

Brazil Sovereign Sustainable Bond: Financing a greener, more inclusive, and equitable economy

The World Bank provided technical assistance to the Federative Republic of Brazil to establish its sovereign sustainable bond program and pave the way for its inaugural \$2 billion issuance.

Background

Brazil has set a nationally determined contribution (NDC) target for a [53 percent reduction in GHG emissions](#) by 2030 in comparison with 2005, and carbon neutrality (net-zero) by 2050. In addition, the NDC aims to reduce vulnerability in terms of water, energy, food, social and environmental security, and enhance social benefits to ensure the climate resilience of the population and infrastructure. [There are large costs associated with meeting Brazil's NDCs](#): the most recent estimates place these costs at \$1.4 trillion between 2016 and 2030, equivalent to [\\$100 billion \(or about 7 percent of GDP\) per year](#)¹.

On September 5, 2023, Brazil launched its [Sovereign Sustainable Bond Framework](#), a reference document for the issuance of sovereign debt securities that will enable the country to raise funds associated with financing budgetary programs that generate positive environmental and/or social impacts, many of which can support the long term decarbonization and climate resilience. The Framework follows international best practices and has been certified by Second Party Opinion provider - Morningstar Sustainalytics, demonstrating its alignment with the principles established by the International Capital Markets Association (ICMA).

Financial Solution

Sustainable bonds (green, social and sustainability bonds) are debt instruments that support expenditures and projects with environmental and social benefits. They are innovative financial tools used by many borrowers – from sovereigns to corporates and multilaterals – to finance environmental and social action. [With \\$7.2 billion of sustainable debt issued in 2022](#), Brazil ranked first regionally for corporate green bonds, having raised money for climate and biodiversity projects. In



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November 2023, it became the eighth country in Latin America² to issue a sustainable sovereign bond. With the addition of Brazil's bond, [the total cumulative volume of sustainable bonds issued globally in 2023 reached \\$4.9 trillion](#), and issuances in Latin America and the Caribbean reached \$157 billion regionally, with 47 percent issued by sovereigns (Brazil, Chile, Colombia, Ecuador, Guatemala, Mexico, Peru, and Uruguay).

Use of proceeds

Brazil's Sustainable Bond Framework complies with the use of proceeds principles outlined in the International Capital Market Association (ICMA)'s 'Green Bond Principles, Social Bond Principles, and Sustainability Bond Guidelines'. The Framework lists eligible expenses within the scope of sustainable bond transactions and the categories of activities (17 in total) associated with environmental (10 categories) and social (7 categories) benefits. The first issue has allocated the proceeds to deforestation control, biodiversity conservation, the National Climate Change Fund (that focuses on renewable energy and clean transport, among others), and programs to combat poverty (Bolsa Familia) and the fight against hunger (Food Acquisition Program). The split of allocation of resources to environmental vs. social priorities is well balanced (approximately 1:1) in accordance with international best practice.

¹ IFC, 2016. By 2030, the financing gap for achieving net-zero emissions is estimated at USD 1.3 trillion for energy, transportation, building, waste management, and industrial energy efficiency sectors. An additional USD 163 billion for agriculture, of which USD 78 billion in

livestock-related activities is obtained from Climate Bonds Initiative, 2020.

² Others are Chile, Colombia, Uruguay, Ecuador, Guatemala, Mexico, and Peru.

Process for project evaluation and selection

The Framework defines the process for assessing and selecting eligible expenses for financing through sustainable bonds, ensuring that the raised funds are directed to eligible and high-impact expenses. It outlines procedures for managing the funds raised and the parameters adopted for monitoring, measuring, and publishing allocation and impact reports of the funds raised, as well as the use of external verification to provide assurance to investors. The CFSS is also responsible for identifying and mitigating environmental and social risks associated with the financed projects.

Management of proceeds

The CFSS oversees the allocation and tracking of bond proceeds. The Federative Republic of Brazil intends to fully allocate net proceeds within twenty-four months of issuance, on a best-efforts basis. The National Treasury's expense management process will ensure that an amount, at least equivalent to the net proceeds of sustainable sovereign bonds, will be used to identify and allocate proceeds to eligible expenses in the federal budget (virtual allocation).

Allocation and impact reporting

The Federative Republic of Brazil intends to report on the allocation and impact of projects and activities supported annually until full allocation of the proceeds. The report will be published on its website. Allocation reporting may include the breakdown of proceeds per type of expenditure, share of financing and refinancing, share of co-financing and the amount of unallocated proceeds. The impact report will include both qualitative and quantitative information about expected impacts and results associated with the amount of proceeds disbursed for each expense category.

Outcomes

[On November 13, 2023, Brazil successfully debuted a \\$2 billion sovereign sustainable bond.](#) The transaction succeeded in extending the maturity of debt, accessing new investors, and broadening the investor base, in conformity with Brazil's medium-term debt management strategy. As external Federal Public Debt acts as a reference for the corporate

sector, the National Treasury chose a 7-year benchmark, where private issues are concentrated. According to [National Treasury Secretary Rogério Ceron](#), the Treasury aims to create a reference yield curve to stimulate further sustainable debt sales by private sector borrowers. Furthermore, the transaction highlighted Brazil's commitment to environmental and social sustainability to the financial markets and beyond.

World Bank's Role

The World Bank³ and Inter-American Development Bank jointly provided technical assistance to the Brazilian National Treasury to establish the sustainable bond program. The joint work was aligned with the World Bank and IDB Presidents' commitment to join forces to maximize development impact in Latin America and the Caribbean. The two multilateral development banks supported the Brazilian government in understanding the value proposition of issuing labeled thematic bonds in line with the country's debt management strategy and international best practices, establishing an inter-ministerial working group ("Comitê de Finanças Sustentáveis Soberanas"), developing the bond framework, identifying eligible projects, and obtaining the external review (Second Party Opinion). The World Bank also advised the Brazilian Treasury on the communication strategy and organized knowledge-sharing events to share Brazil's experience with peers. The World Bank will further support Brazil in the preparation of the post-issuance impact report.

Summary of Financial Terms

Issue Date	November 13, 2023
Amount/Currency	U.S. \$2 billion
Tenor	7 years (maturing on March 18, 2031)
Coupon/Yield	6.50% ⁴
Oversubscription	3X

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³ The work was led by Treasury's Sustainable Finance and ESG Advisory in strong coordination with Brazil's country team.

⁴ Spread-over-US treasury bond of 181.9 bps - the lowest level achieved for a new issuance in almost a decade and comparable to those obtained by investment-grade countries