, which introduce significant improvements over prevailing bond standards. The principles encourage an elevated level of transparency and more stringent terms and conditions in new ESG-related bonds.

EMIA developed the principles to guide the structuring of labeled bonds issued by corporations and sovereigns in the emerging markets. The Enhanced Labeled Bond Principles provide guidelines for market practices that aim to make a meaningful contribution to improved environmental and social outcomes.

"EMIA's recognition of the Uruguay SSLB represents the first milestone in our ongoing effort to shape an ESG bond market where every new issuance should be transparent and have material impact," said Barbara Okami, director of EMIA's Enhanced Labeled Bonds Initiative. "We look forward to seeing many more issuers adopting our guidance."

View the [Enhanced Labeled Bonds Principles on the EMIA website](#).

Also, the Emerging Markets Investors Alliance (EMIA) announced that the SSLB issued by the government of Uruguay is fully consistent with EMIA's Enhanced Labeled Bond Principles (ELBP)— the first recognition of its kind provided by EMIA for its Enhanced Principles.

Whole Economy Sustainability-Linked Bonds

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

Mainstream NDC Commitments

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

Robust inter-ministerial coordination

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



Financing mechanism that is incentive-compatible

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

Reporting

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

External Verification

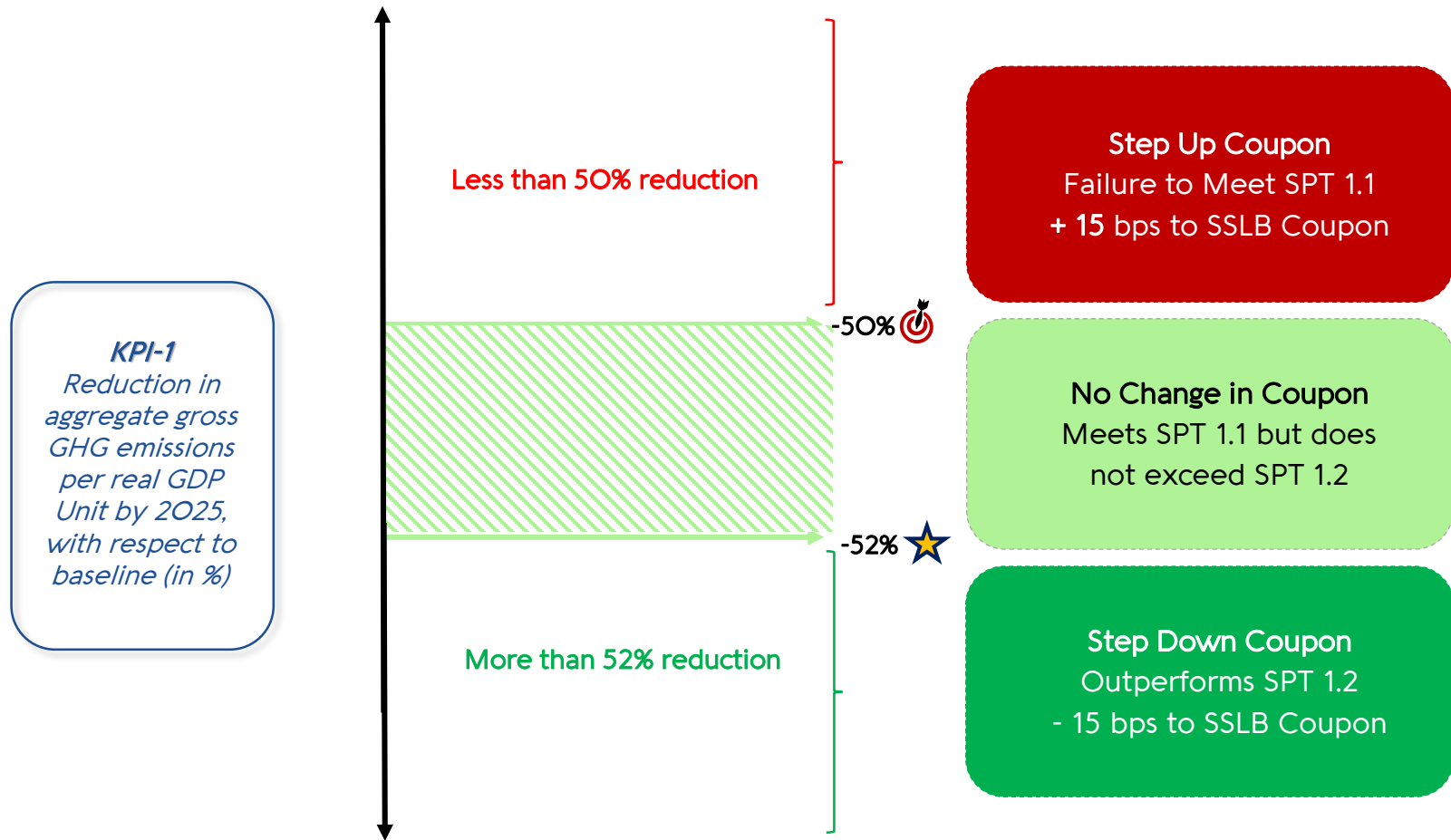
- ✓ United Nations Development Program (“UNDP”) will provide accelerated independent external review of both KPIs throughout the life of the bond

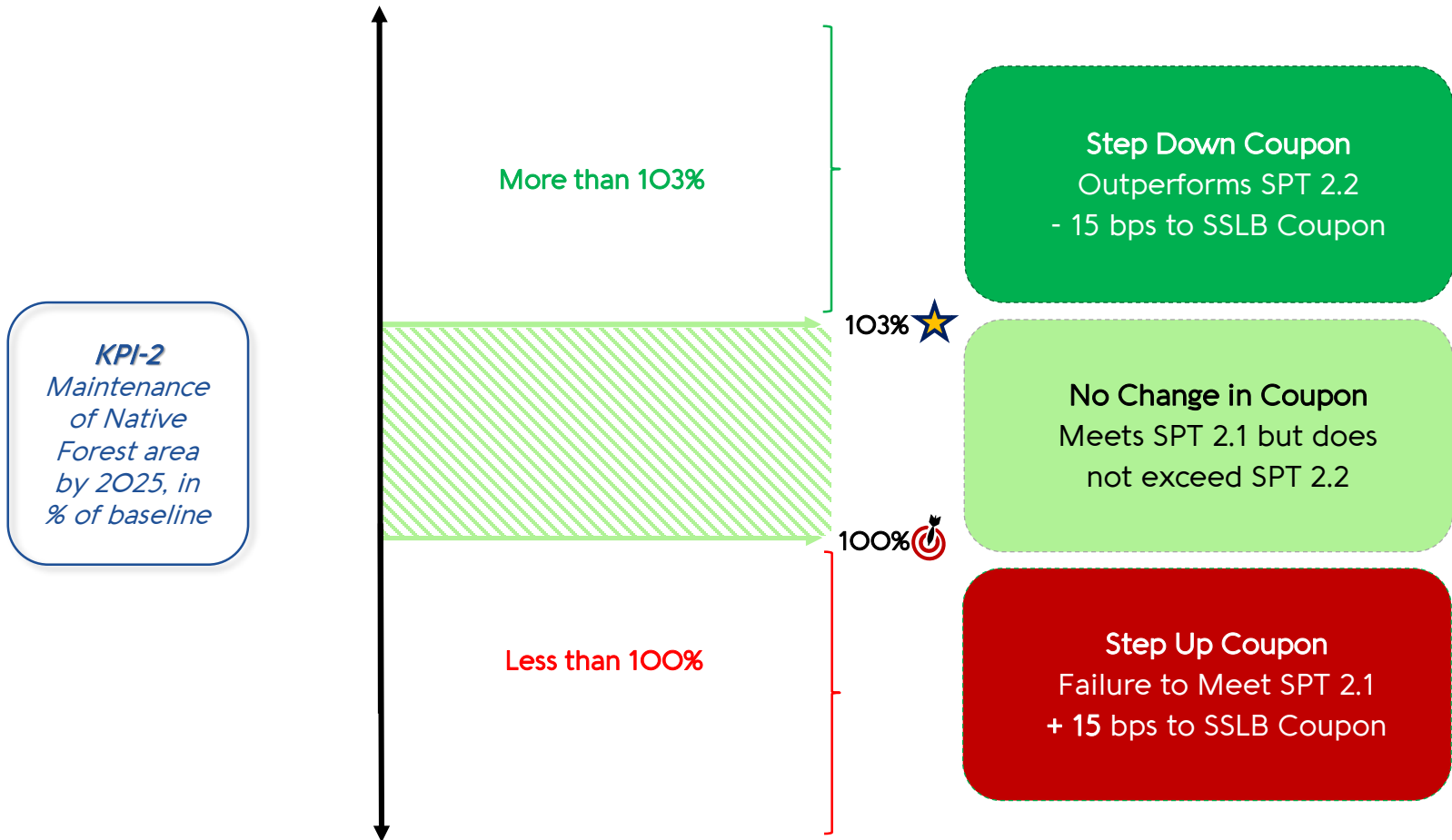
Innovative Step-up/step-down coupon structure linked to the provision of global public goods



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

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

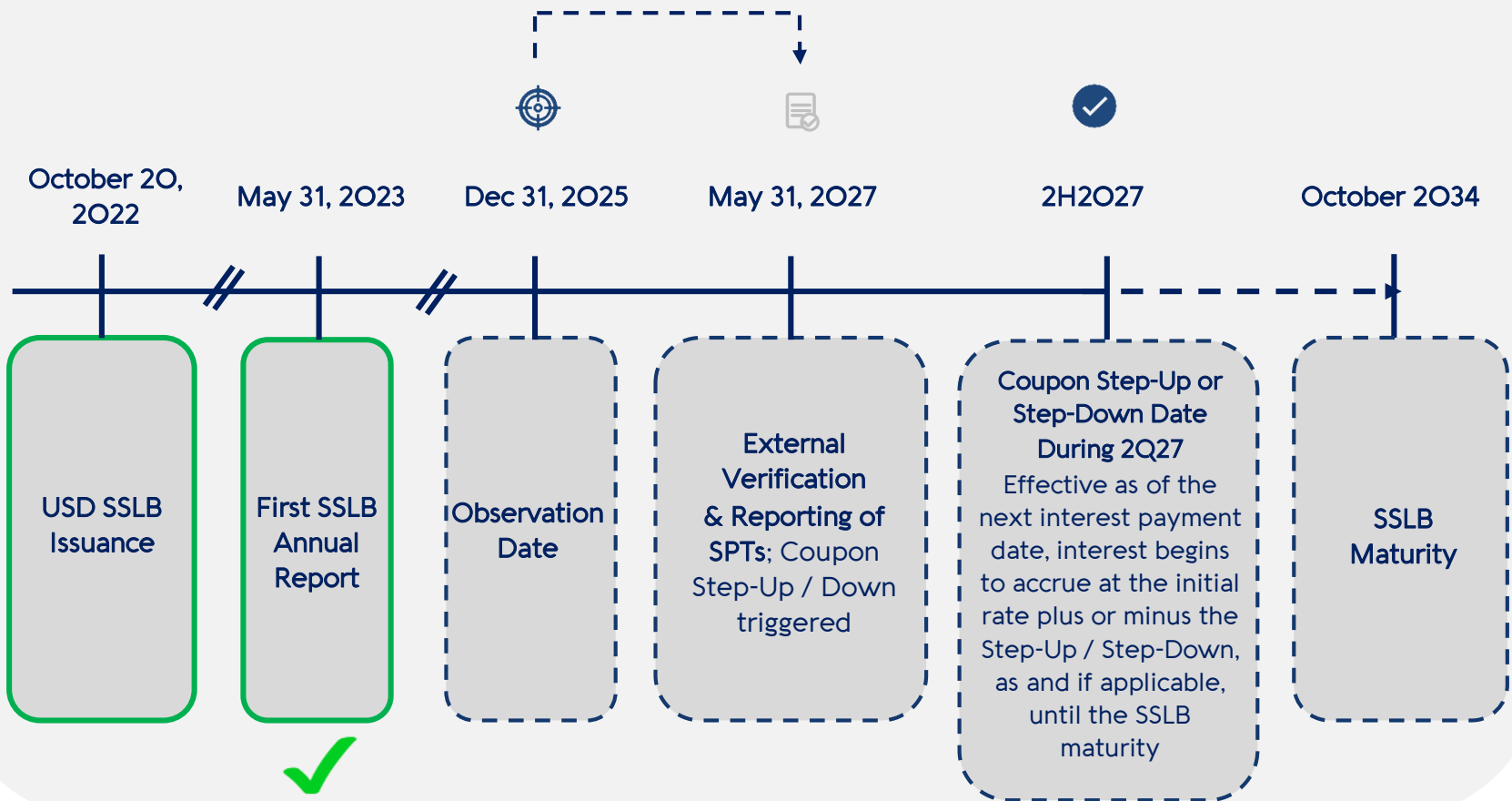




The Framework is anchored on a robust, timely and transparent system of reporting and verification



Accelerated timetable versus UNFCCC¹ Framework for Developing Countries



(1) United Nations Framework Convention on Climate Change.



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

- The **SSLB Report** describes Uruguay’s results at the observation year (2020 and 2021) in the selected KPIs against each **SPT** as well as updated information on the performance and additional information that allows investors to monitor progress towards the quantitative goals:

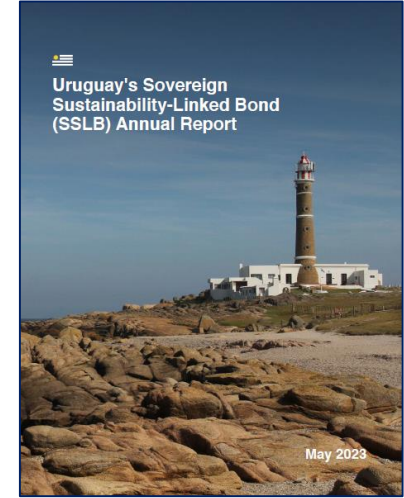


reducing by 50% aggregate GHG emissions intensity by 2025 from the 1990 reference year.



Maintaining 100% of the native forest area compared to reference year 2012.

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





KPI-1: Reduction of GHG emissions intensity

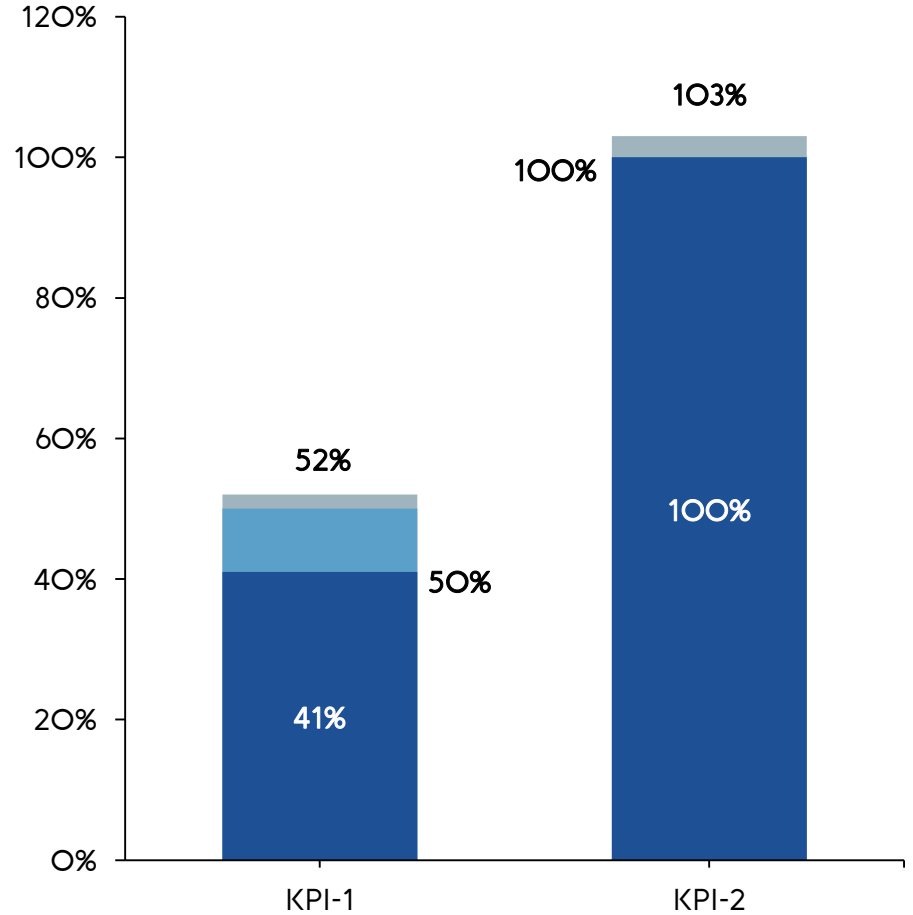
(compared to reference year 1990)

SPT 1	-50%	
SPT 2	-52%	
Latest value	-41%	
	(Year 2021)	

KPI-2: Maintenance of Native Forest area

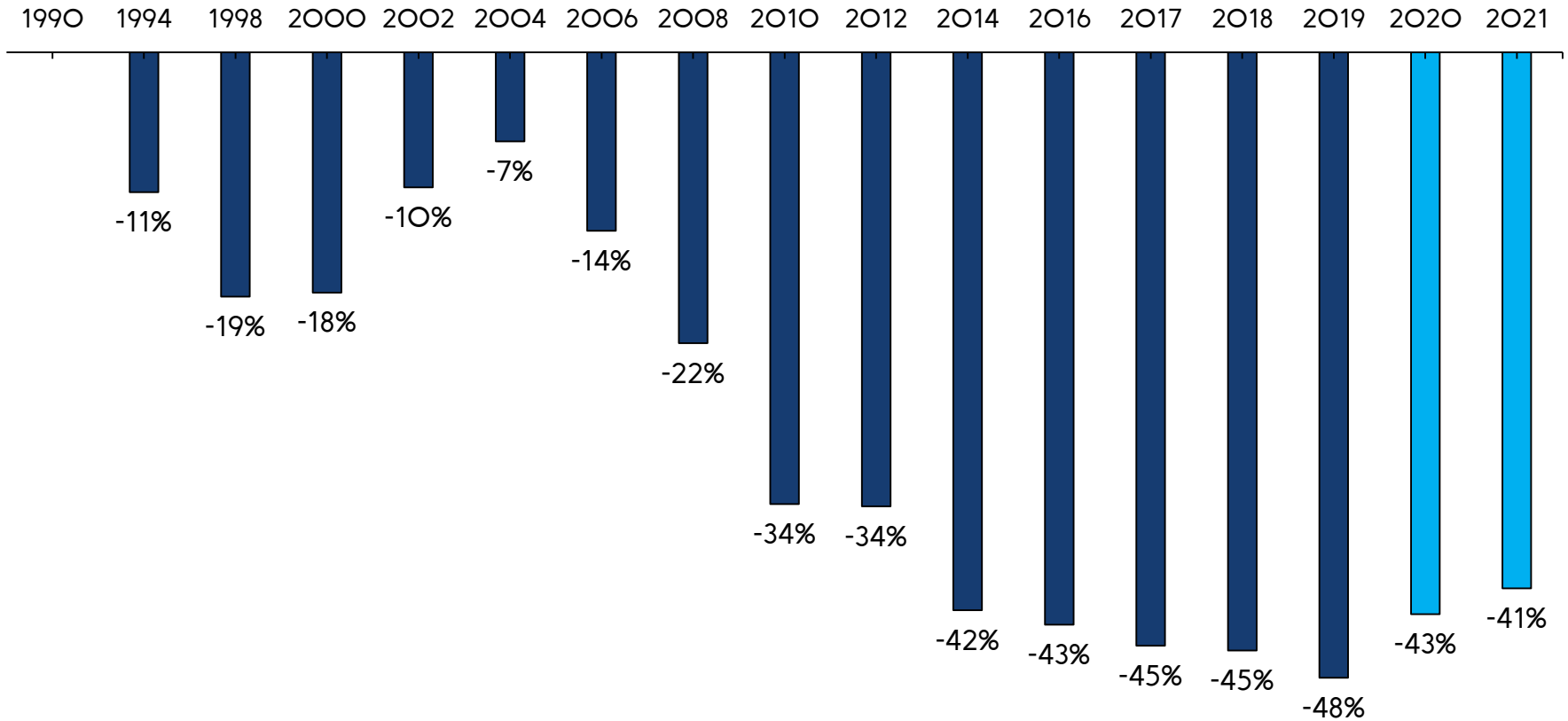
(compared to reference year 2012)

SPT 1	100%	
SPT 2	103%	
Latest value	100%	
	(Year 2021)	



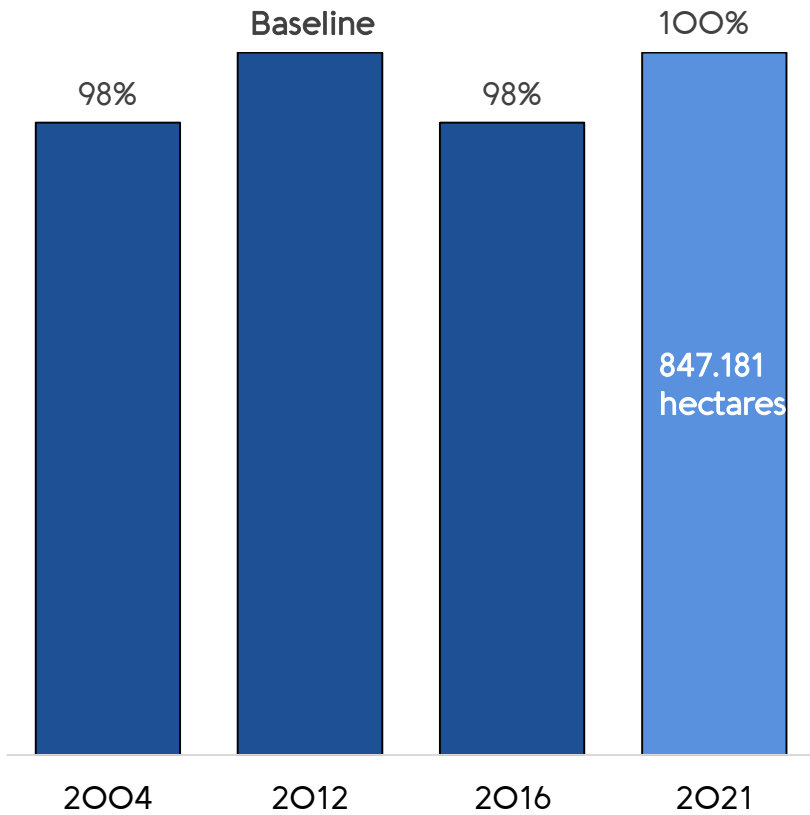


Uruguay's aggregate gross GHG emissions per GDP unit (% change compared to 1990)

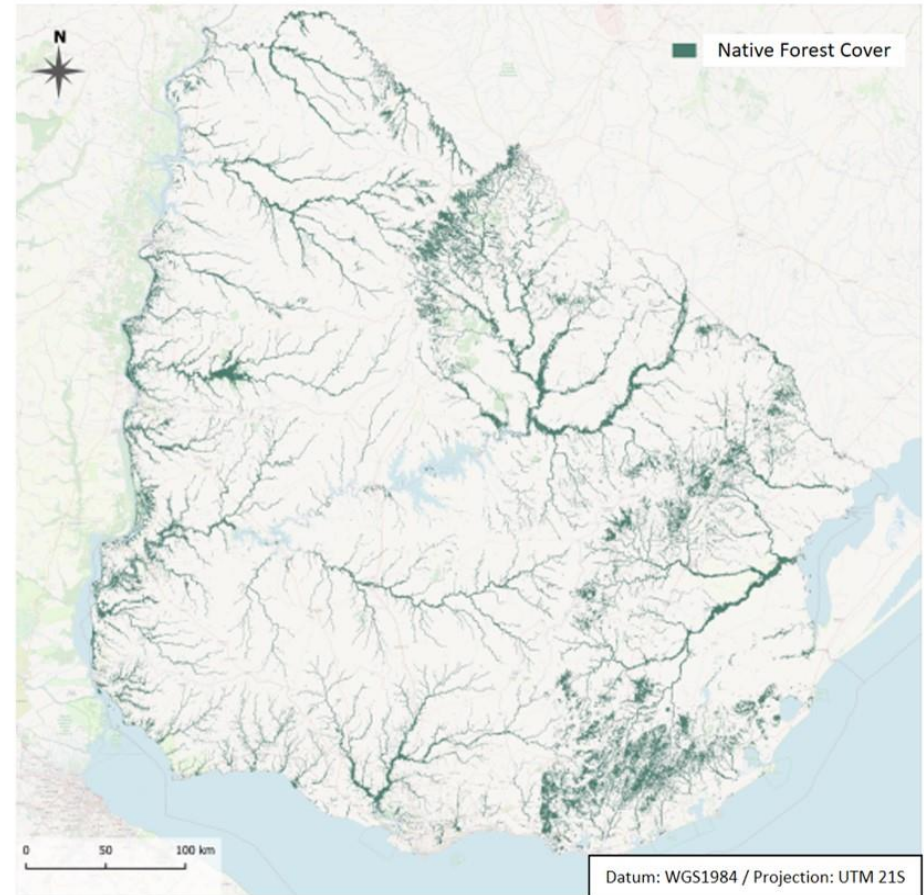


(*) Considers the three global GHGs and the main sectors contributing emissions of each GHG, as set out in the 2017 NDC.
Expressed in Gg CO₂eq, Metric GWP100 AR5.
Real GDP measured in billions of pesos in 2016 constant prices.

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



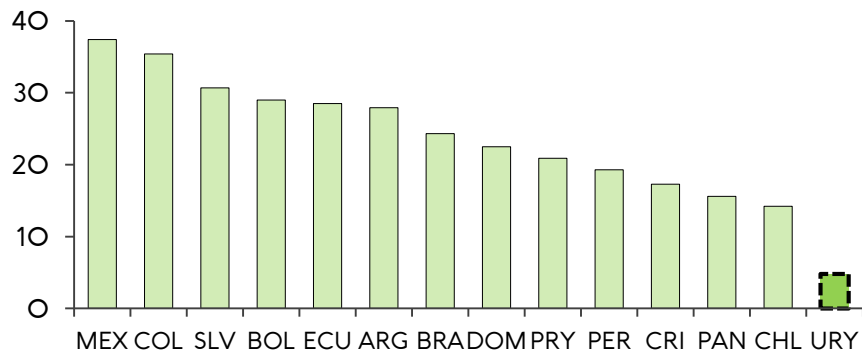
Uruguay's Native Forest Cartography for 2021
Hectares, 2021



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

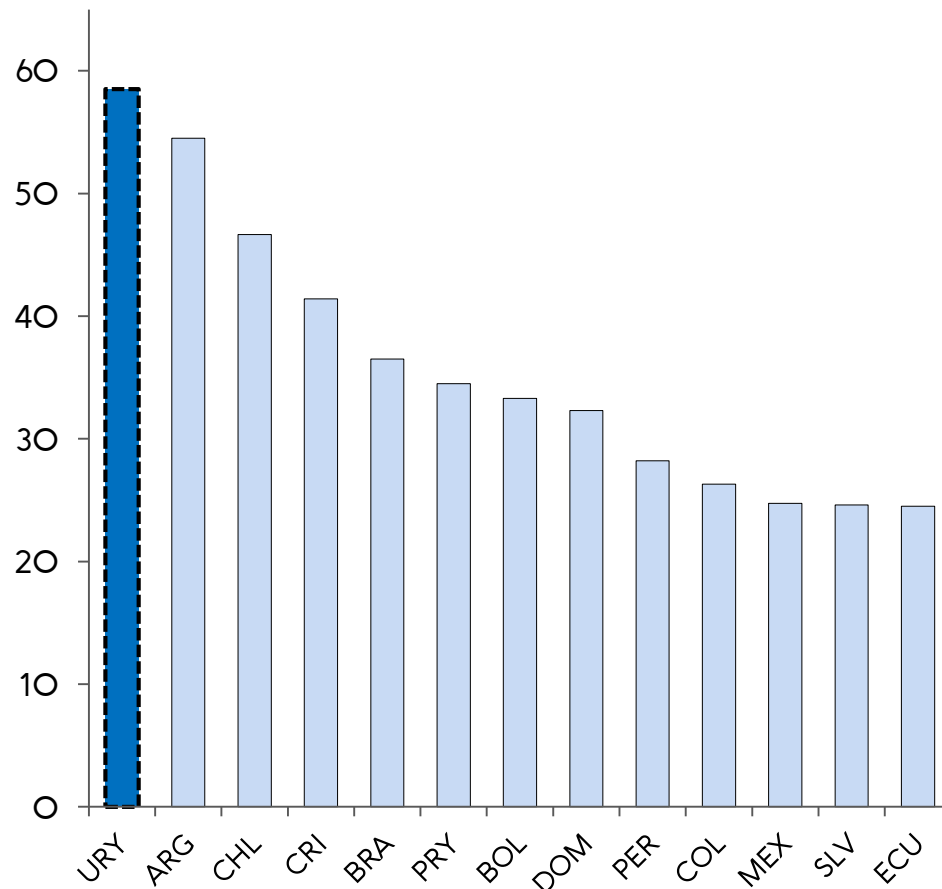


Poverty compared to LatAm (1)
(In % of total population, year 2021)*

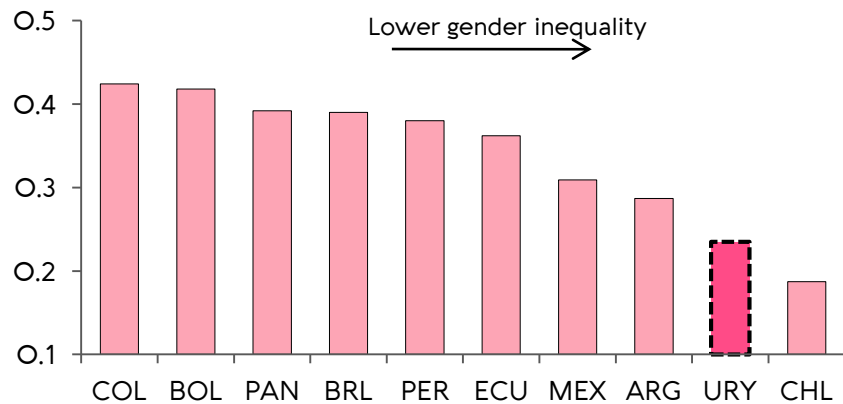


(* Except for Mexico (2020), El Salvador (2020) and Chile (2020). Poverty rate for Argentina is not including because only considers urban areas)

Share of middle class people compared to LatAm (3)
(Year 2021, in % of total population)*



Gender inequality compared to LatAm (2)
(Inequality Index, 2021)



Lower gender inequality →

1) Source: ECLAC.

2) Source: United Nations Development Program (UNDP), Human Development Reports 2021; Gender Inequality Index is a composite measure reflecting inequality in achievement between women and men in three dimensions: reproductive health, empowerment and the labour market.

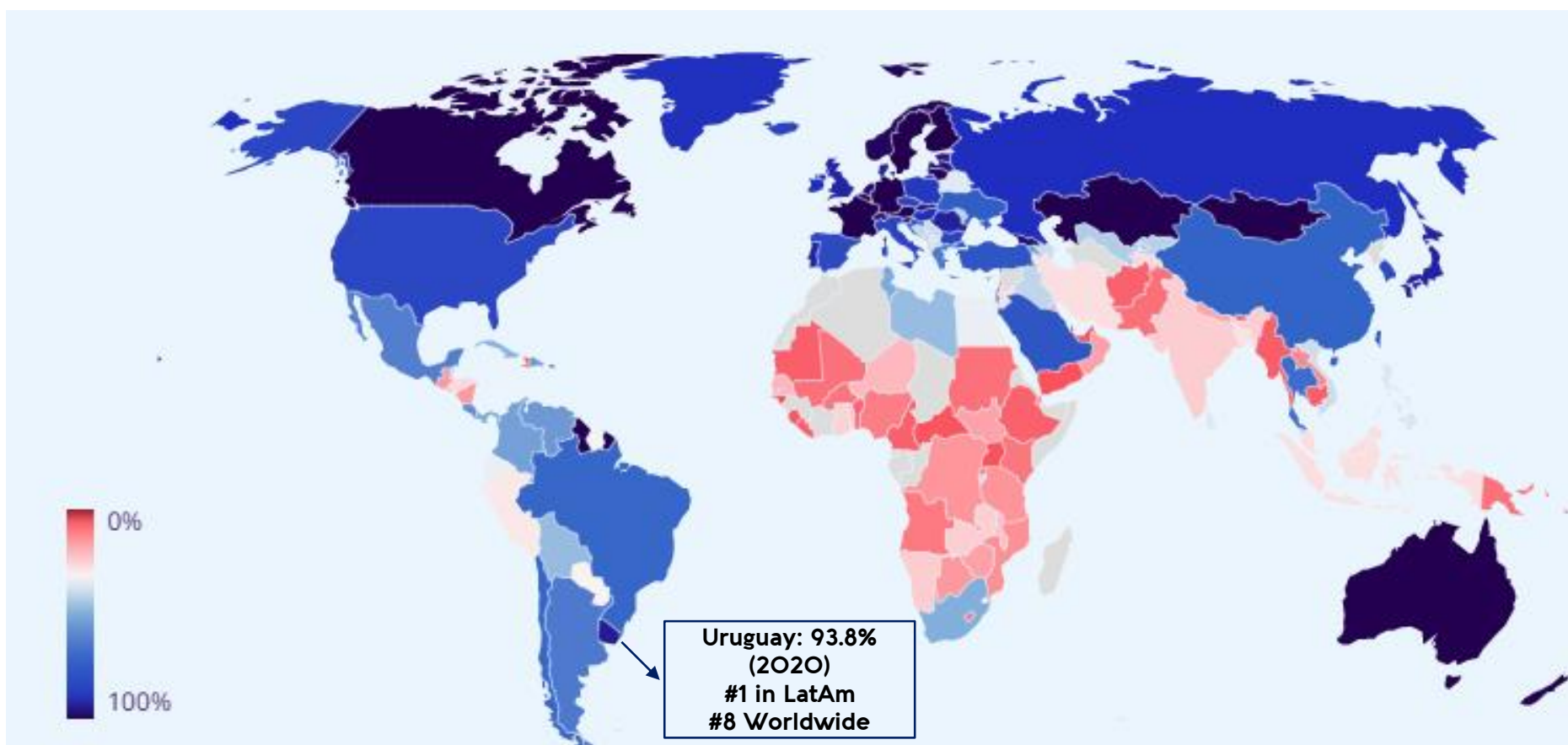
3) Source: Inter-American Development Bank; Middle class defined as percentage of population that lives in households with per capita income between USD 12,4 and USD 62 a day.

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



Social protection coverage

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



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

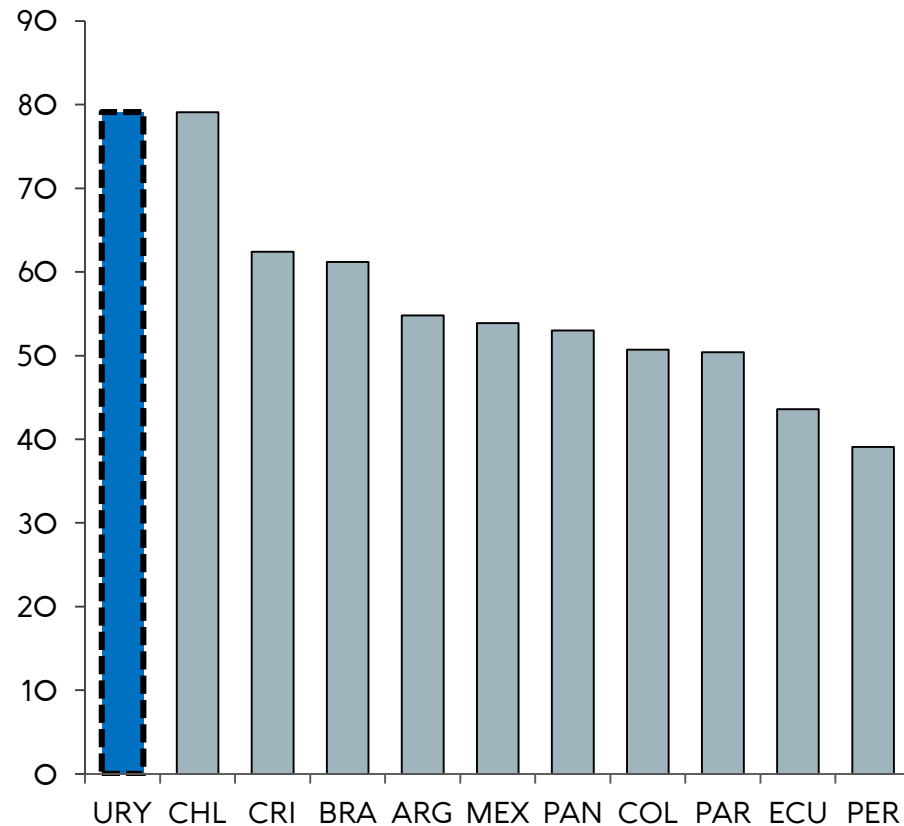
Proportion of the population covered by at least one social protection cash benefit: ratio of the population receiving cash benefits, excluding healthcare and sickness benefits, under at least one of the contingencies/ social protection functions (contributory or non-contributory benefit) or actively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

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



Labour market formality compared to LatAm (1)

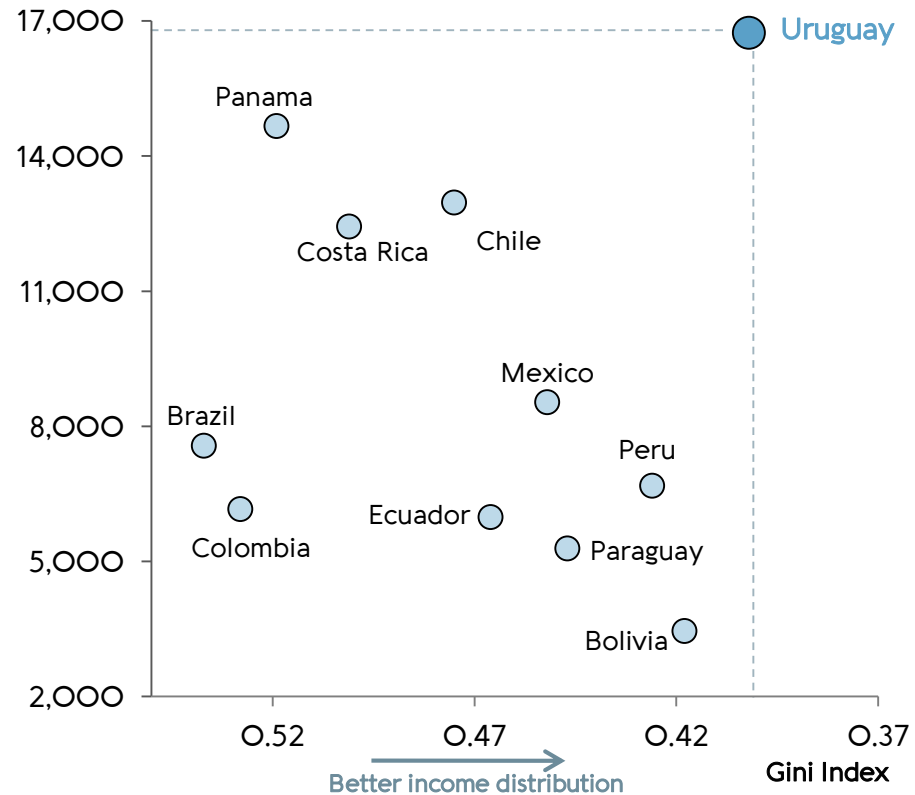
(Formal employment rate, in %, year 2022)



(*) Argentina's and Paraguay's labour market formality share are from 2021.

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

(Gini Index year 2021; GDP per capita in nominal US\$ in 2021)



(*) Gini Index for Argentina is not including for only considers urban areas. Mexico and Chile Gini index and GDP are from 2020.

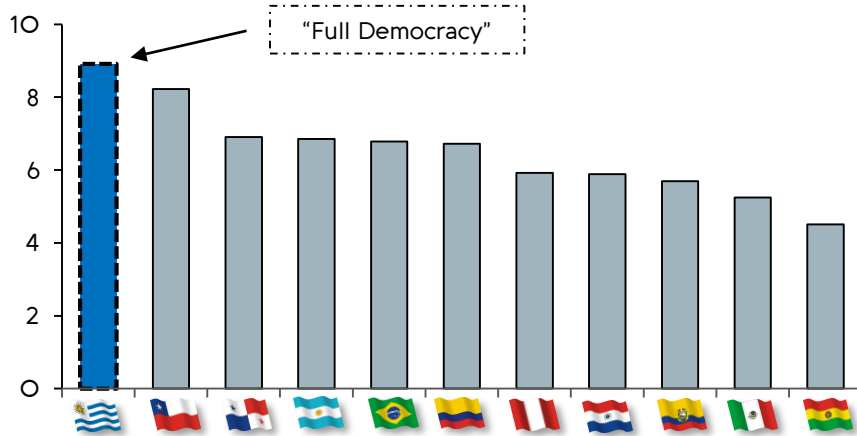
(1) Source: International Labour Organization (ILO), ILOSTAT, except for Uruguay. According to the ILO: Employees are considered to have informal jobs if their employment relationship is, in law or in practice, not subject to national labour legislation, income taxation, social protection or entitlement to certain employment benefits (advance notice of dismissal, severance pay, paid annual or sick leave, etc.). In the case of Uruguay, it uses the National Statistics Institute data, total data of 2022 referring to the "non-registered employees", i.e. a person who declares not to have the right to perceive a contributory retirement benefit from its current job.

(2) Sources: ECLAC and IMF - WEO October 2022.

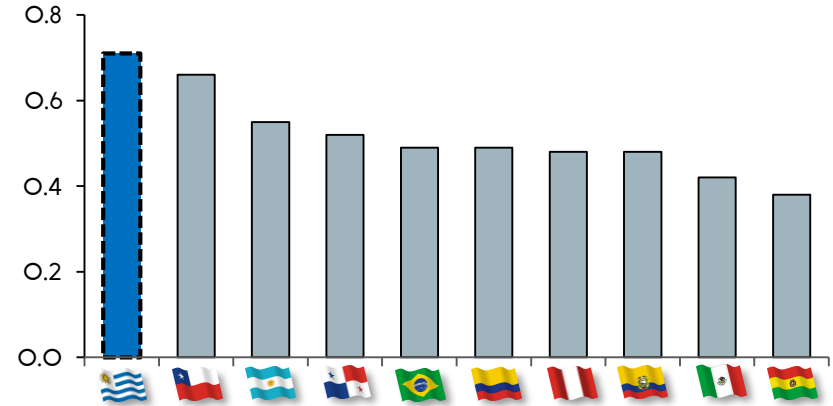
Uruguay is a bastion of institutional, political and social stability in LatAm, ranking alongside most developed nations



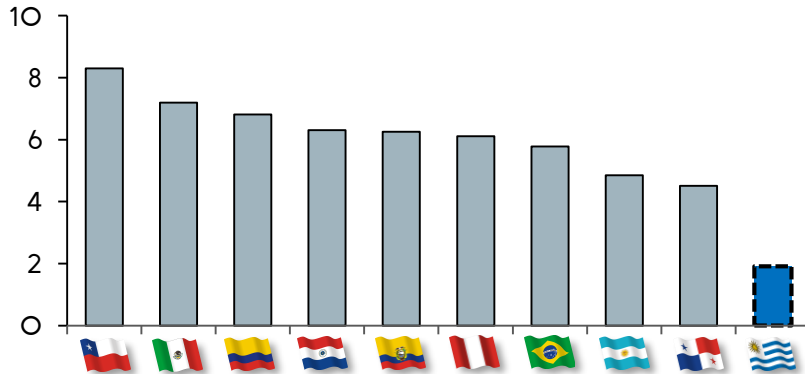
Democracy Index ⁽¹⁾
(Rank, year 2022)



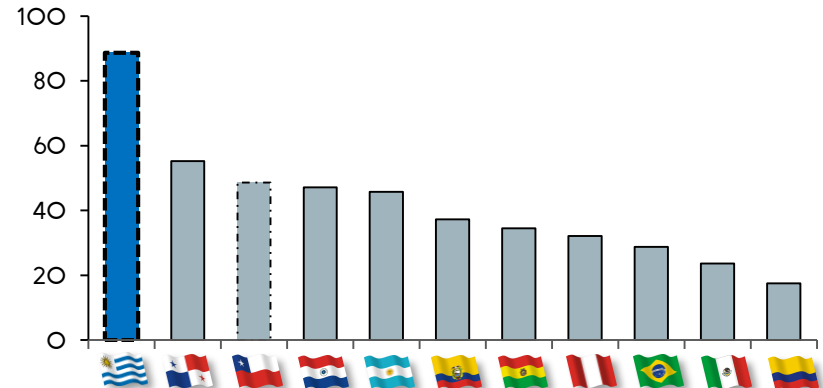
Adherence to the Rule of Law ⁽²⁾
(Numerical score out of 1, year 2022)



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



Political Stability and Absence of Violence/Terrorism ⁽⁴⁾
(Percentile rank, year 2021)



(1) Source: The Economist Unit (2022).

(2) Source: World Justice Project (2022).

(3) Source: Verisk Maplecroft (2020).

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



Uruguay has the lowest Corruption Perception in 2022 along with Canada, well below region average.



CORRUPTION PERCEPTIONS INDEX 2022

With a Score of **74**, Uruguay has significantly lower perceived corruption than average of the main regions of the world

WESTERN EUROPE & EUROPEAN UNION

66/100

AVERAGE SCORE

AMERICAS

43/100

AVERAGE SCORE

ASIA PACIFIC

45/100

AVERAGE SCORE

ARAB STATES

33/100

AVERAGE SCORE



SCORE	COUNTRY/TERRITORY
74	Canada
74	Uruguay
69	United States of America
67	Chile
65	Barbados
64	Bahamas
60	Saint Vincent and the Grenadines
55	Dominica
55	Saint Lucia
54	Costa Rica
52	Grenada
45	Cuba
44	Jamaica
42	Trinidad and Tobago
40	Guyana
40	Suriname
39	Colombia
38	Argentina
38	Brazil
36	Ecuador
36	Panama
36	Peru
33	El Salvador
32	Dominican Republic
31	Bolivia
31	Mexico
28	Paraguay
24	Guatemala
23	Honduras
19	Nicaragua
17	Haiti
14	Venezuela

#cpi2022

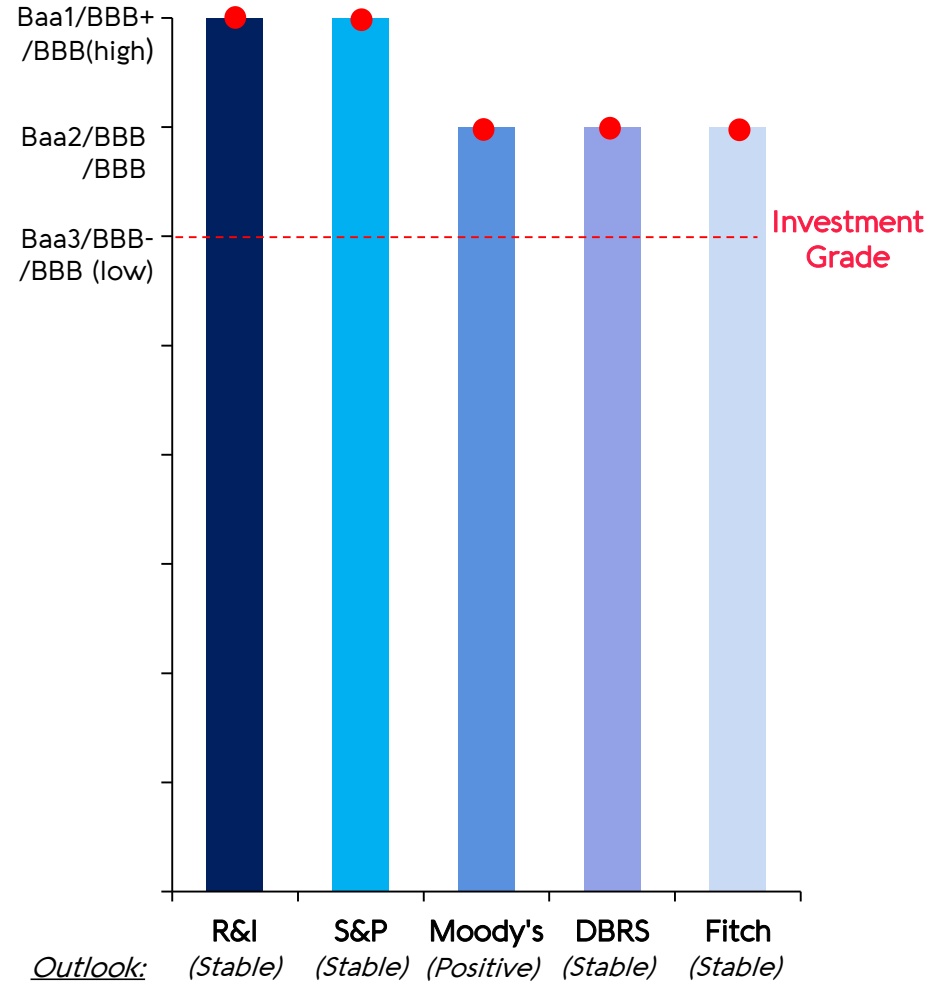
www.transparency.org/cpi

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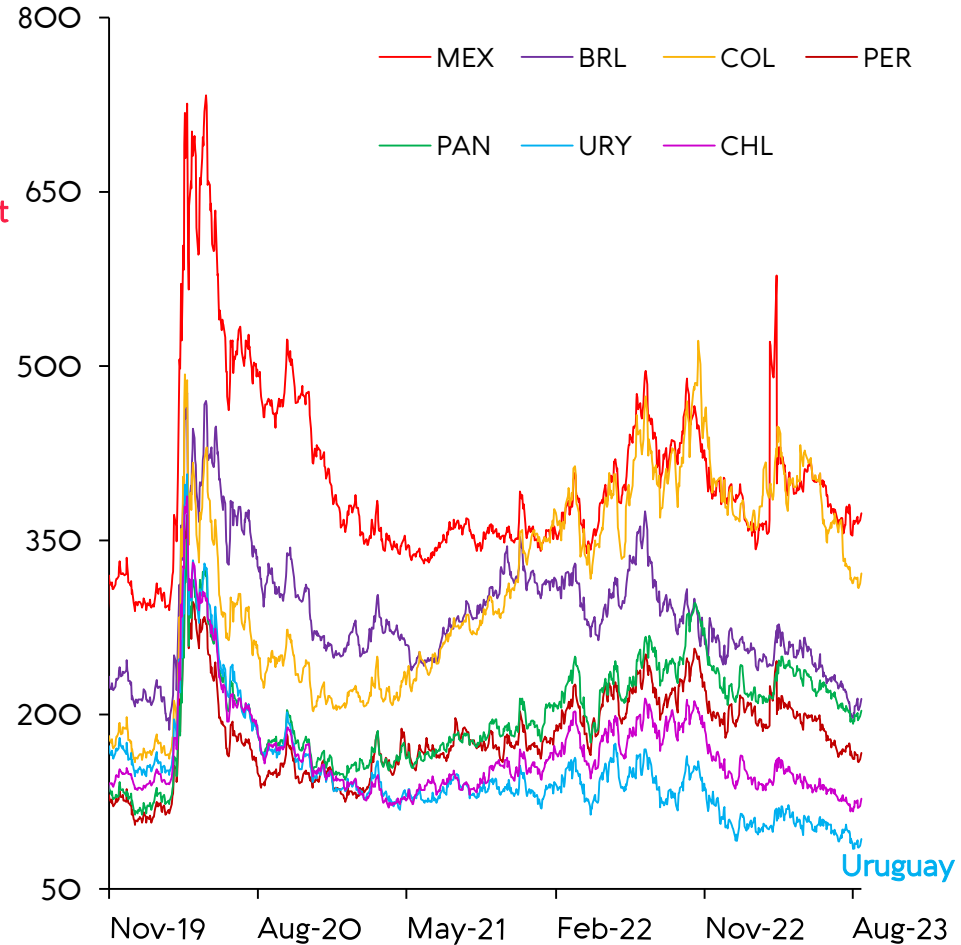
Uruguay's is an investment grade, low-beta country, and has the lowest EMBI in Latam



Uruguay's sovereign credit ratings (1)
(As of August 15th, 2023)



Sovereign risk premia (2)
(EMBI spread, in bps. As of August 15th, 2023)



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

(2) Source: Bloomberg.