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<u>ANNEX</u>

to the Commission Implementing Decision on the financing of an individual measure in favour of the Americas and the Caribbean for 2023

<u>Individual Measure for Global Gateway Renewable Hydrogen Fund Chile</u>

ANNUAL PLAN
This document constitutes the annual work programme within the meaning of Article 110(2) of the Financial Regulation, within the meaning of Article 23 of the <u>NDICI-Global Europe</u> Regulation.

- SYNOPSIS

1.1 Action Summary Table

1. Title **CRIS/OPSYS business reference** **Basic Act**	Global Gateway Renewable Hydrogen Fund Chile OPSYS number: ACT-62149 Financed under the Neighbourhood, Development and International Cooperation Instrument (NDICI-Global Europe)	
2. Team Europe Initiative	Yes **Team Europe Initiative (TEI) on Renewable Hydrogen (RH2) development in Chile (Developing Chile's Green Hydrogen (GH2) Potential[1])**	
3. Zone benefiting from the action	The action shall be carried out in Chile	
4. Programming document	Regional multiannual indicative programme (MIP) for Latin America and the Caribbean 2021-2027 (C(2021) 9356)	
5. Link with relevant MIP(s) objectives / expected results	This action contributes to the objectives of the Regional MIP for the Americas and the Caribbean, including the green transition, sustainable and inclusive economic recovery and fighting inequalities.	
PRIORITY AREAS AND SECTOR INFORMATION		
6. Priority Area(s), sectors	Green transition, Sustainable and inclusive economic recovery.	
7. Sustainable Development Goals (SDGs)	Main SDG (1 only): SDG 7 Affordable and Clean Energy Other significant SDGs (up to 9) and where appropriate, targets: SDG 8: Decent Work and Economic Growth SDG 9: Industry, Innovation and Infraestructure SDG 12: Sustainable Consumption and Production SDG 13: Climate Action	

[1] https://europa.eu/capacity4dev/tei-jp-tracker/tei/chile-low-carbon

8 a) DAC code(s)	DAC code 230 - Energy – 100%			
8 b) Main Delivery Channel	Development finance institutions including: Public Sector Institutions – 10000 European Investment Bank – 42000			
9. Targets	☐ Migration ☒ Climate ☐ Social inclusion and Human Development ☒ Gender ☐ Biodiversity ☐ Education ☐ Human Rights, Democracy and Governance			
10. Markers (from DAC form)	**General policy objective** @	**Not targeted**	**Significant objective**	**Principal objective**
	Participation development/good governance	☒	☐	☐
	Aid to environment @	☐	☐	☒
	Gender equality and women's and girl's empowerment	☐	☒	☐
	Reproductive, maternal, new-born and child health	☒	☐	☐
	Disaster Risk Reduction @	☒	☐	☐
	Inclusion of persons with Disabilities @	☒	☐	☐
	Nutrition @	☒	☐	☐
	RIO Convention markers	**Not targeted**	**Significant objective**	**Principal objective**
	Biological diversity @	☒	☐	☐
	Combat desertification @	☒	☐	☐
	Climate change mitigation @	☐	☐	☒
	Climate change adaptation @	☐	☒	☐
11. Internal markers and Tags	**Policy objectives**	**Not targeted**	**Significant objective**	**Principal objective**
	Digitalisation @	☐	☒	☐
		YES	NO	
	digital connectivity	☒	☐	
	digital governance	☐	☒	

	digital entrepreneurship digital skills/literacy digital services	☐ ☐ ☐	☒ ☒ ☒		
	Connectivity @	☐	☐	☒	
	digital connectivity energy transport health education and research	YES ☒ ☒ ☒ ☐ ☒	NO ☐ ☐ ☐ ☒ ☐		
	Migration @	☐	☒		
	Reduction of Inequalities @	☐	☒		
	COVID-19	☐	☒		
BUDGET INFORMATION					
12. Amounts concerned	Budget line(s) (article, item): 14.020140 The Americas: EUR 16.51 million Total estimated cost: EUR 16.51 million. Expected contributions: KfW: EUR 100 million (loan); EIB: EUR 100 million (loan)				
MANAGEMENT AND IMPLEMENTATION					
13. Type of financing	**Indirect management** with KfW Development Bank (KfW) / the entity(ies) to be selected in accordance with the criteria set out in section 4.3.1				

1.2 Summary of the Action

Blending is a well-established tool that has contributed greatly to address regional and national priorities in Latin America and the Caribbean. The Latin America and Caribbean Investment Facility (LACIF) blending framework aims at mobilising and leveraging additional financial resources towards sustainable development to implement EU priorities in Latin America and the Caribbean, notably by supporting Global Gateway and promoting the just, green, and digital transitions, support to MSMEs, and human development. Blending is well-suited to support the implementation of the green transition in the region and can play an important role in the digital transformation and as a catalyst to leverage funds to support private sector operations.

The Global Gateway Renewable Hydrogen Fund for Chile is a joint initiative by the European Commission, the European Investment Bank (EIB) and the German KfW Development Bank (KfW), to promote the incipient renewable hydrogen market in Chile and foster local supply chains , while considering the importance of a just energy transition.

The project is embedded in the Team Europe Initiative (TEI) on the development of Green Hydrogen in Chile, which aims at supporting the decarbonisation of the Chilean economy, contributing to its national hydrogen strategy, creating green jobs, and generating business opportunities for Chilean and European companies.

Through the Euroclima LAC programme a certification system compliant with EU rules for renewable hydrogen will be prepared. Together with the Ministry of Finance, support will be provided to the development of a green taxonomy in renewable energy, to be aligned with the EU's taxonomy, thus increasing attractiveness for EU investors.

This action will seek to strengthen exchanges with EU companies both for financing, technology transfer and the purchase of hydrogen and derivatives produced.

The Global Gateway Renewable Hydrogen Fund Chile is in line with the Regional MIP for the Americas and the Caribbean, especially Priority Area 1 "Green Transition" and its specific objective 1 "To increase the ambition and effectiveness of climate action, including a just and clean energy transition, in Latin America and the Caribbean, in line with the commitments under the Paris Agreement". The proposal fits in the Global Gateway investment priority area on Climate and Energy and contributes to the "Green Transition" EU-LAC Flagship.

This action intends to promote and develop the incipient renewable hydrogen market in Chile and foster local supply chains. The EU wishes to promote the development of rules-based, transparent, and undistorted global hydrogen markets based on reliable international standards and certification scheme. The aim of the Fund is to support the Chilean government in promoting the sustainable market ramp-up of a renewable hydrogen economy in Chile, which allows both the local use and the export of renewable hydrogen in the medium-term. The development of a renewable hydrogen economy is an essential building block to achieve the Chilean and EU climate goals.

The EU Chile Interim Trade Agreement and Advanced Framework Agreement are expected to enter into force during the implementation of the project, providing a framework for political dialogue, cooperation and trade between the EU and Chile. Actions implemented will promote the objectives of the agreements, including those concerning Energy and Raw Materials.

The support of the Global Gateway Renewable Hydrogen Fund Chile is designed to channel private sector funding into eligible hydrogen projects to allow for the required financing of the first renewable hydrogen projects at industrial scale in Chile. Public sector beneficiaries are not excluded. This initiative has the potential to become a role model in the region, thereby, creating important spill-over effects to other countries in Latin America that are also aiming at developing a renewable hydrogen industry. The EUR 8M technical cooperation programme for RH2 Development in Chile co-financed by Euroclima LAC and Germany (BMWK) also foresees sharing good practices with other countries in the region through the H2LAC Platform.

Initially, the Global Gateway Renewable Hydrogen Fund Chile shall be composed of the following three components:

Component 1: Promotional loans

It is foreseen that KfW and the European Investment Bank (EIB) will provide the Republic of Chile with sovereign loans of up to EUR 200 million , with a tenor up to 15 years. The loans would be channelled through the Chilean Production Development Corporation[2] (Corporación de Fomento de la Producción, CORFO) to part-finance eligible projects promoted by private/public entities. The EIB and KfW loans would be integral partners of this initiative.

Component 2: Investment grant

EUR 15 million investment grant will be used to guarantee flexibility to adequately meet the needs of the hydrogen market ramp-up. The development impacts are currently being analysed.

Component 3: Technical assistance

EUR 1.11 million grant contribution for technical assistance for the implementation of the Global Gateway Renewable Hydrogen Fund (amongst others, by coordination activities, institutional development, outreach and supervision). This TA will be complementary to the EUR 8M technical cooperation programme referred to above, which will focus on: (A) Strengthening the enabling environment for the sustainable and renewable hydrogen economy; (B) Capacity building/knowledge

[2] CORFO is an economic development agency with a development mandate to promote economic growth in Chile.

transfer; (C) Support for technological development; (D) Infrastructure and Sustainability Impact Assessments: (E) Market/Project Development/Business Cooperation/Finance.

In addition to the EU's contribution, the Team Europe Initiative on the development of Green Hydrogen includes EU Member States' actions (mainly in the area of business cooperation, finance instruments and research) and a technical cooperation programme co-financed by the EU (EUR 4 M from the programme EUROCLIMA) and Germany (EUR 4M from the Ministry of Economy, Energy and Climate Change, BMWK). The project will provide support for the development of rules and regulations (e.g. pursue alignment with EU rules on certification, green taxonomy), sustainable impact assessments, including on social, economic, and environmental dimensions, to guide investment decisions, infrastructure and territorial planning, ensuring the development of a sustainable hydrogen economy involving the local population. The programme will also provide capacity building, promote business cooperation and financial advisory services for project development.

Commitments of national governments and major international donors in the financing of renewable hydrogen projects can be a trigger for investment decisions of the private sector, which is expected to contribute EUR 1,000 M to EUR 2,000 M (possibly more) in investments.

2 RATIONALE

2.1 Context

As part of the European Green Deal announced in December 2019, renewable hydrogen has been identified by the Commission as a key enabler to transition to climate neutrality. Its future demand in the EU will require the creation of global markets to import large volumes of renewable hydrogen from countries able to meet EU sustainability targets. The EU is accelerating energy savings, diversification of supplies and transition to renewables to strengthen its strategic autonomy, as has been set forth in the European Action Plan for more accessible, secure, and sustainable energy (COM(2022)230). In addition to that, the TEI promotes the European Green Deal and Chile's long term climate strategies, both aiming at climate neutrality in 2050. It also contributes to both the EU and Chile's Green Hydrogen Strategies and the EU's new REPowerEU strategy to accelerate the energy transition, including an acceleration of renewable hydrogen imports (aim: 10 million tonnes of imports by 2030).

In the report "The Future of Hydrogen"[3], the International Energy Agency (IEA) attested Chile has the conditions to produce hydrogen at the lowest costs worldwide by 2030. This is due to Chile's extraordinary solar irradiation in the northern Atacama Desert, recognised as the highest on earth. Based on its renewable energy potential, Chile could produce between 100-120 Mtons of hydrogen per year, equivalent to ~150% of the existing global hydrogen market (70 Mtons/year) and 15% of the future demand in 2050 (650 Mtons/year according to the Hydrogen Council). As such it is in the EU's economic interest to establish strong business relations with the Chilean hydrogen sector.

Chile has been increasingly exposed to climate change, experiencing i.a. a historic drought resulting in lower hydroelectric production and higher electricity spot prices in the south. One of the goals of the national energy strategy is to diversify its electricity matrix and continue expanding renewable capacities. Chile is still dependent on imported fossil fuels, accounting for 65% of total primary energy supply and 77% of greenhouse gas emissions. Same with electricity generation where 55% of generation is fossil-based (2021) and with the prolonged drought affecting the country, the availability of hydroelectricity is continuously at risk. At the same time, Chile has experienced a strong development of non-conventional renewable energy (NCRE) with an installed capacity of 8,360 MW that accounts for 21% of power generation. By 2050 this new industry, potentially and according to the figures exposed in the National Green Hydrogen Strategy, will drive approximately EUR 22 billion investment, almost 9% of 2020's GDP, which is in the same order of magnitude as Chile's current mining sector.

[3] https://www.iea.org/reports/the-future-of-hydrogen

Chile has always been on the forefront of utility scale NCRE development in Latin America. It was the first country with strong solar PV and onshore wind growth starting at 0.5% (2011) of electricity generation to reach 35% (2021) in the national electric system (Sistema Eléctrico Nacional, SEN)[4]. It is still the only country with an operating Concentrated Solar Power Plant (Cerro Dominador) and Geothermal Plant (Cerro Pabellón) in South America. As a consequence, its grid emission factor has decreased from 0.599 tCO_2/MWh in 2012 to 0.4056 tCO_2/MWh in 2021[5].

The use of renewable hydrogen is part of Chile's national long-term strategy to achieve carbon neutrality by 2050. A roadmap for decarbonisation[6] with the following goals has been developed:

a) 2030: (i) 80% of power generation shall be renewable (ii) complete zero emission vehicle fleet in mining hauling trucks.

b) 2040: green hydrogen would account for 21% of the country's fuel matrix and achieve a complete net-zero public transport sector.

c) 2050: Chile's energy matrix shall be 100% zero emissions and emissions from industry and mining shall be cut by 70%.

In 2020, the Chilean Government launched a National Green Hydrogen Strategy with the overarching goals to produce nothing less than "the cheapest hydrogen on the planet" by 2030 and to create "a new clean industry as large as the Chilean mining sector"[7], Chile's biggest industrial sector. These ambitious goals are based on Chiles's world class solar and wind resources in the north and south respectively, its existing port infrastructure for exports, its short distances to ports as well as its conducive investment environment. Based on the above and the experiences with NCRE developments in the country, many private sector players also recognised this opportunity.

As a result, there are currently around 60+ renewable hydrogen projects being developed by international and national companies in Chile which by 2030 add up to:

- approx. EUR 14 billion projected investments
- 1.2 Mt yearly renewable hydrogen production
- 0.5 Mt yearly local consumption
- 15 projects with defined operations start date

The Ministry of Energy has led the development and is leading the implementation of the National Green Hydrogen Strategy of the Government of Chile. This strategic policy sets ambitious targets for the country, such as producing the cheapest renewable hydrogen by 2030 and being one of the top three exporters of renewable hydrogen by 2040. Considering the National Green Hydrogen Strategy, the Ministry of Energy engages with international parties to facilitate the development of domestic large-scale projects by attracting financing as well as to cooperate on the issue of setting up international supply chains of renewable hydrogen from Chile.

In 2020, the Chilean Government officially started to actively promote the development of a renewable hydrogen market. Chile's National Hydrogen Strategy establishes a holistic action plan for the next decade with focus on incentivising renewable hydrogen pilot projects, to improve its competitiveness against fossil fuels. In this line, CORFO launched a first hydrogen project fund of EUR 46 million, which is aimed at supporting project developers covering expenses in electrolysers. The six projects awarded will have an electrolyser total installed capacity of 388 MW and must be in operation before end of 2025. In parallel, the EU Delegation, through the Chilean Agency for International Development Cooperation (AGCID), launched a support mechanism for pre-investment

4 Generadoras de Chile - Generación eléctrica en Chile; Energies | Free Full-Text | Chilean Electric Transmission Regulation: From a Merchant Approach to Central Planning | HTML (mdpi.com)

5 Factores de Emisión – Energía Abierta | Comisión Nacional de Energía (energiaabierta.cl)

6 https://unfccc.int/sites/default/files/resource/CHL_LTS_2021.pdf

7 national_green_hydrogen_strategy_-_chile.pdf (energia.gob.cl)

studies for green energy and hydrogen pilot projects. The total EU support available was EUR 300,000, and nine project developers benefitted from this fund with different amounts.

To foster the industrial and private sector of the renewable hydrogen supply chain, the first phase of implementation of the National Green Hydrogen Strategy is focusing on domestic application and demand uptake. The government is accelerating the deployment of renewable hydrogen projects in 6 prioritised applications to build local supply chains and acquire experience. These applications are (i) hydrogen as a feedstock, (ii) green ammonia, (iii) mining haul trucks, (iv) heavy-duty on-road trucks, (v) long-range buses, (vi) blending into gas grids. These are also the applications that are being assessed for inclusion within the scenarios of Chile's Long Term Energy Planning Process, which lays the foundations for the Chilean path towards carbon neutrality in the energy sector.

2.2 Problem Analysis

One of the main barriers for a market development of renewable hydrogen is its higher production cost per ton, compared to existing alternatives based on fossil fuels ("grey hydrogen") as well as the high upfront investment costs and the associated off-taker risks at the beginning of a market ramp-up. The fundamental challenge for renewable hydrogen continues to be the higher production cost per ton, particularly when compared to fossil fuels. This price gap prevents a faster adoption as energy source in many industries as it limits private sector participants ability and willingness to invest in projects. Due to this price gap, a concerted approach is needed.

The market ramp-up requires measures to bring down the unit cost of renewable hydrogen. Suitable support would be building global hydrogen value chains connecting production and export centres with transport facilities and import centres. In order to establish these value chains, industrial-sized renewable hydrogen (multi gigawatt scale) hubs to produce at scale need to be significantly fostered. This would also create high-volume demand for electrolysers and other required technologies (e.g., renewable energies or desalination plants), which would enable the sector to become more innovative and cost-efficient. However, due to the inherent risk of market scale up for such production hub and centres, the public sector as well as development finance institutions as anchor investors need to step in, to reduce these risks. The latter also includes the high price and higher volatility risk of renewable hydrogen over longer time frames. One other central element to be further supported is the decrease of costs of renewable electricity which is a mayor cost component in the production process of renewable hydrogen.

Promotional loans and investment grants under the Global Gateway Renewable Hydrogen Fund for Chile will promote the development and scale-up of projects that are currently not yet economically viable (due to the above-mentioned price gap) and have a higher risk profile, thereby supporting the hydrogen market development.

Identification of main stakeholders and corresponding institutional and/or organisational issues (mandates, potential roles, and capacities) to be covered by the action:

Lead Implementing Institution: KfW

The oversight of the action will be carried out by KfW, implementing EU funds under indirect management. KfW has substantive experience in managing relevant financing programmes.

Main Beneficiary: Republic of Chile

The Republic of Chile will be represented by the Ministry of Finance in the signing of loan and financing agreements with KfW and EIB.

CORFO

CORFO is the Chilean Production Development Corporation (Corporación de Fomento de la Producción), a Chilean Economic Development Agency with a development mandate to promote economic growth in Chile. It is a public institution and it administratively belongs to the Ministry of Economy, Development and Tourism. It executes the Government's policies in the fields of entrepreneurship and innovation through the usage of financial tools and instruments. CORFO is dependent on the national budget defined by the Chilean Congress on a yearly basis.

The Ministry of Energy

The Ministry of Energy has the main responsibilities for the governance and management of the energy sector. Its mandate is to develop and coordinate strategies, policies and standards for the proper functioning and development of the energy sector, ensure compliance and advise the Presidency on all matters related to energy. The Ministry of Energy has the political mandate to implement the national green hydrogen strategy.

Related to the implementation of the Global Gateway Renewable Hydrogen Fund, the main role of the Ministries of Energy, Economy, Development and Tourism, Environment, Science Technology, Knowledge and Innovation, Foreign Affairs, Social Development and Family, Agriculture, National Goods, Public Works, Transport and Telecommunications, and Finance is to cooperate with CORFO in the Hydrogen Committee advising on national policies and regulations.

Co-financiers

All stages of preparation of this actionhave been closely coordinated with the EIB and the Commission services. The intention is to offer to the Chilean side an overall “European financing package” that also includes the loan from EIB, i.e. both KfW and EIB loans will be combined with the EU investment grant. This financing package in principle is open for further co-financing by other EU Member States and development finance insitutions, if the Chilean Government so decides. Where relevant, guarantees under EFSD+ may also be used for the action as a complementary instrument.

3 DESCRIPTION OF THE ACTION

3.1 Objectives and Expected Outputs

This action is a blending operation framed under the Latin America and Caribbean Investment Facility (LACIF) and, therefore, considers the same general and specific objectives and expected outcomes.

The Overall Objective (Impact) of the action is to contribute to a green and digital transition while fostering a sustainable and inclusive socio-economic recovery in the LAC region, in line with the objectives of the Multiannual Indicative Programme (MIP) 2021 – 2027 for Latin America and the Caribbean.

In particular, the action will support the green transition priority by addressing the following specific objectives:

1. Increase access to sustainable energy, in line with the external dimension of the Green Deal, by supporting the Chilean government in promoting the sustainable market ramp-up of a renewable hydrogen economy in Chile.

Regarding the expected results, the initiative will focus on the following specific outputs established in the LACIF blending framework:

1.1. Contributing to Outcome 1 (or Specific Objective 1) Enhanced resilient infrastructure to produce renewable energy.

4.1 Contributing to all outcomes (or Specific Objectives) Unlocked finance to contribute to sustainable development.

The project contributes to this by locally: (i) driving the decarbonisation, (ii) supporting the financial/economic viability and sustainability of renewable hydrogen projects, (iii) establishing local value chains and promoting local employmentand (iv) providing an important signal for market participants and the formation of syndicates by engaging as an anchor investor in the early phase of the market ramp-up.

3.2 Indicative Activities

Investment grant:

This component of the actionwill be used to reduce the cost of capital and debt for renewable hydrogen projects and improve the debt service coverage ratio of the project. The investment grant will be combined with loans from EIB (EUR 100 M) and KfW (EUR 100 M) and will be implemented through:

- "Blending": The investment grant can be provided as a non-reimbursable grant to private or public renewable hydrogen projects. The contribution can help to improve the risk-return profile of renewable hydrogen projects, reducing risk for investors and ultimately reducing the financing cost.

Technical assistance:

The technical assistance aims to ensure the coordinated implementation and use of synergies of the different contributions of the Global Gateway Renewable Hydrogen Fund (investment grants, KfW and EIB loans, and possible further financial contributions by EU Member States, European and international DFIs) as well as activities of the technical assistance programmes related to renewable hydrogen cofinanced by EU and Germany and implemented by GIZ and AECID. It will include detailed design, institutional development and building of capacities for the implementation of the Global Gateway Renewable Hydrogen Fund.

The commitment of the EU's contribution to the Team Europe Initiatives (TEIs) foreseen under this action plan will be complemented by other contributions from Team Europe partners. It is subject to the formal confirmation of each respective partners' meaningful contribution as early as possible. In the event that the TEIs and/or these contributions do not materialise the EU action may continue outside a TEI framework.

3.3 Mainstreaming

Environmental Protection & Climate Change

Pillar assessed financial institutions are responsible for and will ensure that all projects financed with EU resources respect EU principles in terms of environmental and social impact as well as under the rights-based approach to development (e.g. gender issues, indigenous people rights, etc.) and Do-No-Harm and conflict sensitivity, proper public procurement, equal opportunities and will also respect the principles of sound financial management with effective and proportionate anti-fraud measures.

All interventions will be screened for their environmental impact and proneness to climate risks and consequent disaster risk-reduction, in accordance with the screening procedure in the EU guidelines "Integrating the environment and climate change into EU international cooperation and development", or equivalent screenings for the lead financial institution. Environmental impact assessments and climate risk assessments, including consultations with local populations, will be prepared as required to ensure the interventions' environmental sustainability and climate resilience. These should be linked to Do-No-Harm considerations in relation to unintended negative impacts in relation to social safeguards, human rights, conflict and violence.

In the selection of the portfolio, priority to investments that align with the guiding principles of the Green Deal, Global Gateway, RepowerEU.

In particular, renewable hydrogen is a vital part not only of Chiles's decarbonisation agenda but will be critical for the transformation of energy systems. The EU wants to promote the development of rules-based, transparent, and undistorted global hydrogen markets based on reliable international standards and certification scheme.
In this sense, the success of the Chilean National Hydrogen Agenda can be considered an important contribution to national climate strategies around the world, and ultimately, the respective goals of the Paris Agreement.

To identify, minimise and mitigate potential adverse environmental impacts, the projects shall also apply standards equivalent to EIB Environmental and Social Standards and the KfW Sustainability Guideline (2022) as a reference framework for the environmental and social impact assessment. Due consideration to the EU regulation as to what is considered “renewable hydrogen” defined in the EU delegated acts.

Gender equality and empowerment of women and girls

Gender will be mainstreamed throughout the action. Gender equality and empowerment of women and girls will be included as much as possible in all operations through specific activities or components and indicators will be disaggregated to measure the impact in the fight against gender inequality. In particular, proposals will be aligned with the EU Gender Action Plan and will follow the principle of leaving no one behind.

Human Rights

The proposed action will be implemented following the human rights-based approach, encompassing all human rights, with due regard to the working principles of applying all rights, participation and access to the decision-making process, non-discrimination and equal access, accountability and transparency. The proposed action will develop the capacities of ‘duty-bearers’ to meet their obligations and private sector to contribute to the alleviation of poverty. In line with the human rights-based approach methodology, the proposed action will abide by the ‘do no harm principle’ to avoid unintended negative impact in terms of human rights and UN guiding principles on business and human rights.

The private sector will be encouraged to abide by the UN Guiding Principles on Business and Human Rights and other internationally adopted responsible business guidance such as that of the OECD and ILO, also in relation to labour rights and decent work standards.

Disability

As per OECD Disability DAC codes identified in section 1.1, this action is labelled as D0.

Reduction of inequalities

Special relevance will be given to the selected projects contributing to the local development of the surrounding communities, and incorporating good practices related to community relations, local suppliers, hiring local labor, etc. These initiatives are expected to be framed within a just and inclusive transition approach. Together with accompanying programmes such as the 8MEUR technical cooperation programme funded by Euroclima LAC/Germany, and the Global just energy transition programme, in which Chile participates, the programme should contribute to the promotion of joint infrastructures, connectivity, and sustainable development in the targeted regions (especially Antofagasta and Magallanes).

Democracy

All projects will ensure that beneficiaries as rights holders, communities and civil society are actively involved on consultations during identification, implementation and monitoring. A specific attention should be given to Indigenous Peoples’ Rights, and in particular due regard to the right of Free, Prior and Informed Consent (FPIC) as contemplated in the EU Council Conclusions on Indigenous Peoples (2017).

Conflict sensitivity, peace and resilience

Climate change is a major driver and amplifier of disasters and a source of instability, competition for resources and inequalities. Natural and man-made Disasters disproportionately affect lower-income countries and people living in poverty and communities in vulnerable situations. Climate change impacts not only can cause more frequent and intense extreme weather events but can also disrupt livelihoods, food production and food security – for example, through volatile food prices or in terms of access to water or land, natural resources and livelihoods, and their sustainable and inclusive management.

Given that NDICI prescribes conflict-sensitive approaches which commit to maximising peace and resilience opportunities, these should be borne in mind during programme identification, formulation, implementation and monitoring, through appropriate conflict sensitivity assessments or taking stock of existing or ongoing conflict analyses. **Disaster Risk Reduction** Disaster Risk Reduction, prevention and preparedness are very relevant particularly in the context of the Caribbean and Central American partner countries due to their exposure to hydrometeorological hazards (especially those linked to hurricanes) and geophysical hazards and their vulnerability and will be mainstreamed in all projects with activities on those countries and on a case by case basis in South America. When possible, the projects will build national or local authority capacity to promote DRR and DRM etc. The action is increasing resilience to both climatic and economic shocks. Supporting Climate Risks Assessment as part of EIA, it will promote climate proofing measures and the principles of build-back-better in line with the Sendai Framework principles. Support to MSMEs in more environmentally-friendly and competitive economic businesses will increase resilience to external shocks, including recovery from COVID. **Other considerations if relevant** N/a

3.4 Risks and Lessons Learnt

Category	Risks	Likelihood (High/ Medium/ Low)	Impact (High/ Medium/ Low)	Mitigating measures
Political	Political instability can affect the willingness of international and local investors to invest in capital intensive renewable hydrogen projects. Risk mainly relates to the uncertain outcome of the referendum on the proposed new constitution in September 2022 and increased levels of social unrest (especially among radical Mapuche indigenous groups in the south of the country).	Low	Medium	The political environment and effects on investor confidence will be monitored closely.
Economic	Chile has strong institutions and an investor-friendly environment. However, it is confronting fundamental challenges regarding its social contract and economic model, in the wake of social unrest and the pandemic. The proposed reforms and the	Low	Medium	The economic environment and effects on investor confidence will be monitored closely.

	constitutional reform may expand the role of the state in the economy and weaken Chile's strong private property rights business environment. Following a deep recession in 2020, GDP recovered in 2021. Chile currently benefits from a high copper price. However, slowing economic growth and high inflation following the Russian invasion of Ukraine contribute to economic uncertainty.			
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Financial	Projects could potentially not receive the required sources of funding given the underlying project risk.	Medium	High	Road shows to attract private sector investments, financing and blending resources (if still required) as part of the technical assistance measures (sub-component 3).
Social	Renewable hydrogen production requires the availability of water supply which may cause usage conflicts especially in the dry north of Chile. Furthermore, the export of Ammonia requires ports which might have to be built creating possible conflicts with local fishing industry.	Medium	Medium	The main mitigation and monitoring measures to address these risks will be considered in the respective Environmental and Social Management Plan (ESMP). Local communities and all affected stakeholders shall be included in the project planning as early as possible and if possible, in a participatory way.
Environmental	Due to the scale of renewable hydrogen projects and the related	Medium	Medium	KfW applies the Environmental and Social Standards of the

	infrastructure these projects entail environmental risks. To mention some examples, the export of ammonia requires the construction of ports that might impact local marine environment. Also, the brine (concentrated salt) of desalination plants will be released back into the sea and can cause negative impact on marine environment.			World Bank Group. The EIB has own Environmental and Social Standards. All financed projects will be required to comply with those standards to apply best environmental and social practice. The main mitigation and monitoring measures to address these risks will be considered in the respective Environmental and Social Management Plan (ESMP). Support will be provided through technical assistance (sub-component 1, 2 and 4).
Implementation	Local capacity to implement the Global Gateway Renewable Hydrogen Fund could lag behind the schedule of renewable hydrogen project developers.	Low	High	The detailed design study and definition of eligibility criteria to implement the EU contribution to needs to be conducted timely (<12 months).

Lessons Learnt:

The present action builds on the achievements of the first phase of EU blending facilities, in particular the Latin America Investment Facility (LAIF) and the Caribbean Investment Facility (CIF), which were established in 2010 and 2012 respectively. Reviews, assessments, monitoring results (Results Oriented Monitoring) and evaluations of previous actions serve as lessons learnt for the LACIF framework.

The Evaluation of blending carried on behalf of the European Commission in 2016 concluded that blending is a useful instrument that provides a strategic advantage, adding value, supporting private sector and learning from previous experience. Project design was sound overall but the report also offered recommendations including the need to expand the number and specialisation of EU and International Financial Institutions (IFI) partners, sharpen the alignment of blending projects with national policies (for which the EU Delegations can provide specific support), continue with improvements and innovation on project design in order to ensure potential optimisation, boost the contribution to private sector development by expanding the use of risk sharing instruments to financial intermediaries, undertake assessment of the partner’s procurement and contracting systems and to take a pro-active stance on visibility. All this aspects will be taken into account amongst other with a systematic use of EU internal risk assessment tools.

Lessons learnt under EU blending facilities, particularly the LAIF and the CIF, include the need to involve all relevant stakeholders from the early stages of the preparation of proposals. EU Delegations play a key role in the whole blending proposal approval and implementing processes and it is key to maintain a fluid communication with them. As main drivers of the policy steer, EU Delegations shall be consulted by IFIs from the beginning of the preparation of proposals. IFIs also have a decisive role on monitoring and exchanges with them should be constant too. Monitoring at project level is followed by EU Delegations (except for regional programmes in Latin America), but the teams in HQs are responsible of compiling and disseminating results. This requires further standardisation of indicators and an improved monitoring system that involves all actors. Moreover, strong links with IFIs also result in an improved communication strategy and an enhanced presence in the media that boost the visibility of the European Union in partner countries.

These recommendations have been dealt with by the EU policy group established under the EU Platform for Blending in External Cooperation. They were consequently incorporated in an improved project application form, as well as in a newly developed blending results measurement framework for theblending players.

3.5 The Intervention Logic

The underlying intervention logic for this action is that blending is a tool that will be used to support the fulfilment of Union ’s objectives in Latin America and the Caribbean as presented in the Regional MIP 2021-2027.

A common characteristic of all blending operations is that grants shall not subsidise loans for projects that would have taken place in any case, in line with the Guidelines on EU blending operations.

The general intervention logic of blending facilities is based on the understanding that financing sustainable infrastructure (affordable, resiliable, resilient, climate-proofed) will increase equal access for all people (including those living in the most marginalised situations) to affordable water, transport and energy in a safe and resilient manner, and it will as well as promote inclusive MSME growth with a special attention to those led by women and young people (as outlined in the Specific Objectives).

The main assumptions at this level are that: (a) in Chile priority investments have been identified to be financed through public (CORFO grants) and private resources as well as through loans; (b) the Financial Institutions’ pipeline of projects is of sufficient volume and quality; and (c) financial guarantees/grant resources are available. These should also include human rights and gender equality obligations to ensure that the FI (and local partner/s) respect and apply environmental and social policy and safeguards and due diligence in line with EU and international standards.

In the long term, this Action will contribute to a green and digital transition while fostering a sustainable and inclusive economic recovery in Chile (Overall Objective). This wider Objective implies reduced unemployment and poverty of women and men, reduced pollution and an advanced economy, which is equitable, inclusive and environmentally sustainable and resilient. At this level, the main assumption is that the political and security climate in Chile will remain sufficiently stable to promote and secure investments.

3.6 Logical Framework Matrix

This indicative logframe constitutes the basis for the monitoring, reporting and evaluation of the intervention.

On the basis of this logframe matrix, a more detailed logframe (or several) will be developed at contracting stage. In case baselines and targets are not available for the action, they should be informed for each indicator at signature of the contract(s) linked to this AD, or in the first progress report at the latest. New columns may be added to set intermediary targets (milestones) for the Output and Outcome indicators whenever it is relevant.

- At inception, the first progress report should include the complete logframe (e.g. including baselines/targets).
- Progress reports should provide an updated logframe with current values for each indicator.
- The final report should enclose the logframe with baseline and final values for each indicator.

The indicative logical framework matrix may evolve during the lifetime of the action depending on the different implementation modalities of this action.

The activities, the expected Outputs and related indicators, targets and baselines included in the logframe matrix may be updated during the implementation of the action, no amendment being required to the Financing Decision.

Important note: This Individual Measure is framed under the EFSD+ LACIF and it is therefore integrated within its logical framework, particularly regarding sustainable energy, unlocking finance and infrastructure resilience aspects. Below are the main outcomes and outputs related to these themes, extracted from the LACIF Decision Logical Framework.

Results	Results chain (@) Main expected results (maximum 10)	Indicators (@) (at least one indicator per expected result)	Baselines Not applicable at facility level	Targets Not applicable at facility level	Sources of data	Assumptions
Impact	To contribute to a green and digital transition while fostering a sustainable and inclusive economic recovery in beneficiary countries (as per the priorities of the Regional MIP)	1 Total number of people benefitting from EU supported interventions that aim to reduce social and economic inequality, including those living below the poverty line, disaggregated by sex, and age and indigenous status where possible 2 Greenhouse Gas (GHG) emissions avoided (tonnes CO2eq) with EU support (EURF 2.7 and Regional MIP) 3 Annual GDP growth (depending on operations approved) 4 Number of (a) jobs, (b) green jobs supported/sustained by the EU disaggregated by sex, age, indigenous status, and migratory status where possible (EURF 2.13 and GAP III)				*Not applicable*
Outcome 1	1. Increased access to sustainable energy, water and sanitation and transport infrastructure/ Low carbon and climate resilient growth (Regional MIP)	1.1 Number of people with access to electricity with EU support through: (a) new access, (b) improved access , disaggregated by sex and age indigenous status, and migratory status if possible, (EURF 2.3) and GAP III)				
Output 1 **relating to Outcome 1**	1.1 Enhanced resilient infrastructure to produce renewable energy and to enhance energy efficiency (Regional MIP)	1.1.1 Renewable energy generation capacity installed (MW) with EU support (EURF 2.4) 1.1.3 Leverage effect in energy projects (ratio of the amount of reimbursable financing provided to eligible final recipients divided by the amount of the Union contribution)				
Output 1 related to outcomes 1, and 3	4.1 Unlocked finance	4.1 Leverage effect of blending facilities (ratio of the amount of reimbursable financing provided to eligible final recipients divided by the amount of the Union contribution)				

4 IMPLEMENTATION ARRANGEMENTS

4.1 Financing Agreement

In order to implement this action, it is not envisaged to conclude a financing agreement with the partner country.

4.2 Indicative Implementation Period

The indicative operational implementation period of this action, during which the activities described in section 3 will be carried out and the corresponding contracts and agreements implemented, is 72 months from the date of adoption by the Commission of this Financing Decision.

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this Financing Decision and the relevant contracts and agreements.

4.3 Implementation Modalities

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures[8].

4.3.1 Indirect Management with a pillar-assessed entity

This action may be implemented in indirect management with KfW.

The entity will be entrusted with the implementation of Union funds including the implementation through procurement and grants. The entrusted entity organisation shall also monitor and evaluate such project and provide reporting.

The envisaged entity has been selected using the following criteria:

a. alignment with the strategic priorities as agreed with EU partner countries in the context of the programming and Mid-Term Review process;

b. compliance with EU policies, sector/thematic policies;

c. additionality of EU contribution;

d. potential cooperation on policy dialogue topics; and

e. maturity of project preparation.

It is important to mention that KfW has proven capacity and previous experience in similar initiatives.

If negotiations with the above-mentioned entity fail, the action may be implemented in indirect management with the European Investment Bank. The implementation by this alternative entity would be justified because of the aboved mentioned criteria and since this entity is also part of the initiative and will be a partner for the creation of the proposed Fund.

In case the envisaged entity and the replacement entity mentioned above would need to be replaced, the Commission's services may select another replacement entity using the same criteria. If the entity is replaced, the decision to replace it needs to be justified.

4.4 Indicative Budget

Indicative Budget components	**EU contribution (amount in EUR)**
Indirect management with pillar-assessed entity cf. section 4.3.1.	**16,510,000**
Total	**16,510,000**

[8] www.sanctionsmap.eu. Note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy, the OJ prevails.

4.5 Organisational Set-up and Responsibilities

KfW will assume the overall management and monitoring of the programme towards the EU. A coordination on the level of Ministries is foreseen through the Committee for the Development of the Hydrogen Industry, whose aim is to support the implementation of the national strategy on renewable hydrogen and draft related action plans. Furthermore, it shall articulate and manage initiatives promoting the development of the renewable hydrogen industry. The Committee has been established by the Ministry of Economy on the 22 June 2022 and is led by an interministerial council consisting of representatives of the Ministry of Energy, Economy, Finance, National Goods, Environment, Foreign Affairs, Science Social Development, Agriculture, Public Works, Transport and CORFO.

Regular meetings with the EU Delegation in Santiago de Chile will be established to coordinate the activities related to the Team Europe Initiative on Renewable Hydrogen Development in Chile (Regional Green Transition Programme, EUROCLIMA+, etc.) and increase complementarity of the Global Gateway Renewable Hydrogen Fund and the TA programmes. Therefore, a Steering Committee including the EU Delegation in Chile, KfW, EIB and CORFO, for the implementation of the Global Gateway Renewable Hydrogen Fund should be established.

Bidding regulation and contracting for the technical assistance measures as well as operationalisation of eligibility criteria and implementation procedures for the investment grant will be carried out in compliance with Chilean and KfW procurement guidelines. KfW will inform the EU on programme progress on an annual basis.

5 PERFORMANCE MEASUREMENT

5.1 Monitoring and Reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process, and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (Outputs and direct Outcomes) as measured by corresponding indicators disaggregated minimum by sex, using as reference the logframe matrix (for project modality) and the partner's strategy, policy or reform action plan list (for budget support).

All monitoring and reporting shall assess how the action is taking into account the human rights-based approach and gender equality.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

Roles and responsibilities for data collection, analysis and monitoring:

Reporting will be carried out at an individual operational level by the entrusted entities, in line with the contractual provisions of the bilateral agreement that the Commission will sign with these entities.

The entrusted entities should provide all the relevant information on the execution of the projects, including compiling reporting from all implementing partners/subsidiaries, in order to enable the European Commission to carry out the required follow up of the actions.

As per the recommendation of the EU Platform for Blending and External Cooperation (EUBEC), the Commission will monitor the performance of the projects benefiting from blending grants based on the EU Platform on Blending in External Cooperation discussions and considering the relevant EU Result Framework, or any further indicator agreed.

KfW will gather the relevant information about the implementation of the Action through the governance structure and from CORFO and summarise this in yearly reports to the EU.

The day-to-day technical and financial monitoring of the implementation of contracts funded under the Facility will be a continuous process and part of the implementing partners' responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced (including the impact on gender equality, disability inclusiveness and accessibility of infrastructure and human rights), as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators (at least data disaggregated by sex and age and disability, and when feasible disability data, as well as specific targets for women's inclusion). The report will be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial report, will cover the entire period of the action's implementation.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

Approximately half a year after the end of the implementation phase of the component, an evaluation of the financed projects shall be conducted by KfW and CORFO to assess the results and impacts of the programme.

Note: Monitoring, reporting and evaluation will comprise all relevant information on performance, results, impacts and risks of the component, including respective environmental and social requirements.

5.2 Evaluation

Having regard to the importance of the action, a(n) ex-post evaluation(s) will be carried out for this action or its components through a joint mission

It will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the multi-country and multi-sector nature of the Facility. Colleagues from EU Delegations in charge of different portfolios might be invited to form part of the mission to ensure coherence of EU external actions.

All evaluations shall assess to what extent the action is taking into account the human rights-based approach as well as how it contributes to gender equality and women's empowerment. Expertise on human rights and gender equality will be ensured in the evaluation teams.

The evaluation reports shall be shared with the partner country and other key stakeholders following the best practice of evaluation dissemination10. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

The financing of the evaluation shall be covered by another measure constituting a Financing Decision.

5.3 Audit and Verifications

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audit or verification assignments for one or several contracts or agreements.

6 STRATEGIC COMMUNICATION AND PUBLIC DIPLOMACY

The 2021-2027 programming cycle has adopted a new approach to pooling, programming and deploying strategic communication and public diplomacy resources.

In line with the 2022 "Communicating and Raising EU Visibility: Guidance for External Actions", it is a contractual obligation for all entities implementing EU-funded external actions to inform the relevant audiences of the Union's support for their work by displaying the EU emblem and a short funding statement as appropriate on all communication materials related to the actions concerned. This obligation applies equally, regardless of whether the actions concerned are implemented by the Commission, partner countries, service providers, grant beneficiaries or entrusted or delegated entities such as UN agencies, international financial institutions and agencies of EU Member States.

However, action documents for specific sector programmes are in principle no longer required to include a provision for communication and visibility actions promoting the programmes concerned. These resources are instead consolidated in Cooperation Facilities established by support measure action documents, allowing

Delegations to plan and execute multiannual strategic communication and public diplomacy actions with sufficient critical mass to be effective on a national scale.

Appendix 1 REPORTING IN OPSYS

A Primary Intervention (project/programme) is a coherent set of activities and results structured in a logical framework aiming at delivering development change or progress. Identifying the level of the primary intervention will allow for:

Articulating Actions or Contracts according to an expected chain of results and therefore allowing them to ensure efficient monitoring and reporting of performance;

Differentiating these Actions or Contracts from those that do not produce direct reportable development results, defined as support entities (i.e. audits, evaluations);

Having a complete and exhaustive mapping of all results-bearing Actions and Contracts.

Primary Interventions are identified during the design of each action by the responsible service (Delegation or Headquarters operational Unit).

The level of the Primary Intervention chosen can be modified (directly in OPSYS) and the modification does not constitute an amendment of the action document.

The intervention level for the present Action identifies as (tick one of the 4 following options);

Action level (i.e. Budget Support, blending)		
☒	Single action	Present action: all contracts in the present action
Contract level		
☒	Single Contract 1	Contribution agreement with KfW