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Brazil's Sustainable Bonds

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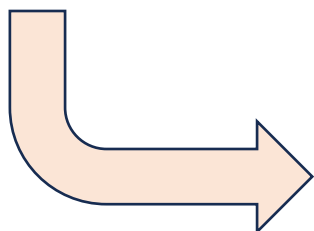
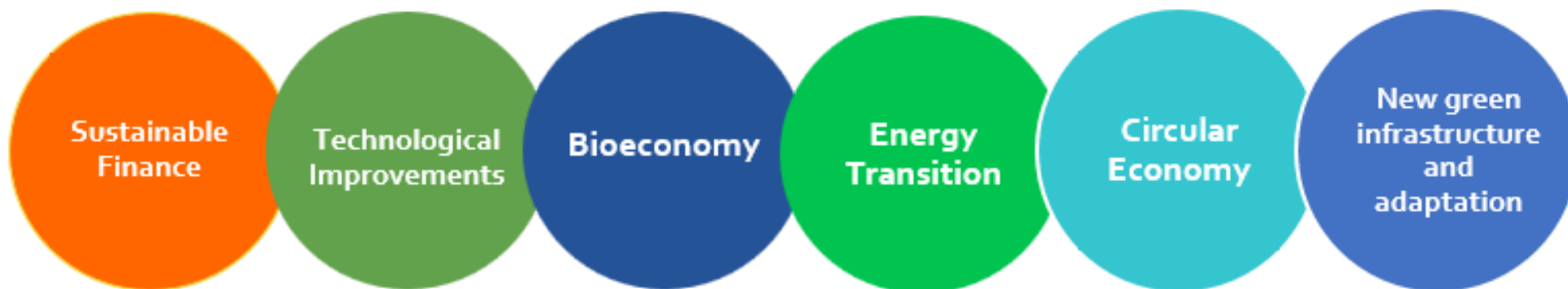


Pinheiro Brasileiro Antigo (Pinheiro Multissecular) - Nova Petropolis, Rio Grande do Sul, Brasil

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Context of the Environmental Strategy

- The adoption of climate commitments for a **low-carbon economy** is one of the main focuses of the **Federal Government's public policies**.
- The Ministry of Finances plays a key role in this agenda and has developed the **Ecological Transformation Plan**, which is an inclusive and sustainable development plan created to achieve **employment, productivity, environmental sustainability and social justice**, based on six pillars:



- **Sustainable Bond Issuances**
- Creation of a Brazilian Sustainability Taxonomy
- National Fund on Climate Change restructuring
- Legal framework for the development of a carbon market

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Why issue sustainable sovereign bonds?

- ✓ To make Brazil stand out on the international agenda for sustainable finance and policies.
- ✓ To attract investors focused on sustainability and diversify the country's investor base.
- ✓ To establish a benchmark yield curve for sovereign and private thematic issuances.
- ✓ To promote and serve as source of financing for investment opportunities in Brazil.



- More than 1/3 of the assets managed by institutional investors worldwide are committed to sustainability.
- In 2020, sustainable investment assets made 35.9% (US\$ 35.3 trillion) of the total assets under management. This represents an increase of 55% in four years (2016-2020).

Source: *Global Sustainable Investment Alliance*.

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Steps to issue a sovereign thematic bond



Governance: Brazil's Sovereign Sustainable Bond Framework



Use of proceeds

The net proceeds from the issuance of these instruments (or equivalent) must be used to finance or refinance, expenses previously identified, which provide clear environmental and/or social benefits.

Use of net proceeds must be identified and described in the instrument's documentation

Eligible Expenses Assessment and Selection Process

Issuers must establish a transparent process to assess and select expenses to be financed with net proceeds from the issuance, identifying its sustainability objectives while considering the environmental and/or social impact, eligibility criteria and the potential risks linked to them



Framework

Management of proceeds

Issuers should establish mechanisms to appropriately track and manage the use of net proceeds from the issuance, including providing regular reporting about their allocation, ensuring that there will be no multiple allocation of net proceeds permitting the same project to be accounted twice.



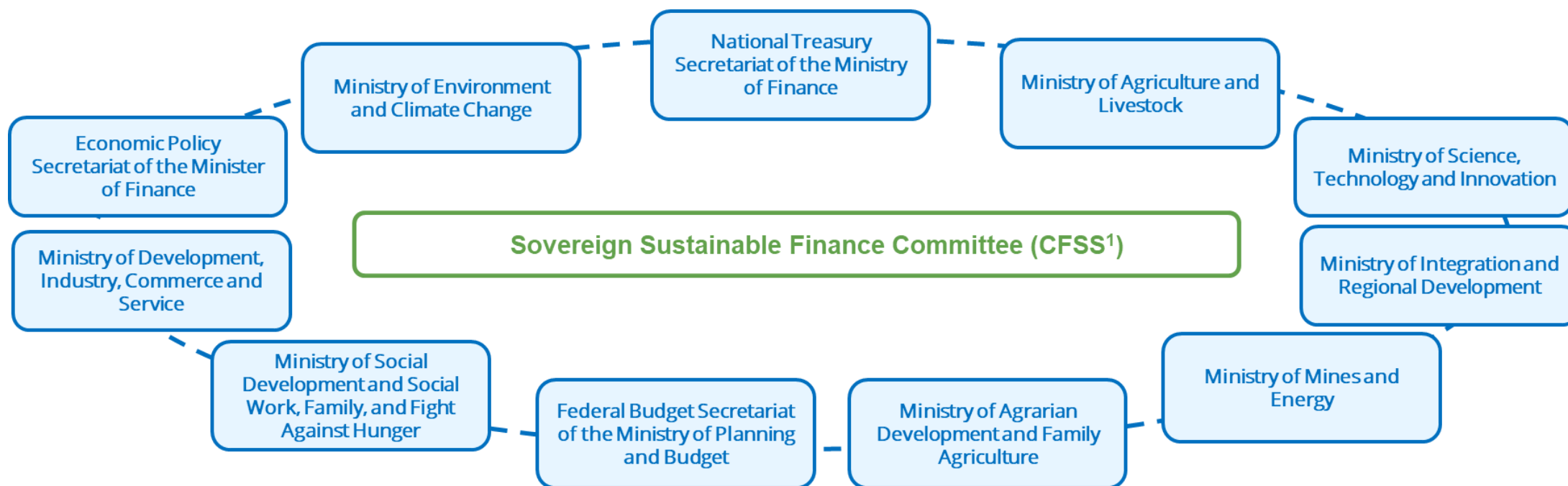
Transparency and impact

Issuers are encouraged to publish regular reports on the use of net proceeds and their eligibility and selection criteria until the maturity of the instrument or the full allocation of net proceeds. Moreover, qualitative indicators should be reported, and when possible, quantitative indicators, measuring environmental and/or social impacts.



2 Governance: Sovereign Sustainable Finance Committee (CFSS)

Brazil's sustainable development agenda mobilizes many actors and federal agencies. So the Federal Government established the Sovereign Sustainable Finance Committee (CFSS in Portuguese), a permanent collegiate body established in May 2023 by the Decree No. 11,532/2023.






Objectives of the CFSS:

- Develop, implement, and monitor the Brazil's Sovereign Sustainable Bond Framework.
- Identify budget programs that meet the pre-defined eligibility criteria within the Framework and report on the issuance through the Allocation Report and the Impact Report.

3 Resources to the Amazon

Category	Eligible expenses	SDG
Sustainable management of living and natural resources and land use	<ul style="list-style-type: none"> • Forestation, reforestation, and forest restoration of degraded areas; • Conservation of natural resources, maintenance of permanent soil cover and improvement of its chemical, physical and biological quality; • Conservation of biodiversity in production chains based on biodiversity; • Integrated and sustainable productive systems in productive chains based on biodiversity; • Projects for areas belonging to indigenous peoples and traditional peoples and communities , including demarcation and restoration of areas; • Revitalização de Bacias Hidrográficas - Concessões e Parcerias-Público Privadas com foco no Desenvolvimento Sustentável. 	<div data-bbox="2175 425 2448 686"> 13 CLIMATE ACTION  </div> <div data-bbox="2168 729 2448 1011"> 14 LIFE BELOW WATER  </div> <div data-bbox="2168 1043 2448 1319"> 15 LIFE ON LAND  </div>











3 Resources to the Amazon

Category	Eligible expenses	SDG
Terrestrial and aquatic biodiversity	<ul style="list-style-type: none"> • Protection, conservation, recovery, restoration and sustainable management of biodiversity, terrestrial and marine ecosystems; • Creation, operation and maintenance of land and marine Conservation Units; • Prevention and fight against forest fires; • Implementation of short-and long-term fire prevention actions; • Maintenance and improvements of monitoring and early detection/warning systems; • Combating deforestation, related to: Promotion of sustainable productive activities; Environmental monitoring and control; Land and territorial organization; Normative and economic instruments. • Monitoring and recording of the fauna of Brazilian biomes; • Research and development of conservation technologies and strategies; 	  

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Use of Proceeds- Indicative Range for Green and Social Expenditures

Indicative Range for Resource Allocation for Green and Social Expenditures

Green Categories*	Range ¹	Impacted SDGs	Social categories**	Range ¹	Impacted SDGs
Terrestrial and aquatic biodiversity	11% - 18%	  	Combating poverty	30% - 40%	 
Clean transport	20% - 25%	 	Food security and sustainable food systems	10% - 17%	
Renewable energy	15% - 20%	 			
Sustainable management of living and natural resources and land use	3% - 6%	  			
Adaptation to climate change	0,5% - 0,8%	 			
Control of GHG emissions	0,1% - 0,2%				

Expense type	Lower limit	Upper limit
Green	50%	60%
Social	40%	50%

*Although the individual values for each category may vary within the range shown above, the sum of the categories must always be at least 50% and at most 60%.

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Transparency and Impact

- The CFSS will publish, annually, the Resource Allocation Report and the Impact Report on sustainable issuances, until the instrument expires or until the total allocation of net resources.
- The first Report is expected to be published 6 months after the issuance, and then every 12 months.

Allocation Report

The allocation reports will detail the amount disbursed by:
Expense category;

- Type of expense (current expenses, investments and financial investments);
- Recent expenses (reimbursement) and current expenses;
- Expense category against total expenses associated with other funding sources (%), identifying the proportion of co-financing.
- The Allocation Report will also disclose the remaining balance of unallocated net proceeds.

Impact Report

The impact reports will detail:

- Qualitative information regarding the impacts and results associated with the amount disbursed for each expense category, according to the “use of proceeds” section of this Framework;
- Quantitative information regarding the impacts and results associated with the amount disbursed for each expense category.
 - At least one quantitative indicator will be reported per activity category.

The content of these reports will be verified by a *Second Party Opinion*.

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Main Challenges and Expected Outcomes

Challenges of a sustainable issuance

- **From the implementing public policy point of view:**
 - ✓ Effective articulation of various government bodies (strengthening CFSS responsibilities)
 - ✓ Improving the traceability of budget expenditures eligible by the framework
 - ✓ Selection of impact indicators that reflect public policy efforts
- **From the public debt management point of view:**
 - ✓ More frequent issuance process and a development of benchmarks in the structure of external interest rates
 - ✓ The generation of references for the private sector will result from the development of benchmarks, the use of appropriate taxonomies and choices about national priority public policies



Mata em Foz do Iguaçu

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Main Challenges and Expected Outcomes

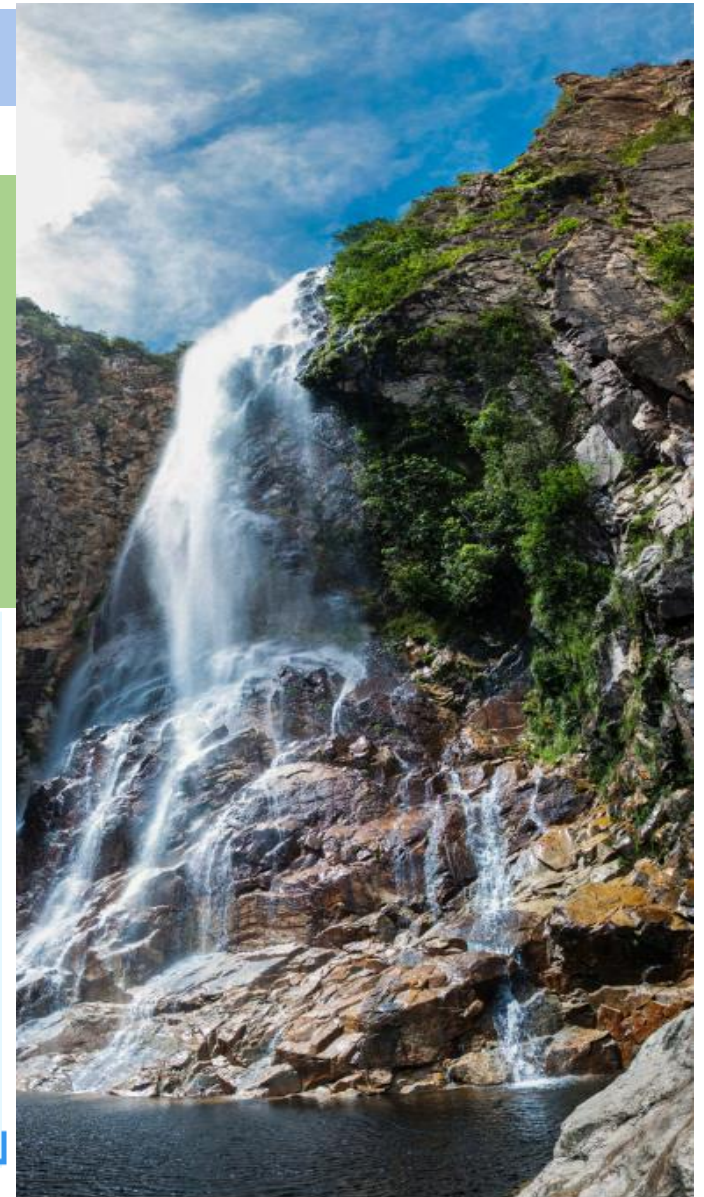
Expected Outcomes

- **Accelerate the ecological transformation process:**
 - ✓ Transition to a more sustainable matrix
 - ✓ Stimulating the circular economy
 - ✓ Inclusive development
 - ✓ Adaptation to climate change

Eligible Green Project Categories :



Eligible Social Project Categories :





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Thank you!