

New biodiversity SLB underpins Chile's leading role

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Back in March 2022, Chile (ticker CHILE) was the first sovereign to issue a Sustainability-Linked Bond (SLB). This complemented its issuance of other ESG-labelled debt, including green, social, and sustainable bonds. Because of its high share of labelled bonds and continued innovation in this arena, Chile is considered a leader in sustainable debt markets.

The announcement on 7 January 2026 of a new 10-year biodiversity SLB issuance underlines Chile's commitment to these instruments.[1] In this note, we assess the new bond from a pricing perspective and discuss key considerations for investors with the following takeaways:

- With the addition of biodiversity KPIs, this will be the first SLB linked to the Global Biodiversity Framework's 30x30 target, making the instrument an important part of the country's commitment to protect ecosystems through effective conservation.
- This bond adopts biodiversity KPIs in a step-up/step-down structure. As illustrated in Figure 1, the structure is not symmetric; if SPT 4a is not achieved, then SPT 4b has no impact on the coupon. Based on illustrative probabilities,[2] this implies positive option value (upfront: 0.326%, running: 3.6bps).

Figure 1. Matrix of coupon adjustments depending on achievement of SPTs. Source: AFII, Ministry of Finance.

		SPT 4a (30x30 target)	
		Not achieved	Achieved
SPT 4b (effective management)	Not achieved		Unchanged (Scenario B)
	Achieved	+25bps (Scenario A)	-25bps (Scenario C)

- From 2021-2024, all of Chile's international bonds were issued in ESG-labelled format, but since 2025 more bonds have been issued in plain vanilla format. Chile targets a 40-50% proportion of total debt being in labelled format, and reported share of approximately 40% as of late.[3] The share is even higher for its international debt.
- Embedding international commitments in bond structures can strengthen the credibility and effectively signal a country's efforts. At some point, however, the currently used 2030 targets will no longer be fit for purpose and the market will have to pivot to 2035 targets. Chile appears well prepared for this and further innovation in bond structures is a possibility.

[1] For previous analysis, see "Chile's Peso SLB issuance", AFII, 27 Jul 2023, "Offi-Chile the largest sovereign SLB issuer", 29 Jun 2023, "Chile sustainability-linked bond: Optionality analysis", 5 Apr 2022.
[2] Using the following probabilities: 60% for scenario A, 20% for scenario B, and 20% for scenario C, as discussed later.
[3] "Ministerio de Hacienda informa su plan de financiamiento 2026", Chile, 5 Jan 2026.

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A first SLB based on 30x30 target

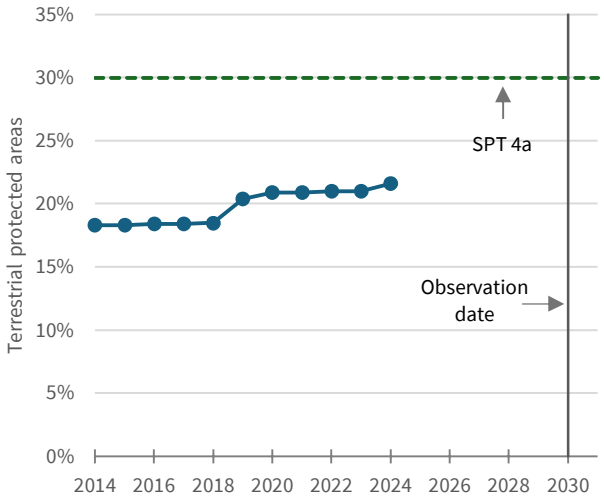
Chile's latest SLB Framework — published in July 2025 — builds on the previous versions, and includes additional KPIs linked to Kunming-Montreal Global Biodiversity Framework (GBF).[4] Under the 30x30 target established under this framework, countries committed to effectively conserve at least 30% of terrestrial, inland water, and coastal and marine areas by 2030.[5]

The new KPI covers two sustainability performance targets (SPTs):

- **SPT 4a:** Achieve at least 30% of the total national land surface area, including inland waters, covered by protected areas and/or Other Effective Area-Based Conservation Measures (OECMs) by 2030. This represents one part of the GBF commitments.
- **SPT 4b:** Achieve at least 10% of total national land surface area, including inland waters, under protected areas that meet all key effectiveness metrics of governance, planning, personnel, and monitoring by 2030.

According to Protected Planet data,[6] the reference dataset for protected areas, Chile's terrestrial and inland waters areas coverage was at 21.64% in 2024 (162,596 km²). This implies an increase of 63,000 km² is required to achieve the target. Historical data is shown in Figure 2.

Figure 2. Terrestrial protected areas (% of total land area), including SPT 4a. Source: AFII, Protected Planet.



Chile has already achieved protecting more than 30% of its marine areas. With 41.24% the share of protected marine areas is well above the regional average (27.41%) and the GBF's 30% target.[7] Note this is not included in the SLB structure.

It is therefore positive to see the SLB focus on the areas of protection that are lagging (i.e. terrestrial and inland water), where efforts can most effectively be directed.

SPT 4b goes a step further and addresses the need for effective conservation besides the protection of areas, covering four key sub-components: governance, planning, personnel, and monitoring. Considering this is a new methodology without prior implementation, the baseline level is set at 0%.[8]

[4] "Chile's Sustainability-Linked Bond Framework", Ministry of Finance, Jul 2025.
[5] "GBF - Target 3", Convention of Biological Diversity, accessed 5 Jan 2026.
[6] "Protected Area Profile for Chile from the World Database on Protected Areas", UNEP-WCMC, accessed 5 Jan 2026.
[7] "Protected Planet Report 2024", UNEP-WCMC and IUCN, Oct 2024.
[8] This seems a prudent approach due to the inability to accurately measure performance retroactively. However, it does not mean that there is no progress regarding each of the four components. According to information provided by Corporación Nacional Forestal (CONAF), 1.9% of the national land surface complied with the governance standard, 7.2% with planning, 0.1% with personnel, and 3.3% with monitoring.

Importantly, the framework emphasises the participation of local and indigenous communities, where applicable, and acknowledges the role of these communities in conserving biodiversity. This matters for a just and inclusive implementation of biodiversity targets in a local context.

In terms of policies, the new Biodiversity and Protected Areas Service (SBAP) under Law No. 21,600 will unlock more resources for the management of protected areas, but a funding gap remains. Required funding for effective management of protected areas is estimated at CLP 50bn annually for operations and an additional CLP 77bn for investment. In total, this would amount to around CLP 327bn, and it is assumed that the funding gap is about half of this.[9]

Finally, the framework is aligned to the ICMA Sustainability-Linked Bond Principles, while the second-party opinion (SPO) assesses the new KPIs as 'very strong' and the related SPTs as 'highly ambitious'.[10]

Pricing the new SLB

The new SLB adopts biodiversity KPIs in a step-up/step-down structure. Such dual structures have become popular among sovereign SLB issuers (e.g. Uruguay, Thailand and Slovenia) and set a balanced outcome structure between issuers and investors.

In this case, however, the structure is not symmetric, with SPT 4a being the primary KPI, and SPT 4b only impacting the coupon if 4a is achieved. Figure 1 on the front page illustrates the coupon adjustments depending on achievement of SPTs 4a and 4b:

- If SPT 4a is not achieved, the coupon will step up by 25bps, irrespective of achievement of SPT 4b (Scenario A).
- If SPT 4a is achieved but SPT 4b is not, the coupon will remain unchanged (Scenario B).
- If both SPTs are achieved the coupon will step down by 25bps (Scenario C).

To price the option value, market participants need to assign probabilities to these scenarios.

For illustration: Using a 60% probability of not achieving SPT 4a (Scenario A), implying a 40% probability of achieving it, results in conditional probabilities of 20% (Scenario B) and 20% (Scenario C) based on an assumed 50%/50% probability of achieving SPT 4b.

The observation date for the SPTs is December 2030, with reporting in December 2031. Following the coupon rate determination, the adjusted coupon would cover the last four annual coupon payments of the bond, implying a cumulative adjustment of up to 100bps.

Using an illustrative 60% probability of a coupon step-up (Scenario A) and 20% probability of a coupon step-down (Scenario C), the option value is positive (upfront: 0.326%, running: 3.6bps) based on our option pricing approach.[11] Therefore it is possible that the SLB could price at a somewhat lower spread than a plain vanilla bond.

[9] For details, please see "Chile's Sustainability-Linked Bond Framework", page 37-39.
[10] "Second Party Opinion: Chile's Sustainability-Linked Bond Framework", Sustainalytics, 18 Jul 2025.
[11] For details please see "An option pricing approach for sustainability-linked bonds", AFII, 8 Nov 2022.

A high share of labelled debt

Chile is an active issuer in the international and domestic bond markets. In 2026, a maximum amount equivalent to USD 17.4bn is estimated to be issued. Adjusted for amortizations, net borrowing would be closer to USD 10.2bn. The split between foreign and local currency bonds is anticipated to be 30%/70%, with an ongoing commitment to ESG-labelled debt. Such labelled bonds currently account for around 40% of total debt, in line with the target range of 40-50%, making Chile a leader in this field.[3]

From 2021 to 2024, all of Chile's international bonds were issued in labelled format, but since 2025 more bonds have been issued in plain vanilla format.[12] For investors who value these instruments, this trajectory could be a motivation to reiterate the value of ESG-labelled debt in conversations with the debt management office and signal market demand for these instruments.

Figure 3. CHILE bond curve in USD. Source: AFII, Bloomberg Finance L.P., accessed 6 Jan 2026.

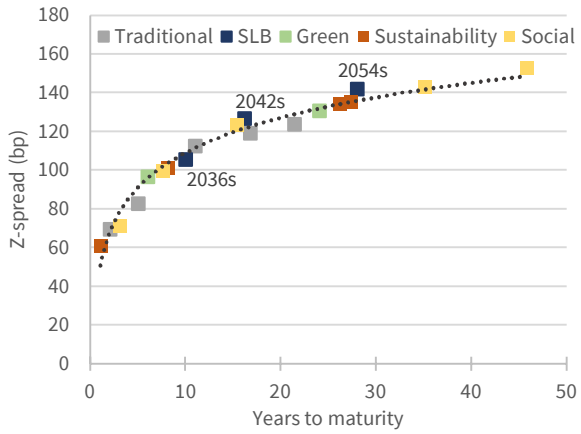
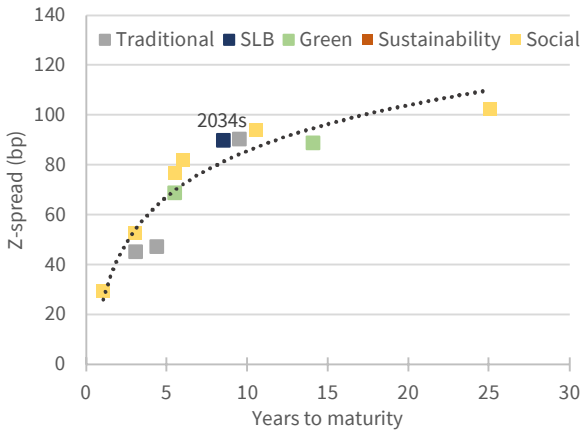


Figure 4. CHILE bond curve in EUR. Source: AFII, Bloomberg Finance L.P., accessed 6 Jan 2026.



The existing bond curves in Figure 3 (USD) and Figure 4 (EUR) illustrate the wide variety of instruments across different maturities.

Looking at the USD bonds, the SLB 2036s trades well with some signs of positive option value, whereas the 2042s and 2054s trade somewhat wider than the interpolated curve would suggest. It's important to keep in mind that the payout profile of the 2036s is more front loaded, with a potential 25-50bps adjustment from 2034, compared to 5-10bps for the 2054s. Meanwhile, the SLB 2034s in EUR is currently not pricing in any option value, with a spread close to the conventional 2035s.

In total, there are currently seven SLBs outstanding in foreign and local currency with different SPTs, as summarised in Table 1 and Table 2 in the Appendix. All of them have the same SPTs linked to emissions (SPT 1a: Achieve annual GHG emissions of 95 $MtCO_2e$ by 2030. SPT 1b: A maximum of 1,100 $MtCO_2e$ between 2020 and 2030). For most bonds, the third SPT relates to women representation in boards of directors at companies by 2031,[13] except for the inaugural SLB which targets electricity generation derived from non-conventional renewable sources by 2032.

[12] For details on how the largest corporate issuer of SLBs has used vanilla bonds in its capital structure please see "Enel's 'transition' from SLBs", AFII, 30 Sep 2025.
[13] For a case study on the effect of decorrelating KPIs between structures, please see "A review of social KPI usage in SLBs", 18 Nov 2025.

Bonds linked to international commitments

As the first sovereign SLB issuer, Chile was a trailblazer and an early adopter of KPIs linked to GHG emissions. Now it follows with the first SLB linked to the GBF's 30x30 target. A key measure to build confidence in such structures is the external verification of data.

Embedding international commitments in bond structures can strengthen a country's credibility and effectively signal their efforts to the market. Such structures also allow the market to price the likelihood of achieving these targets.

At some point, however, the currently used 2030 targets will no longer be fit for purpose and the market will need to pivot to 2035 targets. Such targets exist for NDCs, but not yet for biodiversity.

Also, further innovation in bond structures is a possibility. In a recent paper, for instance, we outlined what so-called 'transition linkers' could look like in Latin America.[14] Building on the principles of performance-linked debt, this concept envisions bonds linked to NDCs or the GBF with a single KPI focused on GHG emissions and multiple strike levels.

Featuring a dual step-up/step-down mechanism, the defining feature is a coupon that adjusts in steps depending on whether the issuing country meets, exceeds, or falls short of its targets. Such a structure could provide lower cost-of-capital for a government if targets are achieved, creating a strong incentive to deliver. For investors, higher payouts offer a built-in hedge against underperformance on commitments.

Conclusions

Chile's upcoming issuance reinforces its leadership on SLBs and commitment to innovation. After becoming the first sovereign to issue an SLB in 2022 and an early adopter of SPTs tied to its NDCs, Chile is setting a best-in-class example by including biodiversity targets aligned with the GBF's 30x30 goal.

The new bond adopts KPIs in a step-up/step-down structure. Based on illustrative probabilities (60% for scenario A, 20% for scenario B, and 20% for scenario C), this implies positive option value (upfront: 0.326%, running: 3.6bps).

Embedding international commitment in bond structures can strengthen the credibility and effectively signal a country's efforts. At some point, however, the currently used 2030 targets will no longer be fit for purpose and the market will have to pivot to 2035 targets. Chile appears well prepared for this and further innovation in bond structures is a possibility.

[14] "Transition linkers in Latin America", AFII, 1 Oct 2025.

Appendix

Table 1. Overview of Chile's SPTs. Source: Ministry of Finance.

Sustainability performance targets (SPTs)
SPT 1a: Achieve annual GHG emissions of 95 MtCO2e by 2030
SPT 1b: A maximum of 1,100 MtCO2e between 2020 and 2030
SPT 2a: Achieve 50% electric generation derived from nonconventional Renewable (NCRE) sources by 2028
SPT 2b: Achieve 60% electric generation derived from NCRE sources by 2032
SPT 3: Achieve at least 40% of women representation in board of directors at companies that report to the CMF by 2031
SPT 4a: Achieve at least 30% of the total national land surface area (including inland waters) covered by protected areas and/or Other Effective Area-Based Conservation Measures (OECMs) by 2030
SPT 4b: Achieve at least 10% of total national land surface area (including inland waters) under protected areas that meet all key effectiveness metrics of governance, planning, personnel, and monitoring by 2030.

Table 2. Overview of Chile's SLBs. Source: AFII, Bloomberg Finance L.P., Ministry of Finance.

Description	ISIN	Issue date	Maturity	Currency	SPTs				Coupon adjustment
					1a	1b	2b	3	
BTPCL 5.8% 2034	CL0002886803	30/10/2023	01/10/2034	CLP	x	x		x	55bps if either SPT 1a or 1b is missed / 55bps for SPT 3 if missed
BTPCL 5.3% 2037	CL0002862937	24/07/2023	01/11/2037	CLP	x	x		x	15bps if either SPT 1a or 1b is missed / 15bps for SPT 3 if missed
BTUCL 3.4% 2039	CL0002885532	20/10/2023	01/10/2039	CLP (inflation linked)	x	x		x	3.75bps if either SPT 1a or 1b is missed / 3.75bps for SPT 3 if missed
CHILE 4.125% 2034	XS2645248225	05/07/2023	05/07/2034	EUR	x	x		x	50bps if either SPT 1a or 1b is missed / 50bps for SPT 3 if missed
CHILE 4.95% 2036	US168863DZ80	05/07/2023	05/01/2036	USD	x	x		x	25bps if either SPT 1a or 1b is missed / 25bps for SPT 3 if missed
CHILE 4.34% 2042	US168863DY16	07/03/2022	07/03/2042	USD	x	x	x		12.5bps if either SPT 1a or 1b is missed / 12.5bps for SPT 2b if missed
CHILE 5.33% 2054	US168863EA21	05/07/2023	05/01/2054	USD	x	x		x	5bps if either SPT 1a or 1b is missed / 5bps for SPT 3 if missed

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