ASIAN INFRASTRUCTURE INVESTMENT BANK

Climate Policy-Based Financing

Program Document

P000977 Brazil: Value-Enhancing Reforms for Development and Ecological Sustainability (VERDES) Climate Policy-Based Financing

Currency Equivalents

As at Sep. 30, 2025

Currency Unit – Brazil Real (BRL)
USD1.00 = BRL5.32
BRL1.00 = USD0.19

Fiscal Year

January 1 – December 31

Abbreviations

AIIB	Asian Infrastructure Investment Bank
ANP	National Agency of Petroleum, Natural Gas and Biofuels
CCDR	Country Climate and Development Report
CIM	Comitê Interministerial sobre Mudança do Clima (Interministerial Council on Climate Change)
CONAMA	National Environmental Council
CPBF	Climate Policy-Based Financing
ES	Environmental and Social
ESEL	Environmental and Social Exclusion List
ESP	Environmental and Social Policy
ETP	Ecological Transformation Plan
GDP	Gross Domestic Product
GHG	Greenhouse Gas
IDB	Inter-American Development Bank
IMF	International Monetary Fund
MDA	Ministry of Agrarian Development and Family Agriculture
MDB	Multilateral Development Bank
MEM	Ministry of Mines and Energy
MMA	Ministry of Environment and Climate Change
MoF	Ministry of Finance
MRV	Monitoring, Reporting and Verification
NAP	National Adaptation Plan
NDC	Nationally Determined Contribution
PA	Prior Action
PBL	Policy-Based Lending
PFM	Public Financial Management
PPA	Plano Plurianual
PPM	Project-affected People's Mechanism
ProBioQAV	National Sustainable Aviation Fuel Program
PT	Project Team
SAF	Sustainable Aviation Fuel
SBCE	Brazilian Emissions Trading System
STN	Secretaria Nacional do Tesouro (National Treasury Secretariat)
TA	Technical Assistance

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1. Executive Summary

The Program supports Brazil's climate commitments by supporting the implement of its Ecological Transformation Plan, which integrates climate objectives into macroeconomic and sectoral policies to achieve a 59–67% reduction in greenhouse gas emissions by 2035 and net-zero by 2050. This initiative directly contributes to Brazil's 2024 Updated NDC by enabling long-term, low-carbon growth pathways that align with the country's environmental targets. AIIB's USD1 billion CPBF is part of a coordinated international effort to finance Brazil's green transition and sustainable development. Working alongside parallel USD1 billion operations from the WB and the IDB, these three institutions are collectively providing USD3 billion to support Brazil's transformation toward a greener, more resilient, and inclusive economy.

The Program aims to strengthen Brazil's policy, regulatory, and institutional framework to accelerate climate mitigation and adaptation through reforms in three strategic pillars: (a) Pillar 1 – Sustainable Finance; (b) Pillar 2 – Energy Transition and (c) Pillar 3 – Green and Resilient Infrastructure.

The Program is fully aligned with the Paris Agreement and qualifies as 100% climate finance, approximately 65% mitigation and 35% adaptation. It directly supports Brazil's institutional capacity to price carbon, mobilize green investment, and mainstream adaptation in national planning.

AIIB provides not only financing but also technical and analytical support, drawing on its work on Nature as Infrastructure and Infrastructure for Planetary Health. The Program represents AIIB's first CPBF operation in Brazil and Latin America, establishing a strategic platform for long-term climate engagement and follow-on investment.

The CPBF is a landmark operation that advances Brazil's climate and development goals while deepening AIIB's collaboration with multilateral and other development partners. By linking policy reform to investment readiness, the Program strengthens Brazil's green growth model and demonstrates how coordinated multilateral support can accelerate an equitable and resilient climate transition.

Program No.	P000977
Program Name	Brazil Value-Enhancing Reforms for Development and Ecological Sustainability (VERDES) Climate Policy-Based Financing
AIIB Member	Brazil
Borrower	Federative Republic of Brazil
Program Executing Agency	Ministry of Finance (MoF)
Program Implementing Agencies	MoF coordinates with relevant agencies to implement and monitor progress of Program implementation. Pillar 1: MoF and Ministry of the Environment and Climate Change (MMA) Pillar 2: Ministry of Mines and Energy (MEM) Pillar 3: Ministry of Health (MoH), Ministry of Agrarian Development and Family Agriculture (MDA), and MMA

Sector Subsector	Others Multi-subsector
Alignment with AIIB's thematic priorities	Green infrastructure
Program Objective	The Program supports the Government of Brazil's actions toward achieving the climate goals articulated in the Nationally Determined Contributions (NDCs) through policy and institutional measures required to implement the Ecological Transformation Plan (ETP) in the areas of sustainable finance, energy transition and green and resilient infrastructure.
Program Description	While Brazil faces rising challenges from climate change particularly in the agricultural sector and urban areas, Brazil can further strengthen its capability to rein in greenhouse gas (GHG) emissions through strategic policy and institutional reforms and innovative financial, economic, and social instruments such as carbon market, blended climate finance, technology development, and community participation in forest conservation. Furthermore, these innovative instruments are also aiming at attracting greater private sector investment in sustainable and climate friendly projects and programs. To support the government's NDC ambition to move toward net zero in 2050 and resilient development pathway under the ETP platform that guides nationwide coordination and implementation, AIIB designed the Brazil VERDES Climate Policy-Based Financing Program in close collaboration with the Government of Brazil and in coordination with two development policy financing programs led by the World Bank and the Inter-American Development Bank. The Program comprises three Pillars and corresponding Policy Actions that are closely aligned with the three thematic areas of the ETP: **Pillar 1 – Sustainable Finance:** Direct public and private, national and international financial resources to sustainable activities, low carbon growth, resilience, ecological transformation and biome regeneration. **Pillar 2 – Energy Transition:** Promote innovative technologies in the area of sustainable bioenergy with competitive cost and value chains. **Pillar 3 – Green and Resilient Infrastructure:** Build resilience of critical natural assets and infrastructure to mitigate and address potential impacts of climate change, as well as protect and restore critical natural ecosystems.
Implementation Period	01/01/26 12/31/27
Expected Loan Closing Date	06/30/28
Proposed Amount of AIIB Financing (USDm)	USD1,000.00
Financing Plan	USD1,000.00

ES Category (or AIIB equivalent, if using another MDB's ES Policy)	Not applicable
Risk (Low/Medium/High)	Medium
Retroactive Financing (Loan % and dates)	No
Policy Waivers Requested	No
Policy Assurance	The Vice President, Policy and Strategy, confirms an overall assurance that the proposed Bank financing complies with the applicable Bank operational policies.
Economic Capital (ECap) Consumption (USDm)	USD176.75 (17.67%)

President	Liqun Jin
Chief Investment Officer	Konstantin Limitovskiy
Director General	Xiaohong Yang
Manager	Evren Dilekli
Team Leader	Nat Pinnoi, Senior Investment Officer
Back-up PTL	Marcin Sasin, Senior Economist Manuel Cervero Bárcena, Investment Officer
Team Members	Alain Chhuor, Investment Officer Kathreen Miralles, Investment Officer Lixiang Wang, Investment Officer Conor Barry, Senior Economist Vera Siesjo, Senior One Health Scientist Yi Geng, Senior Financial Management Specialist Maya Gabriela Villaluz, Senior Environment Specialist Luiz Eduardo Rodrigues, Project Counsel Rafael Noronha, Senior Social Development Specialist Chandra Mishra, Procurement Specialist Mengmeng He, Finance Officer Julija Kuklyte Polycarp, Senior Climate Specialist James Warren Evans, Senior Climate Policy Consultant Sergio Margulis, Senior Climate Economic Consultant Mark Sundberg, Senior CPBF Consultant Robert Beschel, Senior Governance Consultant Boris Utria, Senior Consultant for Latin America Augusto Mendonca, Environment and Social Consultant Tiago Santana, Financial Management Consultant Rashmi Ramanath, Legal Associate Mingkai Zhang, Environment and Social Analyst Jiaming Yu, Project Assistant
Credit Officer	Wei Zhang, Senior Credit Risk Officer

2. Program Description

A. Program Overview

2.1 **Program Objective.** The Program supports the Government of Brazil's actions toward achieving its climate goals articulated in its 2024 updated Nationally Determined Contributions (NDCs) through policy and institutional measures required to implement the Ecological Transformation Plan (Plano de Transformação Ecológica, ETP) in the areas of sustainable finance, energy transition and green and resilient infrastructure.

2.2 **Program Scope.** Designed and structured in complementarity with peer multilateral development banks (MDBs), the proposed Program scope will focus its support and actions on three pillars: (a) **Sustainable Finance** to catalyze direct public and private, national and international financial resources to sustainable activities, low carbon growth, resilience and ecological transformation and biome regeneration; (b) **Energy Transition** to promote innovative technologies in the area of sustainable bioenergy with competitive cost and value chains; and (c) **Green and Resilient Infrastructure** to build the resilience of critical natural assets and infrastructure to mitigate and address potential impacts of climate change, as well as protect and restore critical natural ecosystems.

2.3 **Program Financing.** The Government of Brazil has requested the Asian Infrastructure Investment Bank (AIIB) to finance the Program with a stand-alone loan of USD1,000 million. The request is complementary and in coordination with two other development programs led by the World Bank and Inter-American Development Bank (IDB), both contributing USD1,000 million each, to address climate resilience and green growth. This landmark collaboration reflects shared confidence in Brazil's commitment to domestic policy reforms, environmental sustainability and global decarbonization goals.

B. Background and Development Constraints

2.4 **Climate Change Challenges and Vulnerabilities.** Brazil faces rising exposure to climate-related risks, whose effects are compounded by accelerating deforestation and land degradation. Rising temperatures, shifting rainfall patterns and more frequent extreme weather events are disrupting agriculture, threatening water and energy security and damaging infrastructure, particularly in vulnerable urban areas. The degradation of critical biomes, such as the Amazon and the Cerrado,[1] undermines ecosystem services and heightens the risk of crossing ecological tipping points, thresholds beyond which ecosystems may undergo abrupt and irreversible changes, such as the savannization of the Amazon and large-scale forest dieback. All such climate impacts disproportionately affect the poor, deepening the inequality problem, a social challenge for Brazil. These changes not only jeopardize Brazil's development gains but also carry profound global implications given the scale and significance of its natural assets.

2.5 Brazil's unique emissions profile sets it apart as both the world's sixth largest greenhouse gas (GHG) emitter and an economy with exceptional potential to contribute to climate solutions. Unlike other major economies, the majority of its emissions stem from land-use

[1] The Amazon and the Cerrado together cover over two-thirds of Brazil's territory. The Amazon alone contains roughly one-third of the world's remaining tropical rainforests.

change and deforestation. In parallel, nearly 80% of its electricity already comes from renewable sources.[2] However, key sectors—including transport, energy and industry—remain dependent on fossil fuels[3], limiting the pace of economy-wide decarbonization. Brazil's vast natural ecosystems not only act as critical carbon sinks but also give it a comparative advantage to lead in nature-based solutions, sustainable finance markets, biofuel production and carbon sequestration. These characteristics position Brazil as a pivotal player in global climate efforts.

2.6 Brazil's structural development constraints—including limited fiscal space under a strict fiscal responsibility framework, persistent social inequalities and the need to expand investments in infrastructure and basic services—pose challenges to scaling up climate adaptation and mitigation efforts, despite the country's moderate debt levels (87.3% of GDP in 2024).[4] Meanwhile, escalating climate impacts, such as infrastructure damage from extreme weather, agricultural losses from recent droughts (Amazon/Pantanal), catastrophic floods (Rio Grande do Sul, 2024) and increased health burdens, intensify economic and social pressures, further straining public resources and slowing both development progress and adaptive public investment. These pressures contribute to a fragile balance where climate impacts drain the public resources needed to prevent future damage.

2.7 **Inequitable Distribution of Climate Risks.** Climate change deepens Brazil's social and spatial inequalities, disproportionately affecting marginalized populations and underdeveloped regions. Vulnerable groups, including those living in favelas (informal settlements), rural areas and indigenous territories, face heightened exposure to extreme weather, compounded by limited infrastructure, precarious housing and insufficient access to basic services. These risks intersect with age, gender and racial disparities, amplifying vulnerability. At the same time, Brazil's vast natural capital, such as the Amazon and mangrove ecosystems, still lacks the level of recognition and protection that matches its importance.

2.8 **Policy and Institutional Challenges.** Brazil continues to face challenges in advancing climate adaptation and mitigation, particularly in land use, infrastructure and energy. While deforestation and ecosystem degradation remain concerns, progress is being made through the development of new legislation, strengthened enforcement and enhanced community participation. In infrastructure and urban services, the integration of climate risks into planning and investment frameworks—including for health and water security—is still evolving. In the energy and transport sectors, biofuels programs such as ethanol and biodiesel have been successful, but further regulatory improvements and cost reductions are needed to accelerate the adoption of emerging technologies, such as sustainable aviation fuel (SAF) and electric freight. In sustainable finance, initiatives such as carbon pricing and green debentures are advancing, though continued regulatory development is required to achieve scale. The government is committed to addressing these challenges and mobilizing investment to support the transition to a low-carbon economy.

2.9 **Government Strategy and Program.** Brazil's strategic plan to address its key constraints is anchored in its NDC, which commits to reducing GHG emissions by 59%–67%

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[2] World Bank. 2023. Brazil Country Climate and Development Report.
[3] Bloomberg NEF. 2025. Brazil Requires Over $6 Trillion in Energy Investment by 2050 to Reach Net Zero. February 20.
[4] International Monetary Fund. 2025. World Economic Outlook: A Critical Juncture amid Policy Shifts. April.

by 2035 (from 2005 levels) and achieving carbon neutrality by 2050. To support these goals and put Brazil on a trajectory of sustainable development, the government launched the ETP, a national development strategy that integrates climate action into planning, budgeting and public investment. It comes in parallel to Brazil's updated climate policy program led by an interministerial climate committee (CIM) that integrates six thematic areas with 16 sectoral adaptation plans (covering agriculture, water security and coastal resilience) and 7 mitigation plans (focused on energy, transport and deforestation control). It is supported by cross-cutting mechanisms such as climate finance instruments, improved governance structures and capacity-building initiatives. To complement this, the government released the fifth edition of the Action Plan for the Prevention and Control of Deforestation in the Legal Amazon (PPCDAm), which aims to eliminate illegal deforestation and achieve zero deforestation by 2030. Together, the NDC and ETP provide a coherent framework to address structural challenges and enhance resilience, directing investments toward green infrastructure and steering the economy toward inclusive and sustainable growth.

2.10 **AIIB CPBF Support.** AIIB's Climate Policy-Based Financing (CPBF) Program directly supports the implementation of the government's climate and development agenda. The Program's prior actions are fully aligned with the priorities articulated in the updated NDC (2024) and the ETP. The Program reinforces synergies between these two frameworks by advancing targeted reforms across three critical areas: (i) scaling up sustainable finance and mobilizing private capital to accelerate decarbonization in high-emitting sectors; (ii) fostering green innovation through regulatory and fiscal support for technologies like biofuels; and (iii) strengthening resilience through health sector adaptation and the conservation and restoration of forests and mangroves as nature-based solutions.

2.11 **Strategic Fit for AIIB.** The Program aligns with the Bank's Articles of Agreement and CPBF objective, meets the eligibility criteria for standalone CPBF, supports the Bank's Corporate Strategy and contributes to the Bank's climate financing. The Program fully aligns with AIIB's green infrastructure thematic priorities by supporting the government to achieve its climate goals in the NDC, transitioning to a low-carbon economy, mobilizing private capital to unlock green investment and promoting the adoption of a strategic framework for developing low-carbon biofuels and innovative industrial solutions. Additionally, the Program will directly contribute to several of AIIB's sector strategies including energy, transport, health and sustainable cities by enabling policies to decarbonize hard-to-abate sectors such as the industrial sector and enhancing Brazil's climate resilience. The assessment of the macroeconomic framework is provided in Section 3.A.

2.12 **Strategy on Financing Operations in Non-Regional Members.** The Program aligns well with the Strategy on Financing Operations in Non-Regional Members, particularly on the global public goods (climate mitigation) aspect, in addressing the decarbonization policies, forest and mangrove conservation and low carbon and resilient public health system. The operation supports structural reforms in hard-to-abate sectors, most notably transport and industry, through measures such as the SAF program and the establishment of a national carbon market. Equally important, the Program enhances Brazil's global carbon sequestration capacity by strengthening the management of public forests and mangrove ecosystems. These natural carbon sinks play a critical role in removing and storing atmospheric carbon, while providing vital ecosystem services and protecting vulnerable coastal and forest communities.

2.13 As the Program is prepared as a stand-alone operation, the Bank carried out assessment to determine that the government has a strong capacity to design and implement policy measures. The policies highlighted in the ETP have advanced to the implementation stage. Furthermore, the government has a long and successful experience working with Development Policy Loan (DPL) instruments with the World Bank and IDB. In fact, the Program has been designed in consultation with the World Bank and IDB whose respective USD1,000 million DPL programs were recently approved. While conceived independently, the three programs are complementary, each reflecting the institutions' comparative advantages, thereby creating synergies while avoiding duplication. Additionally, AIIB has not only mobilized a team of experts across different departments, but also an external team of national and international consultants and development partners to carry out policy dialogues, necessary technical and fiduciary assessment and provide capacity building support to the government.

2.14 The Program's design builds on the Bank's recent analytical works including the Nature as Infrastructure (2023), Infrastructure for Planetary Health (2024) and the ongoing Brazil Net Zero reports. AIIB has been spearheading the conversation on "Nature as Infrastructure," enriching the debate around nature-based solutions economics and its impact on sustainability. Brazil is considered the most biodiverse region in the world, blessed with rich geography, diversified natural resources, biomes and climate conditions. It's biodiversity and climate challenges—where curbing deforestation is a critical, multi-faceted priority—requires a concerted effort across multiple fronts. In this context, the Program strategically focuses its efforts where AIIB can deliver the most added value: by promoting participatory conservation, restoring degraded lands and improving the quality and resilience of sustainable infrastructure. This approach directly supports key government policies, such as fostering conservation concessions with shared benefits for local communities and targets infrastructure segments aligned with the latest research. By concentrating on these areas, the Program complements broader national efforts to ensure critical forest areas are protected. Most recently, the Bank published its Health strategy and latest flagship report on "Infrastructure for Planetary Health", urging infrastructure development to prioritize Health, Climate and Nature to save lives and protect the Planet. The latter is in line with the scope of this Brazil CPBF, to maximize the health co-benefits across all its infrastructure financing and improve resilience, inclusivity, effectiveness, and efficiency of health systems. Both studies, case studies and the forthcoming Net Zero report for Brazil have been used to formulate the analytical underpinning of the actions included in the CPBF.

2.15 The Program aligns with other AIIB-supported operations in Brazil and is a strategic and critical engagement of the Bank in Brazil. It builds on AIIB's ongoing policy dialogue and existing portfolio as well as the analytical work undertaken by the Bank and its partners. The Program's three pillars will generate complementary benefits for Brazil's critical agricultural export sector, particularly in production and distribution hubs like the Center-West states and Rio Grande do Sul, a key focus area for AIIB's sovereign-guaranteed operations. This creates synergies by integrating climate resilience into core fiscal processes for subnational entities, including budget planning, public financial management and strategic procurement systems.

2.16 **Paris Alignment and Climate Finance.** The Paris Agreement alignment assessment was carried out based on the Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment of New Operations – Policy-Based Lending (PBL), version 1.0, June 2023. By definition, an operation needs to be aligned with both the mitigation and climate adaptation and resilience goals of the Paris Agreement to be considered "Paris-aligned". The Program supports Brazil's updated 2024 NDC through a comprehensive package of reforms which, taken together, advance its mitigation and adaptation goals. On mitigation, the Program enables emissions reductions by establishing the legal and institutional framework for a national carbon market, promoting sustainable aviation fuels and incentivizing low carbon infrastructure and nature-based solutions through land and forest restoration. On adaptation, the Program strengthens systemic resilience by supporting climate-resilient infrastructure, restoring protective ecosystems such as mangroves and mainstreaming adaptation in priority sectors such as public health. After undergoing the required assessment, the results confirm that the Program aligns with the climate mitigation and climate adaptation as well as resilience goals of the Paris Agreement (Annex 3 provides more information).

2.17 According to Annex C.5 of the 2022 Joint Report of Multilateral Development Banks' Climate Finance, policy-based lending, which includes the climate-related prior actions, can be reported as climate finance. The proportion of the reported climate financing is the same as the proportion of the climate-related policy actions. This Program includes 12 Prior Actions (PA). Among those 12 PAs:

(a) 10 actions contribute to climate mitigation, including the ones related to the establishment of the Brazilian Emissions Trading System (SBCE) and to the SAF program.

(b) Eight actions contribute to climate adaptation, including the ones related to the implementation of National Adaptation Strategy and related national health adaptation plan.

(c) Six actions deliver dual climate benefits, contributing to both mitigation and adaptation outcomes.

2.18 Accordingly, 100% of the total financing of USD1,000 million is counted toward the Bank's climate finance target. Of this total, 65% (USD646 million) is reported as climate mitigation finance and 35% (USD354 million) as climate adaptation finance. Within these figures, USD333 million[5] (33% of the total climate finance) delivers dual benefits, contributing simultaneously to both mitigation and adaptation.

2.19 **Value Addition by AIIB.** While complementing the World Bank's and IDB's operations, AIIB's distinct value lies in catalyzing market creation and operationalizing new systems. The Bank is a good position to support the SBCE, promote blended finance instruments such as Eco Invest and strengthen emerging climate-health linkages under initiatives like the government's "AdaptaSUS" (which aims to strengthen Brazil's health system's resilience to climate change). Through this Program, AIIB has deepened upstream policy engagement with the government and development partners, building on its investment operations in Brazil and aligning closely with its infrastructure and climate finance priorities. It supports the integration of climate resilience in the health sector, advances nature-based solutions and creates opportunities for downstream infrastructure investments across sectors, including health and ecosystem restoration, at both federal and state levels. AIIB also facilitates knowledge

[5] These dual benefits are fully embedded into the mitigation and adaptation finance totals reported above, not additional to them.

exchange by sharing relevant experiences from other members, such as institutional approaches to carbon markets in China.

2.20 Although this is the first CPBF operation in Brazil, AIIB is committed to offering comprehensive advisory and technical assistance to the MoF in implementing and monitoring an ambitious reform agenda in the future and strengthening the institutional capacity to enhance the sustainability of its reforms. Specifically, AIIB's support will encompass a thorough review of the government's AdaptaSUS to identify gaps and provide actionable recommendations to enhance the health sector's National Adaptation Plan (NAP) and regulatory framework. Moreover, AIIB will help the government to implement and operationalize the "ProManguezal Plan" (National Program for the Conservation and Sustainable Use of Mangroves) and Development Strategy, bringing experiences from cooperation with other AIIB members. This will involve the development of a climate-resilient framework to manage and protect Brazil's crucial biomes, reduce emissions through enhanced carbon sequestration and enable sustainable ecological recovery. In addition, AIIB will leverage its analytical work such as "Nature as Infrastructure," "Infrastructure for Planetary Health" and the ongoing work on "Brazil Net Zero" to support the design and adoption of nature-based policies.

2.21 **Creating an Enabling Environment for Private Sector Financing and Infrastructure Investment.** AIIB, together with the IDB and World Bank programs, will support the government in establishing a GHG Emission Reduction and Removal framework across Brazil and in scaling private capital mobilization (PCM) mechanisms such as SBCE and the Eco Invest Program. These reforms aim to unlock priority ecological transformation projects, catalyze private participation and expand downstream infrastructure investment opportunities. Under Pillar 1 – Sustainable Finance, incentive mechanisms will drive private investment in emissions reduction and climate adaptation. Pillar 2 – Energy Transition will consolidate Brazil's biofuel industry through the Fuels of the Future Law, creating opportunities across the value chain, including aviation. Pillar 3 – Green and Resilient Infrastructure will strengthen legal and institutional frameworks for forests, mangroves and climate-resilient health systems, reducing regulatory uncertainty and generating investable opportunities in adaptation and nature-based solutions.

2.22 **Increasing Adaptation Finance.** AIIB's CPBF helps enhance Brazil's capacity to mobilize adaptation finance by embedding resilience into sectoral policies and market instruments. The Sustainable Infrastructure Debenture and Eco Invest frameworks (PA1.3 and PA1.4) pave the way for channeling private capital toward climate-resilient infrastructure and nature-based solutions. Reforms on forest governance and concessions (PA3.3–3.4) establish legal and market conditions for restoration linked to carbon credit revenues, while ProManguezal (PA3.5–3.6) enhances the economic value of coastal protection and biodiversity conservation, reducing vulnerability to flooding and erosion. In the health sector, AdaptaSUS (PA3.1–3.2) equips institutions to manage climate-induced health risks such as extreme heat, creating pathways for adaptation-oriented investments in resilient health systems. Collectively, these actions expand the pipeline of adaptation projects and unlock new opportunities for domestic and international adaptation finance.

2.23 **Value Addition to AIIB.** The Program represents a significant opportunity for AIIB to address Brazil's specific needs and collectively work toward achieving common climate objectives. This Program is expected to enable AIIB to accomplish its corporate objectives and garner valuable insights and experience in supporting nature-based solutions and comprehensive policy reforms aligned with Brazil's NDC and ETP, leveraging the new CPBF instrument. Moreover, the knowledge and experience acquired through the preparation of this Program will assist AIIB in laying the groundwork for further engagement with other members in Latin America and elsewhere. The policy reform agenda supported within this Program holds significant importance, as it will also help shape subsequent CPBFs as part of multilateral climate financing support aimed at sustaining policy and institutional reforms over the medium-term and enable future subsequent downstream investment opportunities in Brazil for the Bank.

2.24 The Program provides AIIB with a strategic entry point for a longer-term and multi-year engagement in Brazil. Beyond supporting immediate reforms, it creates opportunities for AIIB to support the government in shaping downstream infrastructure investments and enabling private capital mobilization. The upstream policy dialogue and analytical work provided by the CPBF operation places the Bank in a strategic position to support the government through a multi-year rolling pipeline of climate-aligned investments. For Brazil, an operation with AIIB broadens the set of its multilateral financing partners with its specific comparative advantages in modern financing instruments and technology enhancement.

2.25 **Whole-of-the-Bank Approach.** Adopting the Whole-of-the-Bank Approach has been a central feature of this Program, mirroring the Whole-of-Government approach to dialogue, development and coordination of climate policy and institutional reforms for CPBF support. The Bank put together a multidisciplinary, cross-departmental Project Team (PT) (composed of Bank staff and international and local consultants) to coordinate smoothly with the Government of Brazil at the different levels and sectors involved. Designated Bank Departments and Business Units engage with the relevant stakeholders and development partners to structure the development of the policy dialogue and design of the policy and institutional reforms, informed by robust analytical underpinnings to deliver the Program.

2.26 **Lessons Learned.** The proposed Program follows three CPBF programs that were approved by the Board since the instrument was approved in 2024 (Bangladesh, Egypt and Uzbekistan). As this is the first CPBF operation prepared under AIIB leadership, valuable insights continue to be drawn from the ongoing experiences of other CPBF operations for the design and implementation arrangements of the current operation, which will inform AIIB's future engagement and refinements:

(a) **Strong Country Ownership Enhances Reform Sustainability.** Brazil's CPBF reflects strong government ownership, with cross-ministerial collaboration driving tangible results—such as the ETP's integration of climate goals into national development strategies and the updated NDC, which sets ambitious targets across multiple agencies. Importantly, lessons from past policy-based financing in other middle-income economies suggest that reforms grounded in executive authority—such as regulatory or policy-based measures—are more resilient to legislative deadlock. This informed the CPBF design, which prioritized reforms executable within the executive branch, reducing the risk of political reversals.

(b) **Evidence-Based Diagnostics and Inclusive Dialogue Shape Feasible Reform Priorities.** A clear lesson from the CPBF preparation process is that a reform program grounded in rigorous and locally relevant analysis helps build broad-based consensus and facilitates implementation. Key diagnostics, including the World Bank's 2023 Country Climate and Development Report, the International Monetary Fund (IMF) 2024 working paper "Changing Climate in Brazil: Key Vulnerabilities and Opportunities," and the forthcoming 2025 Public Finance Review, informed key reform areas, such as decarbonization and fiscal resilience, by providing evidence-based pathways. Collaborative engagements with MDBs and local stakeholders have further refined the reform matrix, ensuring alignment with Brazil's unique challenges, from forest management to energy transition. This analytic foundation fosters credibility and buy-in across sectors, reducing friction in policy execution.

(c) **Targeted Technical Assistance (TA) Strengthens Reform Depth and Institutional Capacity.** The CPBF highlights the importance of complementary TA in translating reforms into institutional change, especially in capacity-constrained areas. TA, tailored to sector-specific needs, can fill critical expertise gaps and support policy relevance. For example, PATH, an international health innovation leader, has helped carry out the mapping of the alignment between climate risks and the health sector's NAP; and The Global Energy Alliance for People and Planet (GEAPP) is supporting the carbon market design. These partnerships fill critical gaps in expertise and resources, embedding a learning agenda that ensures reforms are both adaptive and scalable. By prioritizing and strategically strengthening these institutional gaps, the Program enhances the policy matrix implementation impact with robust long-term climate governance.

(d) **Credible Policy Design Can Strengthen Public-Private Climate Coordination.** A key lesson from Pillar 1 is that credible policy frameworks aligned with market incentives can help crowd in private investment for climate action. Brazil is advancing this agenda through blended finance models (Eco Invest) and tax incentives for sustainable infrastructure debentures. Notably, recent efforts to use auction mechanisms for allocating subsidized credit aim to improve price discovery and reduce fiscal costs. Informed by lessons from international carbon markets, including the European Union Emission Trading System (EUETS) and China's national system, Brazil's evolving carbon market (SBCE) also reflects a commitment to transparency and alignment with global standards, building a foundation for scalable climate-aligned investment.

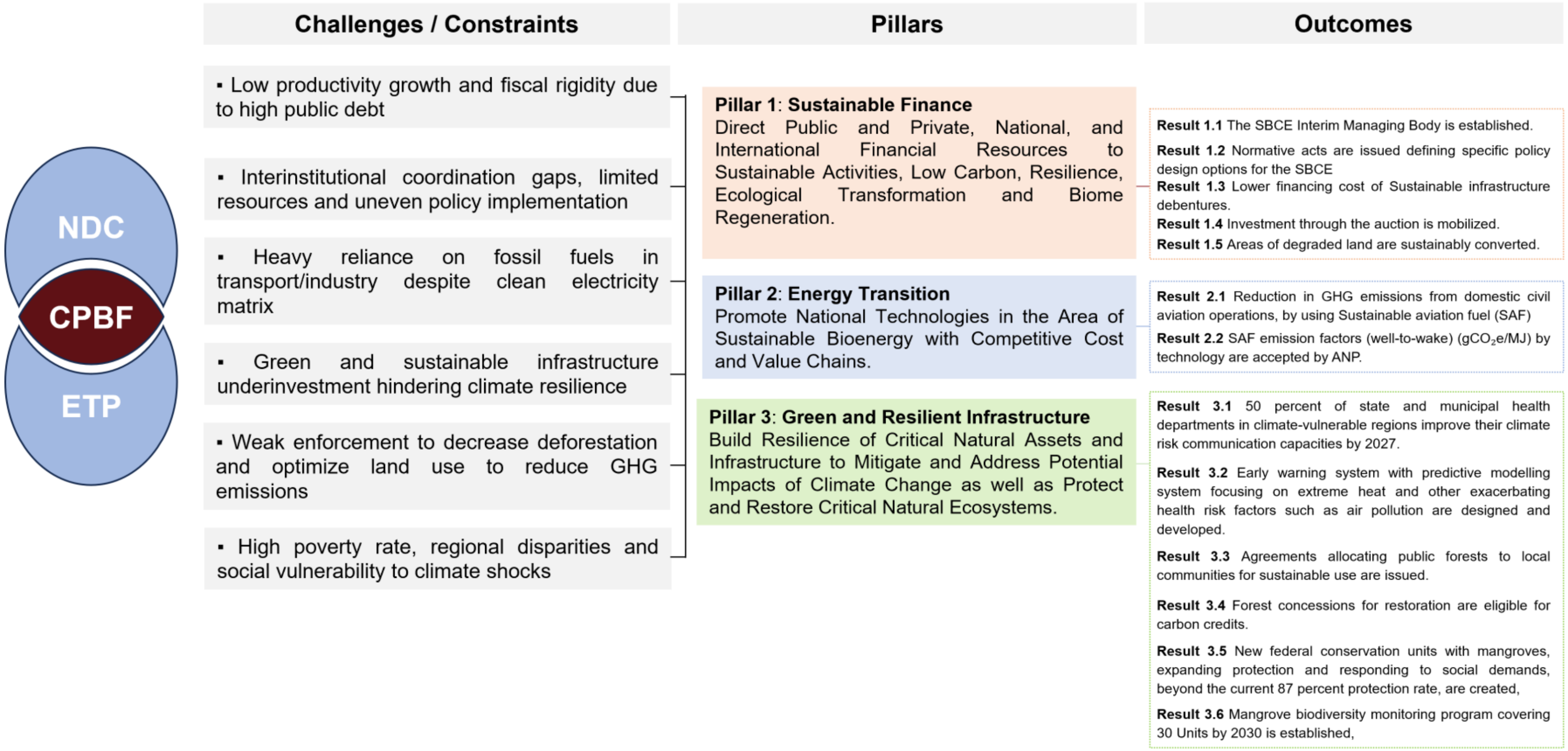
(e) **Combining Policy and Investment-Based Financing.** Advancing climate goals requires a sustained and coherent approach that combines policy and investment-based financing, while strengthening institutional capacity. Upstream support for policy and institutional reforms helps expand the pipeline of bankable, climate-resilient infrastructure projects. Under Pillar 1, for instance, the reforms related to the enactment of ordinances to enable specific auctions under Eco Invest's blended finance line, will enable the mobilization of private capital that will expand investments in climate and ecological transformation projects. Similarly, Pillar 1's sectoral ordinances that provide the criteria and conditions for qualifying projects for tax incentives, including green criteria, will fast-track private investment flows into projects that advance Brazil's climate and ecological transformation goals. The proposed Brazil CPBF Program enables the Bank to promote—and, where appropriate, finance—downstream investments, reinforcing the credibility and long-term sustainability of the

CPBF-supported reforms. This approach fosters a virtuous cycle of impactful climate finance aligned with the Bank's climate finance priorities.

2.27 The Program incorporates these lessons learned to align with global good practices and co-develop innovative, scalable solutions responsive to local complexities. This approach aligns closely with the updated NDC and ETP to enhance the Program's potential to advance sustainable development and climate resilience.

C. Policy Actions, Results and Sustainability

2.28 **Link to the Government Program and Pillar Description.** The Program comprises three Pillars, with proposed Policy Actions (PAs) in direct support to the implementation of Brazil's NDC and directly aligned with three of the six key axes of the ETP: Sustainable Finance (Pillar 1), Energy Transition (Pillar 2) and Green and Resilient Infrastructure (Pillar 3). These three Pillars are interconnected and reenforce each other: Pillar 1 enables mobilization of significant private capital to help the government finance its energy transition initiatives while ecologically converting degraded land into productive resources to support expansion of sustainable feedstock for bioenergy (Pillar 2) and green and resilient infrastructure (Pillar 3). The conservation and sustainable use of mangroves (Pillar 3), on the other hand, can generate offsets in Brazil's SBCE (Pillar 1), which could be used by regulated companies to comply with emission caps.



Pillar 1 – Sustainable Finance: Direct Public and Private, National, and International Financial Resources to Sustainable Activities, Low Carbon Growth, Resilience, Ecological Transformation, and Biome Regeneration.

2.29 The CPBF Program supports Pillar 1 with the following four PAs.

2.30 **PA 1.1.** To create a regulated carbon market in Brazil, the government enacted Law No. 15,042 on Dec. 11, 2024 (the "SBCE Law") to set up the SBCE.

(a) **Rationale:** Brazil's ambitious NDC commitments—combined with the significant fiscal resources required to achieve them—underscore the importance of market-based mechanisms, such as a regulated carbon market. Brazil already had a large voluntary carbon market prior to the SBCE. The government recognized that this voluntary market could be transformed into a scalable and regulated market. The SBCE Law enables this transformation. It also lays the foundation for an economy-wide GHG emission trading system and creates a foundation for Brazil to engage in international transfer of units under Article 6 of the Paris Agreement.

(b) **Significance of PA 1.1:** The SBCE fills critical gaps in Brazil's carbon market by making carbon pricing legally tenable, transparent, enforceable and internationally compatible. It provides significant long-term potential to create incentives for private capital mobilization in low emission development across a broad range of sectors, while reducing the fiscal burden on the state. The SBCE provides the structure that enables an economy-wide price on carbon emissions, which makes high-emission activities more costly to implement. This incentivizes a shift toward greener alternatives and reduction of carbon emissions at scale, which would help in achieving Brazil's NDC and global climate goals. The SBCE also enhances Brazil's credibility in the global carbon markets and prepares the economy for international carbon trading in line with Article 6 of the Paris Agreement.

(c) **Expected Outcome:** In the short term, greater clarity with policy commitment is reinforcing public awareness and advancing administrative capacity. The longer-term impact of the law is expected to incentivize emission reduction and mobilize private sector capital for a low-carbon future.

2.31 **PA 1.2.** To operationalize Law No. 15,042 (the "SBCE Law"), the government has committed to establishing the SBCE Interim Managing Body, which will hold executive and regulatory responsibilities, as well as the formation of the Advisory Committee.

(a) **Rationale:** The overall law (Prior Action 1.1) provides time bands for phased implementation over the coming five years. For a functioning market to emerge from the law, all aspects of the regulatory framework must be in place in a timely manner, particularly the institutional body that will implement the SBCE Law.

(b) **Significance of PA 1.2:** The establishment of the SBCE Interim Managing Body with executive and regulatory responsibilities enables the implementation of the SBCE Law. It also signals to market participants and the international community that the government is committed to ensuring the implementation of the law under Prior Action 1.1.

(c) **Expected Outcome:** Ensuring administrative and regulatory responsibility for the implementation of the law will allow normative acts specifying the coverage and regulated gases to be issued**.**

2.32 **PA 1.3.** To fast-track private investment flows into projects that advance Brazil's climate and ecological transformation goals, at least six sectoral ordinances for priority sectors (Ordinance No. 689 dated July 17, 2024 for roads and railways; Ordinance No. 266 dated March 20, 2025 for urban mobility; Ordinance No. 1,411 dated Dec. 18, 2024 for sanitation; Ordinance No. 93 dated December 10, 2024 for energy (natural gas, biofuels, biogas, synthetic fuels, etc.); Ordinance No. 419 dated Aug. 29, 2024 for waterways, ports and airports; and Ordinance No. 1,298 dated Jan. 24, 2025 for protected areas) and the criteria and conditions for qualifying projects for tax incentives, including green criteria, were issued by the sectoral Ministries. The sectoral ordinances include simplified procedures for ministerial approval of projects involving public services owned by subnational entities.

(a) **Rationale:** The sectoral ordinances will operationalize and implement the government's Decree No. 11,964 dated March 26, 2024 at the sector level. The decree establishes a regulatory framework for classifying and monitoring priority investment projects for the purpose of issuing tax-advantaged debentures. The decree also mainstreams GHG emissions reduction and adaptation in the infrastructure projects to be financed by these debentures.

(b) **Significance of PA 1.3:** The sectoral ordinances set the sector-specific criteria for tax-advantaged securities, which then facilitate the efficient allocation of fiscal support (tax advantages) to priority projects. In so doing, the ordinances accelerate the deployment of private capital into projects that directly contribute to Brazil's climate and sustainability goals, such as for the development of biofuels to help with the commercialization of SAF.

(c) **Expected Outcome:** PA 1.3 is expected to result in the issuance of sustainable infrastructure debentures with a lower average cost of capital relative to comparable non-incentivized debentures. This outcome will demonstrate the continued effectiveness of the policy in mobilizing significant private financing for priority projects that integrate climate and sustainability considerations.

2.33 **PA 1.4.** To mobilize private capital for climate and ecological transformation projects, the government–through the National Treasury Secretariat–has provided a blended finance facility with concessional rate and longer-maturity term credit line, through the enactment of ordinances (Ordinance No. 926 of April 28, 2025 as amended by Ordinance No. 1,241 of June 5, 2025 and Ordinance No. 1,416 of June 27, 2025) to launch specific auction under Eco Invest, for the productive and ecological conversion of degraded land, including in the Amazon Biome.

(a) **Rationale:** The Government of Brazil needs significant capital for its climate and ecological transformation projects. The auction will provide the means for the government to mobilize part of the required financing for its projects. The auction is undertaken under the Blended Finance Line[6] of the government's Eco Invest Brasil Program ("Eco Invest Program"), which enables private capital mobilization by providing concessional catalytic public capital.

(b) **Significance of PA 1.4:** The auction will use scarce goverment funding to catalyze significant foreign direct investment to implement priority ecological transformation projects with climate benefits.

(c) **Expected Results:** The auction will generate significant additional financial resources that will contribute to bridging the financing gap between Brazil's ambitious climate and ecological transformation goals and the substantial investment required to achieve them.

Pillar 2 – Energy Transition: Promote Innovative Technologies in the Area of Sustainable Bioenergy with Competitive Cost and Value Chains.

2.34 The CPBF Program supports Pillar 2 with two PAs.

2.35 **Prior Action 2.1.** To further foster the development of sustainable bioenergy, the government established the Fuels of the Future Program, by enacting Law No. 14,993, 2024 on Oct. 8, 2024. The Law created the National Sustainable Aviation Fuel Program (ProBioQAV), among other bioenergy and decarbonization programs.

(a) **Rationale:** The Fuels of the Future Program objectives involve mandates for different types of biofuels, synthetic fuels and other derivatives, establishing blending targets for ethanol in gasoline and biodiesel in diesel and launching programs to develop SAF and expanding biogas utilization.

(b) **Significance of PA 2.1:** Law No. 14.993/2024 provides the legal foundation for advancing SAF in Brazil by formally establishing the ProBioQAV. It defines the mandate, institutional arrangements and binding blending targets necessary to operationalize the SAF industry, positioning Brazil to decarbonize its aviation sector while fostering domestic value chains.

(c) **Expected Results:** Building on the international experiences of SAF-specific policies, ProBioQAV sets binding targets for reducing GHG emissions from domestic civil aviation operations, as a result of the use of SAF, aiming to reduce them by 1% in 2027 and 10% in 2037. The proposed indicator is aligned with the Civil Aviation Agency (ANAC)'s optimization criteria and the recommendation of the National Agency of Petroleum, Natural Gas, and Biofuels (ANP).

2.36 **Prior Action 2.2.** To regulate the certification of the efficient production or import of biofuels, including SAF, and the accreditation of inspection firms, ANP issued Resolution No.

[6] Eco Invest is an initiative of the Government of Brazil that aims to provide stability and predictability to the country's macroeconomic framework and create structural conditions to attract necessary external private investments for the ecological transformation of Brazil. The *Blended Finance Line* under Eco Invest offers partial concessional loans in local currency (catalytic capital) for projects aligned with ecological transformation, through competitive bidding. The facility aims to reduce the cost of capital for sustainable projects. Financial institutions can access the blended finance line and pass it on to investors as a complement to capital market fundraising abroad. But financial institutions must demonstrate their ability to mobilize significant foreign investment and manage currency risks.

984/2025, which establishes methodologies for calculating well-to-wake GHG emissions and efficiency criteria for biofuels.

(a) **Rationale:** By institutionalizing the development of SAF, ProBioQAV will not only promote SAF production, but most importantly will provide the policy certainty needed to scale ETP's action framework, turning Brazil's biofuel competitive advantages into measurable climate action progress.

(b) **Significance of PA 2.2:** By operationalizing the ProBioQAV law, through this Resolution, the SAF sector will count with a regulatory and certification bodies to attract private capital, alongside unlocking fiscal incentives. This strategic initiative is designed to develop and scale biofuel production, promote certify new technologies and its standardization, thereby enhancing Brazil's industrial and economic competitiveness in the biofuel market.

(c) **Expected Results:** A standardized methodology for ANP-accepted SAF emission factors (well-to-wake) (gCO_2e/MJ) by technology, aligned with international standards.

Pillar 3 – Green and Resilient Infrastructure: Build Resilience of Critical Natural Assets and Infrastructure to Mitigate and Address Potential Impacts of Climate Change, as well as Protect and Restore Critical Natural Ecosystems.

2.37 The CPBF Program supports Pillar 3 with six PAs.

2.38 **Prior Action 3.1.** To develop the National Adaptation Plan for the Health sector, the government enacted Law No. 14,904 on June 27, 2024.

(a) **Rationale**: Brazil faces growing climate risks across multiple sectors, including health, infrastructure, transport, water and agriculture, that threaten service continuity, economic productivity and population well-being. Until recently, adaptation planning was fragmented and largely project based. Law No. 14,904 establishes the first comprehensive legal framework to mandate and guide sectoral climate adaptation plans, setting out principles, responsibilities and procedures for risk and vulnerability assessments, inter-ministerial coordination and stakeholder participation.

(b) **Significance of PA3.1:** By requiring sectoral adaptation planning, this reform shifts Brazil from ad hoc responses toward systematic, science-based adaptation embedded in public policy. It ensures that sectors most exposed to climate impacts—such as health and critical infrastructure—adopt structured strategies to reduce vulnerabilities and strengthen resilience.

(c) **Expected Outcome:** An enabling legal and institutional framework that ensures adaptation planning becomes a systematic and mandatory component of national development policy.

2.39 **Prior Action 3.2.** The NAP for the Health sector was finalized and disclosed by the Ministry of Health for public consultation until April 25, 2025.

(a) **Rationale:** Finalizing and publicly disclosing the Health Sector Adaptation Plan (AdaptaSUS) marks a critical step in operationalizing Law No. 14.904 (PA3.1), aligning with Brazil's forthcoming Climate Plan and implementing climate adaptation measures within its Unified Health System (SUS). This reform ensures that health systems and infrastructure are equipped to withstand climate shocks, reduce vulnerability in high-risk areas and safeguard service continuity as climate risks intensify.

(b) **Significance of PA3.2:** The publication of AdaptaSUS provides the first comprehensive roadmap through 2035 for integrating climate change into Brazil's health policy. It includes 27 targets and 4 core objectives focused on: (1) health surveillance and early warning systems, (2) climate-resilient health care infrastructure and services, (3) public health education and (4) applied research and innovation.

(c) **Expected Outcome:** The Health Sector Adaptation Plan lays the groundwork for improved climate risk management across Brazil's health system. By 2027, responsive risk communication capacities regarding climate impacts will be strengthened in at least 50% of state and municipal health departments in priority areas. In parallel, a national early warning system for extreme heat will be designed and operationalized to safeguard public health services and vulnerable populations.

2.40 **Prior Action 3.3.** The government, through the Ministry of Environment and Climate Change (MMA) and the Ministry of Agrarian Development and Family Agriculture (MDA), has issued Interministerial ordinance 1,309/2025, that detailed the procedures for recognizing the user rights of public forests by traditional communities, administratively streamlining their connection to the land and their role as protectors of the forests via collective agreements.

(a) **Rationale:** Around 55 million hectares of undesignated public forests—mostly in the Amazon—remain vulnerable to illegal occupation and deforestation, accounting for nearly one-third of forest loss in Brazil. These areas, often inhabited by Indigenous Peoples and traditional communities without secure tenure, represent both a deforestation frontier and a major carbon sink at risk. Ordinance 1,309/2025 addresses this governance gap by establishing an administrative process to recognize collective user rights through concession contracts.

(b) **Significance of PA3.3:** The ordinance defines how collective agreements are negotiated, approved and monitored. It establishes a clear and replicable process for the recognition of forest use rights for Indigenous Peoples and traditional communities, including eligibility criteria, documentation requirements, consultation procedures and coordination with key relevant institutional stakeholders.

(c) **Expected Outcome:** An institutional and procedural framework that supports the secure allocation of public forests to traditional communities through collective agreements. This will strengthen community forest governance, enable sustainable use practices and contribute to protect critical forest areas.

2.41 **Prior Action 3.4.** Federal decree for the management of public forests n.12,046/2024, further detailed by Law 15,042/2024, that creates the SBCE, clarified the allocation of rights to carbon credits to concessionaries of public forest for restoration.

(a) **Rationale:** Forest restoration concessions can attract private investment for ecological recovery at scale. However, their success depends on robust financial incentives, notably through access to carbon markets. The new legislation provides a foundational step by formally recognizing that concessionaires engaged in forest restoration may be eligible to generate carbon credits.

(b) **Significance of PA3.4:** The Prior Action clarifies the eligibility of restoration activities in public forests to participate in carbon markets, creating the legal conditions for testing restoration concessions as a viable mitigation and finance strategy. While further regulatory detail will be needed to define credit issuance procedures, market pathways and accounting rules, the measure is an important step toward operationalizing Brazil's forest restoration agenda.

(c) **Expected Outcome:** An operational policy framework enabling forest restoration concessions to link with carbon crediting mechanisms. This model mobilizes private finance by reducing investment uncertainty, creates results-based revenue through verified emission removals and advances Brazil's nature-based climate goals through scalable reforestation.

2.42 **Prior Action 3.5.** To establish the National Program for Conservation and Sustainable Use of Mangrove (ProManguezal), the government enacted Decree No. 12,045 on June 5, 2024.

(a) **Rationale:** As one of the most carbon-dense ecosystems globally, Brazil's mangroves, which hold around 8.5% of global mangrove carbon stocks, offer significant potential for blue carbon sequestration and coastal resilience. Despite their ecological and economic importance, approximately 25% of Brazil's mangroves have been lost due to agricultural conversion, urban expansion, shrimp farming and infrastructure development. Decree No. 12,045 formally establishes ProManguezal as a national policy priority. It defines a multisectoral, participatory approach to conserve, restore and sustainably manage mangroves.

(b) **Significance of PA3.5:** The adoption of Decree No. 12,045 operationalizes a national policy framework for mangrove protection and sustainable use. ProManguezal includes six implementation axes, ranging from conservation and sustainable livelihoods to climate vulnerability reduction and knowledge dissemination. Its launch enables Brazil to channel resources toward ecosystem restoration and coastal resilience in a coordinated and socially inclusive manner, notably via the creation of conservation units.

(c) **Expected Outcome:** Creation of at least two new conservation units covering approximately 20,000 hectares (ha) with the aim to protect biodiversity and ecosystems, support scientific research, promote sustainable resource use and enhance environmental education. This will improve ecosystem integrity, contribute to carbon sequestration and enhance the resilience of traditional communities dependent on mangrove resources.

2.43 **Prior Action 3.6.** The government, through the MMA, has issued an Action Plan for the ProManguezal program.

(a) **Rationale:** The publication of the Action Plan enables the operationalization of the Decree No. 12.045/2024 and prioritizes the development of robust biodiversity monitoring systems across federal conservation units with mangrove coverage. Given ongoing threats from land-use change, aquaculture, infrastructure and climate impacts, systematic monitoring is vital to detect degradation trends, guide restoration and track climate-related shifts in ecosystem function and species distribution.

(b) **Significance of PA3.6:** This Prior Action marks the transition from program design to actionable implementation. The Action Plan includes concrete steps to advance the six axes of ProManguezal, including conservation, climate resilience, traditional livelihoods and financial sustainability.

(c) **Expected Outcome:** A clear implementation framework for ProManguezal, supported by biodiversity monitoring across at least 22 conservation units by 2026.

2.44 **Support to Brazil's Updated NDC.** The matrix supports the implementation of Brazil's updated NDC through strong climate mitigation (carbon removal via enhanced carbon sinks and carbon avoidance) and climate resilience actions. Through measures spanning sustainable finance, clean fuels, ecosystem protection and sectoral adaptation planning, the operation helps Brazil translate its high-level climate commitments into actionable policies and investments.

2.45 Pillar 1's carbon market implementation delivers a lean and economy-wide mechanism while enabling participation in Article 6 mechanisms under the Paris Agreement. By enabling these financial mechanisms and facilitating potential linkages with international markets, the SBCE creates pathways for Brazil to reach its NDC commitments through cost-effective decarbonization across sectors. Pillar 1's other financial mechanisms (Eco Invest and tax-incentivized debentures) also enhance the mobilization of private capital towards low carbon and climate resilience solutions, which contribute to the achievement of the NDC goal.

2.46 Pillar 2's ProBioQAV program directly advances the NDC's sectoral mitigation strategies by addressing aviation emissions—a notoriously difficult sector to decarbonize that AIIB is committed to support. The industry-wide approach to SAF development, with its progressive blending mandates and certification methodology aligned with international standards (CORSIA and REDII), exemplifies how Brazil is translating high-level NDC commitments into actionable sectoral policies with long term vision strategic support to domestic and international markets. This approach is projected to deliver 65% of the aviation sector's emission reductions by 2050, making a substantial contribution to Brazil's overall mitigation pathway and promoting the development of biofuel technology the economy has advantages and expertise in.

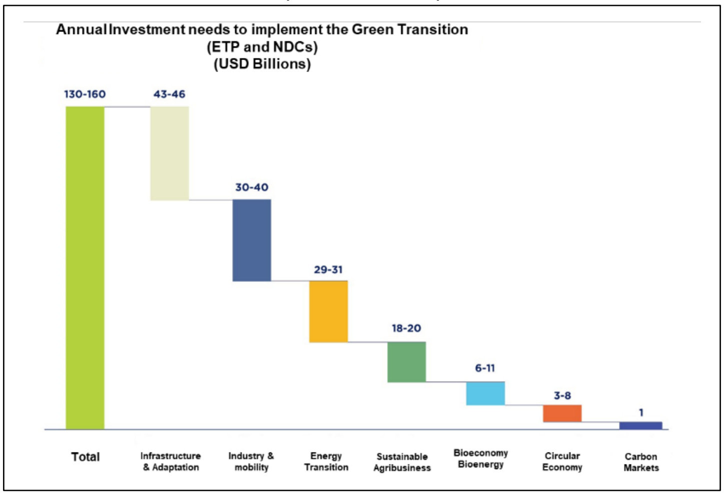
2.47 The multisectoral components articulated in Pillar 3 comprehensively implement the adaptation requirements of Brazil's NDC, particularly through mandatory sectoral adaptation planning and the health sector's AdaptaSUS initiative. By addressing climate-sensitive health risks, these measures protect vulnerable communities—notably Indigenous Peoples and low-income populations—from disproportionate climate impacts. Similarly, the forest concession framework and ProManguezal program advance NDC adaptation objectives while simultaneously contributing to mitigation through the protection and enhancement of carbon sinks, demonstrating Brazil's integrated approach to climate action.

2.48 **Climate Dual Benefits and Strategy on Financing Operations in Non-Regional Members Alignment.** The Program finances a targeted set of PAs that together deliver mutually reinforcing mitigation and adaptation benefits. On the mitigation side, the operation supports structural reforms in hard-to-abate sectors, most notably transport and industry, through measures such as the SAF program and the establishment of a national carbon market. These actions create long-term decarbonization pathways while enabling Brazil's participation in international carbon trading under Article 6 of the Paris Agreement. Equally important, the Program enhances Brazil's global carbon sequestration capacity by strengthening the management of public forests and mangrove ecosystems. These natural carbon sinks, among the most efficient in the world, play a critical role in durably removing and storing atmospheric carbon, while also providing vital ecosystem services and protecting vulnerable coastal and forest communities.

2.49 **Development Financing Needs and Budget Support.** The government estimates that the ETP will require USD1.3-1.6 trillion in aggregate investment by 2040,[7] with 76% concentrated in three critical sectors: infrastructure (31%) for resilient transport and urban systems; industry and mobility (24%) to decarbonize steel, cement and transport; and energy transition (21%) to scale renewables, green hydrogen and sustainable aviation fuels. These investments address Brazil's dual challenges of climate mitigation and economic competitiveness, leveraging its renewable energy advantage (83% clean electricity) while modernizing heavy industries.

2.50 **Annual Investment Targets and Sectoral Allocation.** To meet ETP goals and sustain GDP growth (up to 5.5% annually), Brazil must mobilize USD130-160 billion per year over the next decade, as shown in Figure 1. This implies doubling the current investment rate. Disaggregated by ETP axis, these numbers imply: Infrastructure: ~USD40-50 billion/year for low-carbon logistics and climate-resilient cities; Industry & Mobility: ~USD30-40 billion/year for green industrial technologies and electric mobility; and Energy Transition: ~USD30 billion/year to expand renewables and biofuels technologies. The government is unable to rely on the federal budget alone to deliver its climate and sustainability goals given the enormity of the investment requirement.

Figure 1. Annual Investment Needs to Implement Green Transition, ETP and NDCs
(USD billion)



2.51 **Fiscal Implications and Multilateral Support.** Brazil's fiscal space is shaped by its strong domestic fiscal responsibility framework, which reinforces the importance of coordinated external support to keep the required investment pace. The government aims to tap into global private capital sources to mobilize financing, including private firms, institutional investors and pension funds. Pillar 1's PAs would help to enable the mobilization of significant

[7] Pathways for Brazil's Ecological Transformation Plan, AYA institute/Sistemiq, Dec 2023.

private investment, using public funding as catalytic capital, to expand investments in new green infrastructure. The financing mechanisms also create entry points for climate adaptation as well as decarbonization of existing infrastructure.

2.52 **AIIB's Support**. This CPBF Program intends not only to support the public sector investment needs to recover the productivity rates and the economic competitiveness, but also to catalyze private investment and de-risking of ETP projects. Successful market reform mechanisms to leverage private investment into the green and low carbon transition projects are then critical to the influx of capital without exacerbating debt.

2.53 The size of Brazil's economy (GDP of USD2.2 trillion in 2024) and its climate and ecological transformation financing needs justify this substantial CPBF Program. The World Bank's Country Climate and Development Report (CCDR) (2023) estimates that the required infrastructure investment for climate action alone is around 0.8% of GDP for the period 2022-2030. The USD1 billion amount represents 0.7% of the projected fiscal deficit in 2024 and aligns with Brazil's absorption capacity, given its successful track record in implementing MDBs' policy-based loans. Further, in coordination with the World Bank and IDB, each contributing USD1 billion, AIIB's stand-alone Program avoids duplication by focusing on new and complementary reform areas in view of the government's priorities and focus of other MDB programs (Annex 2).

2.54 **Consultation with Development Partners – AIIB, World Bank and IDB's Coordination.** The three MDBs have come together in 2025 to support Brazil's ETP with major policy-based support. This landmark collaboration reflects shared confidence in Brazil's commitment to domestic reforms, environmental sustainability and global decarbonization goals. Each MDB has designed independent but complementary policy-based operations aligned with their comparative advantages, ensuring synergies without duplication. The World Bank's program focuses on macro-fiscal reforms and sovereign green financing and the IDB's on bioeconomy, taxonomy, EcoInvest and debentures. AIIB's Program centers on climate-specific reforms, including the ETS, implementation of EcoInvest through auctions, sustainable infrastructure debentures, SAF and measures related to health systems, forests and mangroves.

2.55 Several reforms are shared across operations with differentiated roles. For instance, EcoInvest is supported by IDB on the legal framework, by the World Bank on foreign exchange risk instruments and by AIIB on implementation. Similarly, infrastructure debentures were advanced through IDB legislation and are being complemented by AIIB's work on key implementation priorities to issue sectoral ordinances. For the ETS, WB and IDB provided early analytical work, while AIIB is supporting the design phase.

2.56 **Consultation with Stakeholders.** Brazil has a long-standing, highly effective process for public consultation, particularly for any reforms or actions relating to the environment. This Program is embedded in Brazil's ETP which followed a public consultation process consistent with the national requirements. Consultations on the reforms supported by the Program took place both during the design of the policies and during discussions at National Congress. For federal laws and constitutional amendments, these consultations follow the procedures laid out in the Federal Constitution and the National Congress's legislative rules and procedures, which include a high level of transparency and opportunity for civil society participation.

Decrees and other regulatory actions underwent a period of public consultation, including on the government's online system.[8] Most components of the ETP have been subject to, or will be subject to, formal public consultation.

2.57 The consultation process increases the legitimacy of policies, while allowing authorities to benefit from outside advice and technical knowledge. The Government of Brazil confirmed that the policies supported by the Program are based on a broad consultation process with a variety of stakeholders, including civil society and business associations. This includes various components directly and indirectly related to the establishment of the carbon market (SBCE), the Circular Economy Strategy (ENEC) and the Brazilian Sustainable Taxonomy (TSB), in addition to the current process of elaboration of the National Climate Plan or Plano Clima, led by the MMA.

2.58 Furthermore, each of the Prior Actions related to environmental policies has followed, or is following, the same processes consistent with national requirements and under the guidance of the National Environmental Council (CONAMA), a collegiate body established in 1981 and headed by the Minister of Environment. It is an advisory and deliberative body of the Sistema Nacional do Meio Ambiente (SISNAMA), responsible for proposing environmental policies and deciding on norms and standards for the environment. These have proven to be rich processes improving the quality and effectiveness of sector climate strategies.

2.59 **Program Implementation Arrangements.** The MoF serves as the Program Executing Agency. MoF plays a crucial role in providing resources for the federal government's various initiatives, including not only the ETP, but also the Plano Clima, the New industry Brazil or the NDC's attracting external resources and organizing financing flows, among many other fundamental facets of climate financing. Through its National Treasury Secretariat (STN), the MoF will sequence and monitor the reform progress across the three CPBF Program pillars, ensuring adequate budgeting and articulating with the relevant sectoral ministries and entities, and report to the Bank on the Program performance. The STN serves as a cross-ministerial and cross-sectoral platform at the federal level, leveraging and coordinating with relevant line ministries to resolve policy bottlenecks and align program priorities among pillars. The institutional mandate for these pillars is as follows:

(a) **Pillar 1** (Sustainable Finance): The Program Executing Agency, in coordination with sectoral Ministries and Comissão de Valores Mobiliários (CVM, Brazil's Securities and Exchange Commission) designs carbon market regulations and fiscal incentives (SBCE), while the Treasury structures blended finance mechanisms to attract private capital (Eco Invest). STN will directly monitor outcomes, coordinating with the relevant sectoral ministries and entities for the implementation and monitoring of Prior Actions, including collecting necessary data for the results framework.

(b) **Pillar 2** (Energy Transition): The Ministry of Mines and Energy (MME) leads Bioenergy initiatives and the National Council of Energy Policies (CNPE) coordinates SAF initiatives with technical support from line regulators body, notably the ANAC and ANP, as part of the Program Implementing Agencies (PIAs). STN will be accountable for monitoring with MME and key federal entities of the ProBIOQAV bill to report on jointly defined indicators.

[8] Government of Brazil. Consultas Publicas.

(c) **Pillar 3** (Green and Resilient Infrastructure): The MMA oversees the main initiatives regarding NAP and Forest Management Law. The Ministry of Health supervises AdaptaSUS and the National Adaptation Health Plan, as part of the PIAs. The Ministry of Cities, also as one of the PIAs, will ensure the articulation with the municipalities involved, together with MMA. STN/MoF is responsible for coordinating necessary actions among the agencies involved in this multisector pillar working closely with line ministries.

2.60 **Interinstitutional Coordination Mechanism.** The climate agenda in Brazil is articulated by the Comitê Interministerial sobre Mudança do Clima (CIM) or the Interministerial Council on Climate Change. Established in 2023 and chaired by the Civil House of the Presidency of the Republic, The CIM is responsible for coordinating government actions and federal policies on climate change. Composed of representatives of 23 federal ministries, the Committee promotes, coordinates and monitors the implementation of climate policies, including compliance with the NDC.

2.61 The CIM is structured into four levels of action: political, executive, consultative and technical. While CIM broad competencies go beyond the ETP, its balancing interministerial coordination, transparency and multilevel governance create a cohesive incentives framework to facilitate on-the-ground policy implementation. The Program will leverage this structure to align intersectoral priorities and facilitate execution through the relevant line ministries chaired by the MoF.

2.62 **Federal-Subnational Articulation.** The MoF holds central responsibility and accountability for coordinating CPBF implementation, while federal entities (e.g., ANP, ICMBio) may execute activities at the subnational level through existing state and regional structures. Leveraging Brazil's decentralized institutional architecture, municipal/subnational coordination mechanisms operate independently beyond the program scope. Consequently, the CPBF implementation remains federally executed ensuring coordinated implementation.

2.63 **Sustainability.** The environmental management system in Brazil, under which the Prior Actions of this Program fall, does not derive from a single leap, but a staircase of policies built over the last two decades, proving its remarkable resilience. This continuity has fostered public-private interdependencies that shield policies against reversal, requiring congressional consensus for material changes. The other important element contributing to this has been the mandatory and consistently effective processes of participation presented in the previous section. With the discussions and active participation of the private sector, civil society organizations and relevant communities, Brazil has developed an environmental regulatory regime that is robust. Governments of different political tendencies have, by and large, abided with the SISNAMA regulatory framework.

2.64 Major environmental problems like water resources management, air pollution, coastal zone management and the myriad of problems associated with decarbonization and adaptation to climate change have been steadily progressing in Brazil, despite financial, technical and personnel limitations. Furthermore, the set of policies included in the matrix stems from a legislative continuum of past regulatory frameworks. The current climate regulatory framework demonstrates iterative policy maturation, economic efficacy and legal durability that goes beyond political cycles.

2.65 Brazil's federal system, with shared environmental responsibilities across government levels, offers both strengths and challenges. While not unique, this decentralization can support lasting reforms if coordination and implementation, especially the state level, are strengthened. This Program contributes to that goal by reinforcing the national policy framework in collaboration with subnational actors. Broad public access to environmental data, supported by various government platforms, further enhances transparency and the sustainability of reforms under this CPBF.

2.66 To safeguard the sustainability of the reforms and results framework completion, as well as address institutional capacity gaps, the Bank is mobilizing implementation support to the government on areas where other MDBs are not yet providing technical assistance. The Bank has engaged PATH to support the Ministry of Health in enhancing the AdaptaSUS to strengthen Brazil's response to extreme heat and air pollution. This is on top of the aforementioned analytical support to ensure alignment between climate risks and the health sector's NAP. The Bank has also partnered with GEAPP and MoF to identify areas where additional support is needed, such as the design of the SBCE's registry and MRV systems. In addition to PATH and GEAPP, the Bank has also engaged two senior advisors, including one on the ground in Brazil, to provide monitoring and implementation support and proactively identify potential implementation risks. These advisors have already been instrumental in advising the government in the Program's development and preparation. AIIB is committed to build long-term capacity in Brazil to support the Bank's operations.

3. Program Assessment

A. Macroeconomic Outlook and Debt Sustainability

3.1 **Background and Recent Economic Developments.** With a population of 213 million, income per capita of around USD10,000 (or around USD23,000 in purchasing power parity) and total GDP of USD2.2 trillion, Brazil is the biggest economy in Latin America and the 10th largest in the world. Following years of inward-oriented state-driven economic policies, weak private investment, low domestic savings and chronic fiscal problems, the economy experienced a deep recession in 2015-2016 and a deterioration in sovereign credit ratings to below investment grade.

3.2 Since 2023, the Government of Brazil has embarked on an ambitious agenda of economic management reforms, including introducing and implementing a comprehensive tax reform, notably the Value-Added Tax system, enhancing transactions efficiency, strengthening fiscal frameworks, improving the sustainability of the pension system, formalizing the central bank's independence, reining in quasi-fiscal lending from the state development bank and reducing inflation. The government has also been working to increase trade openness and improve the business environment. Brazil's main trading partner is China. Brazil is also a key member of Mercosur, a South American free trade bloc, and is negotiating free trade agreements with the EU and Japan. Brazil's vast natural resources has suffered from environmental degradation. However, the current administration is known for its deep commitment to environmental sustainability, ecological transformation and addressing climate change, which is spearheaded by the ETP. This plan sets out strategic pillars that leverage the transition to a low-carbon economy to reduce inequalities and promote neo-industrialization, the bioeconomy and the circular economy, thereby increasing Brazil's sustainable growth potential. In 2024, Brazil held the presidency of the G20 and is hosting COP30 in November 2025.

3.3 Economic growth since the pandemic has been strong, durable and above expectations, with GDP increasing by almost 5% in 2021 and by around 3% annually during 2022-2024. This has been attributed to a policy stimulus, favorable terms-of-trade, improving productivity, strong domestic demand (including private consumption and investment) and better macroeconomic frameworks, and has happened despite higher uncertainty, weakening external environment, disasters and tighter policies. Unemployment, at 5.6% as of mid-2025, is the lowest on record.

3.4 The post-pandemic surge of inflation, partially related to weaker currency, has been dealt with aggressive interest rates hike, from 2% to 15%. Inflation has declined from the peak of 12% in 2022 to below 3% in mid-2023. However, recent strong demand and price pressures have persisted and inflation rate is expected to be slightly over 5% in 2025 and gradually declined to 3% in 2027, which is within the central bank target range.

Selected Indicators	2021	2022	2023	2024	2025*	2026*	2027*	2028*
GDP growth 1/	4.8	3.0	3.2	3.4	2.3	2.1	2.2	2.3
CPI Inflation (end-of-period) 1/	10.1	5.8	4.6	4.8	5.2	3.8	3.0	2.9
Fiscal balance 2/	-2.6	-4.0	-7.7	-6.2	-8.5	-7.6	-6.2	-5.1
Public debt 2/	88.9	83.9	84.0	87.3	91.6	95.5	97.6	98.6
Public gross financing needs 2/	19.4	17.3	18.8	16.4	14.2	15.3	15.5	16.5
Current account balance	-2.4	-2.2	-1.3	-2.8	-2.4	-2.3	-2.2	-2.1

Selected Indicators	2021	2022	2023	2024	2025*	2026*	2027*	2028*
External debt	40.6	34.9	33.4	33.1	34.7	35.4	35.2	34.9
Gross official reserves 3/	362.2	324.7	355.0	329.7	345.1	..	..	..
Exchange rate (BRL/USD) 3/	5.6	5.2	4.8	6.2	5.5	..	..	..

Source: IMF WEO Apr and Jul 2025; report 25/194, in percent of GDP unless indicated otherwise; '*' = projections.
Notes: 1/ percent change year-on-year; 2/ IMF definition; 3/ latest data from central bank, end-of-period, as of Aug. 19, 2025.

3.5 While fiscal deficits were cut forcefully to below 5% of GDP in 2021 and 2022, as mandated by the fiscal rule and helped by the economic recovery, they increased in 2023 to 7%-8% of GDP, due to the payment of court-ordered obligations, weaker revenues, higher interest expenditures and new spending packages. That said, the primary fiscal balance target of 0% for 2024 has been met and the current fiscal rule is expected to bring sustainable surpluses.

3.6 The 2022 election brought some temporary policy uncertainty, but the new administration's economic policies proved to be relatively pragmatic and reform-oriented. Overall, Brazil's risk indicators have steadily declined, with international bond spreads falling from pandemic-era peaks of 400 bps, to 50-100 bps in 2024 and 2025.

3.7 **Macroeconomic Outlook.** Economic growth in 2025 is expected to moderate to around 2-2.5%, due to tighter policies, with confidence surveys and credit conditions pointing to some deceleration. Inflation is expected to stay elevated, mostly due to inertia, before returning to the central bank's target by 2026. In the medium-term, estimates of potential growth have been raised to around 2.5%, on account of demonstrated resilience. This is a large, 0.5 percentage point improvement from earlier projections and significantly better than the 0.8% annual average growth during 2010s. Continued economic reforms will be needed to sustain the recent above-average growth performance.

3.8 The overall fiscal deficit in 2025 is expected to stay high, reflecting high interest payments. The underlying primary balance is budgeted at 0%, as per Brazil's national fiscal rule. For 2026, 2027 and 2028, the target is for a primary surplus of 0.25%, 0.5% and 1.0% of GDP, respectively. This will require significant effort on both expenditure and revenue sides.

3.9 Main risks to the outlook include slippages in fiscal consolidation leading to an adverse market reaction and the global trade policy uncertainty. Regarding the former, the new fiscal framework foresees a gradual generation of primary surpluses from 2026 onwards, which is expected to lead to a stable debt trajectory. Regarding the latter, the direct impact should be limited, thanks to Brazil's low exposure, but the indirect impact through trade diversion, potentially slower global growth and lower commodity prices due to high uncertainty could impact Brazil's terms of trade, exports and growth.

3.10 **Debt Sustainability and Sovereign Credit.** Public debt remains sustainable, but subject to moderate risks. Debt, by the IMF definition, had declined to below 88% of GDP by 2024. Under the current fiscal rule, debt is expected to increase in the near term and stabilize at around 99% of GDP in 2029 and then begin to gradually decline. The national definition is some 10 percentage points lower than the IMF's. Risks are substantially mitigated by a small foreign exchange component of public debt, a diverse and stable domestic creditor base, including the central bank and the deep and sound domestic financial sector. External vulnerability is low thanks to sizeable reserve buffers (well above IMF's adequacy thresholds), low current account deficit and Brazil's strong external position.

3.11 Over the past two years, all three major rating agencies have upgraded Brazil's credit rating, to BB stable (Fitch and S&P) and Ba1 stable (Moody's), on account of recent improvements to the tax system, the lengthening track record of reforms, pragmatic economic policies and the general resilience of the economy.

3.12 **Adequacy of the Macroeconomic Policy Framework.** The Bank assesses Brazil's macroeconomic policy framework to be adequate and consistent with growth and macro stability, including debt sustainability and Brazil's climate transition plans.

3.13 Monetary policy operates within a well-established inflation targeting regime, with a current target of 3% +/- 1.5 percentage points. The central bank is operationally independent and has demonstrated its ability to act as such, with decisive interest rate hikes when needed to stabilize inflation expectations and sustain credibility, including in the past twelve months of elevated price pressures. Technical capacity is high and the policy is evidence driven, with an appropriately tight stance. The flexible exchange rate acts as a shock absorber, while adequate reserves offer valuable protection.

3.14 Fiscal policy is guided by the fiscal rule, adopted in 2023, and consists of a corridor for federal-level real spending growth, which depends on the revenue collection and targets a specified primary fiscal balance. The primary surplus target is scheduled to increase from 0% in 2024-2025 to 1% of GDP in 2028. Adherence to the rule would guide the stabilization of public debt. Despite occasional slippages and readjustments, the fiscal rule has been generally effective at restraining spending, with the government generally committed to meeting the fiscal targets. Additionally, financial markets provide a strong measure of discipline, as fiscal slippages tend to lead to volatility.

3.15 **IMF and the World Bank's Views.** The most recent Article IV staff report from the IMF (dated July 14, 2025) serves as the Assessment Letter, in line with Fund policies related to such assessment. The report welcomes the economy's strong growth performance and falling unemployment. It commends the progress in structural reforms and the authorities' commitment to improving the fiscal position, while encouraging more efforts in these areas. The central bank's commitment to price stability, the monetary policy stance, the flexibility of the exchange rate and the level of foreign exchange reserves are deemed appropriate and adequate. The report further commends the implementation of the ETP, progress in reducing deforestation and good prospects for meeting the Brazil's NDC targets. The report also notes downside risks, including from global policy uncertainty.

3.16 The World Bank, in its project document for its most recent DPL operation from Feb. 18, 2025, notes that Brazil's macroeconomic policy framework was adequate, underpinned by an independent and credible central bank, a resilient financial system, an inflation-targeting regime and a flexible exchange rate. Liquidity risks remained low, supported by the strong cash buffers and limited exposure of public debt to exchange rate fluctuations.

3.17 Furthermore, the recent World Bank Public Finance Review discusses how fiscal and green policies can be aligned to reap the "double dividend" of improved fiscal and environmental sustainability, particularly given the need for fiscal consolidation of some 3 percentage points of GDP, according to World Bank's estimates. In that regard, broadening the tax base and advancing green policies, including green taxation, would help achieve this dual objective. Brazil's policies to accelerate its ecological transformation promise significant emissions reductions with positive economic and fiscal effects.

B. Public Financial Management and Disbursement

3.18 **Public Financial Management (PFM).** The PFM environment and auditing practices in Brazil are adequate and currently operate within a macroeconomic context characterized by moderate growth, inflation converging toward the target and fiscal efforts aimed at stabilizing public debt. A solid legal framework, such as the Federal Constitution, the Fiscal Responsibility Law (LRF) and other regulations, underpins the PFM environment in the Federative Government of Brazil. The MoF is primarily responsible for implementing this framework. Federal budget preparation and monitoring processes are considered appropriate and aligned with international practices, materialized in the Plano Plurianual (PPA), the multi-year plan, the main budgetary law of the federal administration, focused on capital expenditures and ongoing programs over a four-year period. Both the LRF and the PPA are fundamental tools for providing a strong and robust framework for the government's spending and investment decisions, contributing to medium- and long-term fiscal sustainability. Essential fiscal and budgetary documents, including the federal budget and the PPA, are publicly accessible online, ensuring transparency and access to information. The proposed CPBF loan's budgetary allocation, initially reserved for 2025, is being reallocated to 2026 in alignment with the 2024–2027 PPA and Federal Budget Program 1158, with legal backing from national fiscal laws and confirmation from the National Treasury.

3.19 **Fiduciary Assessment.** The PFM environment features robust internal rules and budget commitment controls. The use of the Treasury Single Account (TSA) model for cash management, along with a clear allocation of responsibilities for its administration, facilitates the regular and timely performance of bank reconciliations. Enhanced external oversight mechanisms are aligned with international standards. The government's Financial Statements are of considerable quality and are prepared in a timely manner. The annual financial statements are audited by the Federal Supreme Audit Institution (Tribunal de Contas da União - TCU). Though the TCU continues to issue qualified opinions for recent years, the nature of the findings points to operational and governance challenges rather than material misstatements, with continuous follow-up and corrective actions being implemented by the government. The Federative Government of Brazil is advancing important reforms to improve the quality of financial reporting, strengthen internal audit arrangements and gradually integrate environmental sustainability considerations into fiscal management, in line with international trends.

3.20 **Disbursements.** Loan proceeds will be disbursed in a single tranche upon satisfactory fulfillment of the Prior Actions and will be deposited into a foreign currency account opened by the government at Banco do Brasil, to be managed under the TSA. AIIB and other MDBs have deemed Banco do Brasil acceptable, as it is financially sound, regularly audited, offers a wide range of banking services, provides detailed bank statements, operates an adequate banking network and charges reasonable fees for its services. The use of financial institutions with such characteristics strengthens Brazil's credibility with international creditors and investors.

C. Environmental and Social Aspects

3.21 The updated AIIB Environmental and Social Framework (ESF, June 2024) introduces provisions for environmental and social (ES) management applicable to the CPBF instrument. AIIB's Environmental and Social Policy (ESP), including the Environmental and Social Exclusion List (ESEL), applies to all three pillars of this Program.

3.22 **Environmental and Social Impact.** The Program focuses on policy and institutional reforms that are expected to result in positive environmental and social benefits through the reduction of GHG emissions that will be brought about by the environment-friendly and socially inclusive interventions proposed. The reforms are also not expected to cause any adverse significant ES impact. On the other hand, positive ES impacts are expected both in terms of health benefits as well as security of land access, environmental conservation and improved environmental quality. Brazil's ES system and capacity are found to be adequate to manage residual ES impacts that may emerge during the Program implementation. The Summary of the ES Matrix (Annex 5) provides further information by each of the PA.

3.23 It is recognized that some downstream investment activities resulting from specific policy actions under the Program may lead to indirect, short-term and temporary adverse impacts. While Brazil has an extensive regulatory framework on ES assessments, effective management and mitigation of potential adverse environmental risks and impacts will also depend on the timely implementation of the Brazilian national legislation and its evolving policy refinements, continued planning and enforcement, institutional capacity, coordination and open collaboration across levels of government, stakeholders and civil society. Brazilian legislation also makes explicit provision for public consultation and grievance redress at federal, state and municipal levels, ensuring that affected stakeholders can participate in decision-making and seek remedies. To address potential Program issues and concerns, implementing agencies are adequately equipped to rely on their existing grievance mechanism.

3.24 **Environmental Aspects.** The policy and institutional reforms set forth in the Program are geared toward putting together a time-based, environmentally sustainable approach in achieving significant GHG emissions reduction and carbon neutrality aligned with Brazil's NDC. While potential environmental risks and impacts may arise from a wide range of policy actions, the Program is expected to yield environmental benefits, leading to substantial positive development outcomes for Brazil. Relying on Brazil's extensive regulatory framework on ES assessments (CONAMA resolutions), it is expected that the Program activities will result in manageable low- to medium-risk impacts. This framework will enable corrective action when the government identifies potential policy gaps or deviations during implementation.

3.25 Pillar 1 operationalizes sustainable finance mechanisms (ETS, tax-advantaged debentures, blended finance) that enable the mobilization of private and public financing at scale for new and existing infrastructure. The finance mechanisms facilitate the decarbonization and climate resilience across priority sectors. These are expected to generate environmental benefits at the global level in terms of reduced GHG emissions and at the national and local levels in terms of reduced air emissions and improved energy efficiency. Avoiding the risks associated with new market mechanisms requires strong policy, institutional and regulatory frameworks to safeguard the process. The risks and challenges in the preparation of the enabling environment for setting up of the carbon trading system, the market mechanisms and the institutional capacity of the concerned agencies to deliver on Pillar 1 can be addressed with the establishment of strong policy, institutional and regulatory frameworks to safeguard the process. For Prior Action 1.3, the simplified administrative procedures established to streamline ministerial approval of projects will follow the government's permitting process, while ensuring no dilution of environmental or social standards. For Prior Action 1.4, as part of the ES monitoring during implementation, the responsible authority may consider carrying out a preliminary assessment to identify whether there are heightened environmental risks due to cumulative Impacts of the various project activities. If necessary, a next course of action could be formulated to further address the identified accumulation of environmental impacts and the avoidance of the breakup of ecological corridors that may occur due to the discrete development of separate public and private lands managed by different entities.

3.26 Pillar 2 on Energy Transition focuses on promoting the development and deployment of sustainable bioenergy technologies, particularly through the advancement of value chains for green products such as SAF. The pillar aims to accelerate Brazil's decarbonization in hard-to-abate sectors by fostering innovation, enhancing industrial competitiveness and ensuring cost-effective emissions reductions through national technological solutions.

3.27 Pillar 3 will mitigate and address the potential impacts of climate change to put in place institutional measures to embed climate resilience in the national and state policies, programs and projects for the protection of critical natural and built assets. Strengthening climate adaptation, particularly for the under-represented health sector (Prior Actions 3.1 and 3.2), will reduce the impacts of climate events to the general population, especially the most vulnerable. Improving conservation of terrestrial and mangrove forests, including supporting carbon credits for such measures (Prior Actions 3.3, 3.4 and 3.5) are expected to dramatically increase carbon storage and sequestration, build resilience to climate impacts and increase ecosystem productivity and services.

3.28 **Social Aspects.** The policy actions under the Program have significant social dimensions across all three pillars. Under Pillar 1, reforms such as the establishment of the Brazilian Carbon Market (Prior Actions 1.1 and 1.2) are expected to influence local economies particularly in the energy, industrial and transport sectors, by creating new income opportunities and investment flows. However, they must be implemented in a manner that secures equity in access to carbon benefits and safeguards the rights of Indigenous Peoples and traditional communities. These risks will be mitigated through Brazil's well-established and robust legal frameworks and institutional safeguards, which mandate public participation, transparency and social inclusion in policymaking. The Sustainable Infrastructure Debentures (Prior Action 1.3) and Eco Invest auctions (Prior Action 1.4) are intended to direct resources to green infrastructure, which can generate employment and improve public services, but in the condition that they are designed so that they avoid displacement, ensure fair distribution and include social safeguards. The Forest Code and Indigenous Peoples' legislation will mitigate risks related to land speculation, displacement or inequitable benefit-sharing, ensuring that traditional and rural communities are protected and included.

3.29 Pillar 2 supports green industrial development through the promotion of sustainable biofuels and SAF (Prior Actions 2.1 and 2.2). These measures offer potential for job creation and rural development but may have distributional impacts if land use or food prices are affected. These risks will be mitigated through Brazil's regulatory frameworks, such as RenovaBio and the National Agroecology and Organic Production Policy (PNAPO), which promote inclusive participation of smallholders, mandate emissions certification and require environmental and social impact assessments.

3.30 Pillar 3 has particularly direct social impacts, focusing on strengthening climate resilience in health systems (Prior Actions 3.1 and 3.2), securing land tenure and sustainable forest use for traditional communities (Prior Action 3.3) and conserving mangrove ecosystems that support families (Prior Action 3.5). These reforms promote inclusion, safeguard livelihoods and address climate vulnerabilities that disproportionately affect women and Indigenous People. At the same time, implementation must ensure meaningful participation, benefit-sharing and protection of social rights.

3.31 Careful implementation of these reforms is critical to advancing Brazil's ecological transformation. The social risks associated with the CPBF prior actions were analyzed in greater detail during the appraisal stage with the detailed result included in Annex 5. Although the Program is not expected to generate significant adverse environmental and social impacts; during the program implementation, the relevant authority may consider using the Environmental and Social Strategic Assessment as a tool to address emerging risks (if any) and identify measures to further create positive environment and social outcomes.

3.32 **Gender.** The CPBF is categorized as effective gender mainstreaming and supports Brazil's broader gender equality agenda, as reflected in the National Plan of Policies for Women and sectoral strategies in health, environment and labor. The Program provides opportunities to enhance women's resilience, participation and access to climate-related benefits across all three pillars.

3.33 Under Pillar 1 (Sustainable Finance), the establishment of Brazil's carbon market (Prior Actions 1.1-1.2) and the expansion of green finance through Sustainable Infrastructure Debentures and Eco Invest auctions (Prior Actions 1.3-1.4) offer pathways to integrate women into climate-related value chains. If designed with inclusive benefit-sharing mechanisms and safeguards, these instruments can improve access to finance, support women-led enterprises and promote job creation in restoration and low-carbon infrastructure sectors where women are currently underrepresented. These efforts are supported by Brazil's Climate Policy Framework and the Public Participation Framework, which mandate transparency, equitable access and social inclusion.

3.34 Under Pillar 2 (Energy Transition), the Fuels of the Future framework (Prior Actions 2.1-2.2) aims to develop Brazil's SAF market. This growing sector, if supported with gender-sensitive skills training and credit access, could benefit rural women engaged in agriculture and biofuel feedstock production. The Decarbonization Policy for the Transport Sector and the Biofuels Policy provide the foundation for equitable participation in SAF supply chains. Decentralized SAF supply chains also present opportunities to engage women in innovation, logistics and small-scale processing, helping address persistent labor market gender gaps.

3.35 Under Pillar 3 (Green and Resilient Infrastructure), the Program addresses both mitigation and adaptation priorities with strong gender relevance. Prior Actions 3.1 and 3.2, focused on climate-health resilience, are particularly important for women. Women face higher exposure to climate-sensitive health risks, including from extreme heat, air pollution and inadequate access to cooling in densely populated urban areas. They also shoulder disproportionate caregiving burdens during climate-related health crises. The development of adaptation plans for the health sector (Prior Action 3.2) and gender-responsive early warning systems (Prior Action 3.1) directly enhance public health infrastructure in a way that benefits women and reduces gender-specific vulnerabilities. Prior Actions 3.3 to 3.6 support the conservation and sustainable use of forests and mangroves, ecosystems on which over 500,000 traditional community members depend—many of them women. These reforms improve tenure security (Prior Action 3.3), enable inclusive participation in restoration activities and potential benefit-sharing from carbon markets (Prior Action 3.4) and empower women through their roles in coastal and extractive communities targeted by ProManguezal (Prior Actions 3.5 and 3.6). Where possible, disaggregated monitoring will track women's participation in governance, conservation and resource use.

3.36 Finally, while the Program includes strong opportunities for gender-responsive outcomes, some prior actions carry risks if gender dimensions are not explicitly addressed. The gender risks associated with these prior actions were analyzed and incorporated into the ES matrix as part of the social aspects in Annex 5.

D. Monitoring, Oversight and Accountability

3.37 **Monitoring and Oversight.** The Program Executing Agency will monitor the Program implementation by the Program Implementation Agencies and will provide an annual report to the Bank on the implementation progress toward achieving each of the indicators and targets included in the Policy and Results Matrix (Annex 1). AIIB, working in coordination with the World Bank and IDB, will conduct a separate annual Program monitoring mission, which will include following up on the implementation progress toward the target results and the performance of the ES implementation. The Bank will prepare a program completion report for the entire CPBF operation within six months of Program closure.

3.38 **Environmental and Social Monitoring.** Brazil has well-established monitoring and implementation systems that support policy execution across sectors, including the Integrated System of Environmental and Social Information (SIISA) and the CONAMA, which oversee compliance and reporting. This monitoring framework comprises (a) compliance reporting by sectoral ministries, (b) verification of environmental outcomes and (c) monitoring systems ensuring continuous oversight. Furthermore, public consultation and participatory councils at federal, state and municipal levels ensure that policies are socially inclusive and responsive to stakeholder concerns. The Program monitoring of the ES performance is an integral part of the overall semi-annual Program monitoring mission to ensure compliance with its policy requirements and prompt resolution of any emerging issues.

3.39 **Governance and Anti-Corruption.** AIIB's Policy on Prohibited Practices applies to the Program, however, the requirements set forth in the Directive on the Policy on Prohibited Practices that relate to projects and financing documentation do not apply to CPBF. The legal agreement will incorporate adequate provisions to provide: (a) a definition of Excluded Expenditures in accordance with the Operational Policy on Financing (OPF); (b) that the CPBF may not be used to finance Excluded Expenditures, as well as expenditures with respect to which the Bank determines that misuse of resources, theft, or corrupt, fraudulent, collusive, obstructive or coercive practices has occurred and (c) recourse to the Bank in the event that the CPBF is used to finance Excluded Expenditures. The Bank reserves the right to investigate, directly or indirectly through its agents, any alleged corrupt, fraudulent, collusive, coercive or obstructive practices and misuse of resources and theft relating to the Program.

3.40 **Grievance Redress and Bank's Project-Affected People's Mechanism (PPM).** AIIB's Policy on the PPM applies to this Program. AIIB established the PPM to provide an opportunity for an independent and impartial review of submissions from project-affected people who believe they have been or are likely to be adversely affected by AIIB's failure to implement the ESP in situations where their concerns cannot be addressed satisfactorily through the program-level GRM or the processes of AIIB's Management. Information on AIIB's PPM is available at: https://www.aiib.org/en/about-aiib/who-we-are/project-affected-peoples-mechanism/how-we-assist-you/index.html.

E. Risks and Mitigation Measures

Table 1: Summary of Risks and Mitigating Measures

Risk Description	Assessment (H/M/L)	Mitigation Measures
Preparation Risks		
Political Risk		
▪ Brazil faces inherent political risks to climate policy reversibility.	M	▪ Brazil's Climate regulatory framework leverages a legislative continuum of policies whose resilience stems from federal enforcement mechanisms, economic efficacy and legal sustainability beyond political cycles. Anchored in constitutional safeguards and Paris Agreement obligations, the ETP-NDC linkage ensures low reversal risk via institutional inertia, private-sector lock-in from market-based reforms and consultative consensus.
Macroeconomic Risk		
▪ The Impact of external economic volatility affects government fiscal space and its ability to fund climate expenditures.	M	▪ Brazil has already demonstrated resilience to these shocks in recent years. Nonetheless, with support from development partners, the government is committed to prudent monetary and fiscal policies and to support for green transition. The fiscal rule, the flexible exchange rate, large FX reserves and the social safety net system act as stabilizers and shock absorbers.
Institutional Coordination Risk		
▪ Limited staff with multiple roles and responsibilities and	M	▪ The coordinated technical assistance support from development partners

Risk Description	Assessment (H/M/L)	Mitigation Measures
inadequate inter-agency coordination could hinder effective policy development and implementation.		(directly to ministries and other agencies) will support institutional capacity building, strategic knowledge work and interministerial coordination. ▪ Coordination risk is mitigated by MoF leading the Program. The MoF is the “natural” institution to implement a “whole-of-government” operation like the CPBF because: (a) the MoF has been the principal counterpart for the policy-based operations of the World Bank and IDB, so implementing AIIB’s CPBF operation provides a natural continuity; (b) SAIN within the MoF has been intimately involved in negotiating and tracking Brazil's climate change commitments and (c) the MoF is a member of the Interministerial Committee on Climate Change and will be guided by its decisions. The MoF has already shown strong coordination capacity during the Program preparation. Nonetheless, semi-annual Program implementation support missions will be fielded to monitor the implementation of reforms and determine any need for mid-course correction and identify what instruments or mechanisms can be used.
Implementation Risks		
Implementation Capacity		
▪ Certification processes and auditing methodologies remain undefined among implementing agencies. MRV responsibilities and capacity gaps can policy effectiveness and private sector confidence in market-based mechanisms unless addressed through robust verification frameworks.	M	▪ Line Ministries will need to put in place robust MRV framework across line ministries, supported by MDB technical assistance to identify and address capacity gaps. The cross-ministerial coordination mechanism will clarify monitoring/reporting responsibilities, with details to be confirmed during appraisal.

Annex 1: Policy and Results Matrix (PRM)

Overall Program Objective: To support the Government of Brazil's actions toward achieving the climate goals articulated in the Nationally Determined Contributions (NDCs) through policy and institutional measures required to implement the Ecological Transformation Plan (ETP) in the areas of sustainable finance, energy transition and green infrastructure and resilience.

<table>
<tr><th rowspan="2">Prior Action</th><th colspan="4">Results</th></tr>
<tr><th>Output Indicator</th><th>Unit of Measurement</th><th>Baseline 2025</th><th>Targets for 2026 and 2027</th></tr>
<tr><td colspan="5">Pillar 1 – Sustainable Finance: Direct Public and Private, National and International Financial Resources to Sustainable Activities, Low Carbon Growth, Resilience, Ecological Transformation and Biome Regeneration.</td></tr>
<tr><td>Prior Action 1.1: To create a regulated carbon market in Brazil, the government enacted the law to set up the Brazilian Emissions Trading System (SBCE).

<u>Status</u>: Completed – Law No. 15,042 enacted on Dec. 11, 2024.

<u>Responsible Agency</u>: MOF and MMA

Prior Action 1.2: To operationalize the “SBCE Law,” the government has committed to establish the SBCE Interim Managing Body, which will hold executive and regulatory responsibilities, as well as the formation of the Advisory Committee.

<u>Status</u>: The Ministry of Finance’s (MoF’s) commitment letter on Law No. 15,042 of Dec. 11, 2024, received on August 26, 2025.</td><td>Result 1.1 The SBCE Interim Managing Body is established.

Result 1.2 Normative acts are issued defining specific policy design options for the SBCE, including coverage scope and list of greenhouse gases subject to regulation.</td><td>Text</td><td>No SBCE Interim Managing Body.</td><td>2026: Results 1.1 and 1.2

2027: Normative acts specifying coverage and regulated gases are issued.</td></tr>
</table>

Prior Action	Results			
	Output Indicator	Unit of Measurement	Baseline 2025	Targets for 2026 and 2027
Responsible Agency: MoF				
Prior Action 1.3: To fast-track private investment flows into projects that advance Brazil's climate and ecological transformation goals, at least six sectoral ordinances for priority sectors and the criteria and conditions for qualifying projects for tax incentives, including green criteria, were issued by the sectoral Ministries. The sectoral ordinances include simplified procedures for ministerial approval of projects involving public services owned by subnational entities. Status: Completed – Six sectoral ordinances issued (Ordinance No. 689 dated July 17, 2024 for roads and railways; Ordinance No. 266 dated March 20, 2025 for urban mobility; Ordinance No. 1,411 dated Dec. 18, 2024 for sanitation; Ordinance No. 93 dated Dec. 10, 2024 for energy (natural gas, biofuels, biogas, synthetic fuels, etc.); Ordinance No. 419 dated Aug. 29, 2024 for waterways, ports and airports; and Ordinance No. 1,298 dated Jan. 24, 2025 for protected areas). Responsible Agencies: MoF, Ministry of Transport, Ministry of Ports and Airports, Ministry of Cities, Ministry of Mines and Energy, MMA	**Result 1.3** Sustainable infrastructure debentures are issued.	Text	Average cost of capital differential between sustainable infrastructure debentures and comparable non-tax-incentivized debentures, measured from the first issuances of sustainable infrastructure debentures.	The average cost of capital of tax-incentivized debentures remains below that of comparable non-incentivized debentures, thereby confirming the continued effectiveness of the public policy.*

Prior Action	Results			
	Output Indicator	Unit of Measurement	Baseline 2025	Targets for 2026 and 2027
Prior Action 1.4: To mobilize private capital for climate and ecological transformation projects, the government, through the National Treasury Secretariat, has provided a blended finance facility with concessional rate and longer-maturity term credit line, through the enactment of ordinances to launch specific auction under EcoInvest, for the productive and ecological conversion of degraded land, including in the Amazon Biome. Status: Completed – Ordinance No. 926 of April 28, 2025 was enacted, as amended by Ordinance No. 1,241 of June 5, 2025 and Ordinance No. 1,416 of June 27, 2025. Responsible Agency: MoF	**Result 1.4** Investment through the auction is mobilized.	USD	0	2027: USD5 billion mobilized (public and private capital).
	Result 1.5 Areas of degraded land are sustainably converted	hectare (ha)	0	2027: Commitment by financial institutions to productively and ecologically recover at least 1 million ha of degraded land over the next 10 years.
Pillar 2 – Energy Transition: Promote Innovative Technologies in the Area of Sustainable Bioenergy with Competitive Cost and Value Chains.				
Prior Action 2.1: To further foster the development of sustainable bioenergy, the government established the Fuels of the Future Program. The Law created the National Sustainable Aviation Fuel Program (ProBioQAV), among other bioenergy and decarbonization programs.	**Result 2.1** Sustainable aviation fuel (SAF) is blended into Brazil's aviation fuel supply	Percent	0	2027: 1% reduction in GHG emissions from domestic civil aviation operations, as a result of the use of SAF.[1]

[1] Calculated in accordance with the provisions of Law No. 14,993

Prior Action	Results			
	Output Indicator	**Unit of Measurement**	**Baseline 2025**	**Targets for 2026 and 2027**
Status: Completed – Law No. 14,993 enacted on Oct. 8, 2024. Responsible Agency: MEM and MoF				
Prior Action 2.2: To regulate the certification of the efficient production or import of biofuels, including Sustainable Aviation Fuels (SAF) and the accreditation of inspection firms, ANP establishes methodologies for calculating well-to-wake greenhouse gas (GHG) emissions and efficiency criteria for biofuels. Status: Completed – ANP issued Resolution No. 984/2025 on June 16, 2025. Responsible Agency: MEM and ANP	**Result 2.2**: SAF emission factors (well-to-wake) (gCO_2e/MJ) by technology are certified by ANP.	Number	0	2026: One SAF technology accepted by ANP. 2027: Up to three SAF technologies accepted by ANP.**
Pillar 3 – Green and Resilient Infrastructure: Build Resilience of Critical Natural Assets and Infrastructure to Mitigate and Address Potential Impacts of Climate Change as well as Protect and Restore Critical Natural Ecosystems.				
Prior Action 3.1: To develop the National Adaptation Plan (NAP) for the health sector. Status: Completed – Law No. 14,904 enacted on June 27, 2024. Responsible Agency: MoH	**Result 3.1** By 2027, 50% of state and municipal health departments in priority areas*** for climate emergencies will have improved their risk communication capacities regarding the impacts of climate change.	Number	0	2027: 50

Prior Action	Results			
	Output Indicator	Unit of Measurement	Baseline 2025	Targets for 2026 and 2027
Prior Action 3.2: The NAP for the Health sector was finalized and disclosed by the MoH for public consultation. Status: Completed – The Health Sector Adaptation plan was completed and disclosed for public consultation until April 25, 2025. Responsible Agency: MoH	**Result 3.2** Early warning systems with predictive modelling systems focusing on extreme heat and other exacerbating health risk factors such as air pollution are designed and developed.	Text	None	2027: Availability of a responsive heat-health early warning system.
Prior Action 3.3: The government, through the Ministry of Environment and Climate Change (MMA) and the Ministry of Agrarian Development and Family Agriculture (MDA), has detailed the procedures for recognizing the user rights of public forests by traditional communities, administratively streamlining their connection to the land and their role as protectors of the forests via collective agreements. Status: Completed – Interministerial ordinance 1,309/2025 was issued on Feb. 4, 2025. Responsible Agency: MMA and Ministry of Agrarian Development and Family Agriculture	**Result 3.3:** Agreements allocating public forests to local communities for sustainable use are issued.	Number (agreement)	0	2027: At least 50 communities provided collective agreements recognizing their rights and their sustainable use of forests. Areas covered by the collective agreements will be assessed during implementation.

Prior Action	Results			
	Output Indicator	Unit of Measurement	Baseline 2025	Targets for 2026 and 2027
Prior Actions 3.4: Federal law for the management of public forests, including the allocation of rights to carbon credits to concessionaries of public forest for restoration. Status: Completed – Decree No. 12,046/2024 was issued on June 5, 2024, then further detailed by Law 15,042/2024 (SBCE law). Responsible Agency: MMA and BFS (Brazilian Forest Service)	**Result 3.4** Forest concessions for restoration are eligible for carbon credits.	Numbers and areas of forest concession	0	2027: First bid for concession for forest restoration issued with at least 10.000 ha and at least three (3) additional cases submitted to public consultations, adding up to 50.000 ha.
Prior Action 3.5: To establish the National Program for Conservation and Sustainable Use of Mangrove (ProManguezal). Status: Completed – Law No. 12,045 enacted on June 5, 2024. Responsible Agency: MMA **Prior Action 3.6**: Action Plan for the ProManguezal program was issued by MMA. Status: Completed – Ordinance GM/MMA Number 1,167 was issued on Oct. 2, 2024.	**Result 3.5** New federal conservation units with mangroves, expanding protection and responding to social demands, beyond the current 87% protection rate, are created.	Number	Two Conservation Units for local sustainable use (“Reservas Extrativistas”) created by presidential decree in 2024, with a total of 74,728 has.	2027: Two new conservation units to protect mangroves and traditional users, covering approximately 20,000 ha.

Prior Action	Results			
	Output Indicator	**Unit of Measurement**	**Baseline 2025**	**Targets for 2026 and 2027**
Responsible Agency: MMA	**Result 3.6** Mangrove biodiversity monitoring program covering 30 Units by 2030 is established.	Number	20 Conservation Units covered by the Monitora Program.	2026: Two additional Conservation Units added to the Monitora Program.

* Indicator explanation: Maintaining a lower average cost of capital for infrastructure debentures compared to non-incentivized debentures with comparable characteristics.

** Key SAF production pathways: 1) HEFA (Hydroprocessed Esters and Fatty Acids); 2) FT (Fischer-Tropsch); 3) Alcohol-to-Jet (AtJ).

*** List of priority municipalities for climate emergencies established by the Ministry of the Environment (MMA), under the AdaptaCidades and Green Resilient Cities Program.

Annex 2: MDBs Coordinated Approach to Brazil's ETP Policy-Based Support

Policy Area	AIIB PA	AIIB	World Bank	IDB
Macro/Fiscal sustainability				
Macroeconomic Stability		General program requirement of macroeconomic sustainability.	General program requirement of macroeconomic sustainability.	General program requirement of macroeconomic sustainability.
Fiscal Measures: VAT			Streamline taxation, introduce reformulated Value-Added Tax, expand taxation of offshore financial vehicles.	Enact law on dual Value-Added Tax to replace select consumption taxes.
Fiscal Rules			Approve Fiscal Rule to limit expenditure growth, mandate primary balance targets.	Fiscal reforms to limit public spending, target primary balance and increase revenues.
				Submit tax bill to Congress to strengthen regular tax and customs compliance, resolve tax disputes and foster trust.
Financial Mechanisms to support the Ecological Transformation Plan (ETP)				
Sustainable Finance: Carbon Trading	1.1	Law establishing the Brazilian Emissions Trading System (SBCE).		
	1.2	Commitment to establish SBCE Interim Managing Body.		
Infrastructure Debentures	1.3	Sectoral ordinances, with criteria and conditions for qualifying for tax incentives, including green criteria and simplified procedures for projects of subnational entities.		Enact Law on infrastructure debentures and regulations on their eligible subsectors, classification criteria and evaluation.
EcoInvest auctions	1.4	Execute EcoInvest auction, through an ordinance, under its Blended Finance line (concessional rate and longer-maturity term credit line) for the productive and ecological conversion of degraded land, including in the Amazon Biome.	Provide foreign exchange risk management tools and protection through EcoInvest.	Law to establish EcoInvest to promote the ETP, attract investment, raise funds for local green companies.
				Establish criteria for eligibility, prioritization, exclusion, gender and diversity and safeguards in EcoInvest Program.

Policy Area	AIIB PA	AIIB	World Bank	IDB
Sovereign Sustainable Bonds			Sovereign Sustainable Finance Committee to approve framework for SSBs.	Establish SSF framework and measures for transparent resource allocation through first two issuances.
Rural Credit			Strengthen Climate Criteria for access to rural credit through the Central Bank.	
Inter-governmental Transfers			Establish intergovernmental transfer system to municipalities (ICMS) based on environmental preservation criteria.	
Letters of Credit				Enact Law to create Development Letters of Credit (LCDs) issued by Development Banks to promote, inter alia, green projects.
National Energy Transition				
BioFuel Policy (RenovaBio)	2.1	Enact law on Fuels of the Future to create Sustainable Aviation Fuel (SAF) program.		
	2.2	Methodologies for calculating well-to-wake GHG emissions and efficiency criteria for biofuels.		
Green and Resilient Infrastructure				
Climate Adaptation and Mitigation	3.1	Law and guidance on Climate Adaption Plans for priority sectors.		
Health Sector Adaptation	3.2	Finalize and disclose for public consultation Health Sector Climate Adaptation Plan.		
Public Forest Management	3.3	Issue inter-ministerial ordinance to define allocation rules of public forest to local communities.		
	3.4	Decree on Carbon Credit guidance on forest concessions: standards and methods, including REDD+.		
			Establish criteria for Municipalities to annually receive extra funds and TA for forest protection and governance.	

Policy Area	AIIB PA	AIIB	World Bank	IDB
Mangrove Conservation	3.5	Law establishing Mangrove Conservation and sustainable use (ProManguezal).		
	3.6	Publish ProManguezal Action Plan for public dissemination.		
Social Inclusion				
Improve Targeting of Social Transfers and Services			Institute Payments for Environmental Services to households in the Amazon Rainforest (Bolsa Verde).	
			Improve the quality of Single Social Registry information to strengthen program targeting.	
			Revise school feeding program guidance for better nutrition, gender inclusion and procurement from female farmers.	
Strengthening Institutional Capacity and Commitments under the ETP				
Institutional Capacity				Government branches signed commitment to the ETP, creating an Interinstitutional Management Committee for monitoring.
				Establish National Bioeconomy Strategy (NBS) and Bioeconomy Commission to coordinate, implement and monitor the NBS.
National Commitments				Submission of revised NDC commitments to the UNFCCC.
Company Climate Reporting				Approve traded company reporting requirements (CVM) to publish info related to climate change risks and sustainability.
Sustainable Taxonomy				Establish Sustainable Taxonomy Committee to development and implement a system to classify assets and activities that contribute to climate, environment and social objectives.

Annex 3: Paris Agreement and Climate Finance Assessment

Paris Alignment Based on the Joint Framework

1. The Paris Agreement alignment assessment was carried out based on the Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment of New Operations – Policy-Based Lending (PBL), version 1.0, June 2023. An operation needs to be aligned with both the mitigation and climate adaptation and resilience goals of the Paris Agreement to be considered "Paris-aligned." The following summarizes the steps that were carried out and the corresponding assessment results.

Step 1: Assessing consistency of the PBL-supported government reform program with Brazil's priorities on climate change.

2. Yes, the proposed Program and all its Prior Actions are fully consistent with Brazil's climate priorities as outlined in Brazil's second Nationally Determined Contribution (NDC), submitted in November 2024. Notably, the Program directly supports the implementation of the Ecological Transformation Pact, the foundational framework for Brazil's updated NDC commitments.

3. The Program operationalizes key mitigation and adaptation priorities identified in Brazil's NDC, including the legal establishment of the Brazilian Emissions Trading System (SBCE), the expansion of Sustainable Aviation Fuel (SAF) production under the Fuels of the Future Program, incentives for forest restoration through EcoInvest and community forest governance and the creation of financing mechanisms for green infrastructure via Sustainable Infrastructure Debentures. On adaptation, the CPBF supports the implementation of Brazil's forthcoming National Adaptation Strategy[1] by facilitating the legal foundation and rollout of sectoral climate adaptation plans, notably in public health and infrastructure. The inclusion of mangrove and coastal ecosystem programs (e.g., ProManguezal) is also aligned with Brazil's emphasis on nature-based adaptation and coastal resilience.

Step 2: Assessing the mitigation and adaptation alignment of the reform program.

4. **Step 2-Mitigation Alignment – Criterion 1a**: Does the PBL reform program consist of policy actions that support activities that actively contribute or do-no-harm to decarbonization pathways in line with the mitigation goals of the Paris Agreement in all circumstances? (i.e., universally aligned activities)?

5. Yes, prior actions under the Brazil CPBF consist of policy measures that contribute to decarbonization pathways in line with the mitigation goals of the Paris Agreement, as defined in Brazil's updated 2024 NDC. In particular, the enactment of the SBCE and the Sustainable Infrastructure Debenture policy (PA1.1–1.3) directly support economy-wide decarbonization through carbon pricing and climate-aligned infrastructure investment. Policy actions under EcoInvest, the SAF Program (ProBioQAV) and the forest restoration and mangrove conservation reforms (PA1.4, PA2.1–2.2, PA3.3–3.6) actively contribute to greenhouse gas (GHG) emissions reductions and removal in land use and transport—sectors that are critical for meeting Brazil's mitigation targets. Furthermore, PA3.3–3.6 directly supports universally

[1] Via the Resolution 3 of Sep. 14, 2023, the new Climate Plan will include the "National Adaptation Strategy," including 16 sectoral adaptation plans.

aligned activities (Table 1: Forestry)[2] corresponding to reforestation and sustainable forest management operation type.

6. **Step 2-Adaptation Alignment – Criterion 1b:** Are risks from climate hazards likely to have an adverse effect on the development objective(s) of the reform Program's policy actions?

7. No. The CPBF supports Brazil's climate agenda through a set of policy actions that contribute to both mitigation and adaptation objectives. Several reforms explicitly address climate risks and promote long-term resilience. For example, the Sustainable Infrastructure Debenture policy (PA1.3) establishes eligibility criteria that incentivizes investment in climate-resilient infrastructure across specific key sectors. In parallel, nature-based solutions supported through EcoInvest (PA1.4) and the ProManguezal program (PA3.5–3.6) reduce ecosystem vulnerability and protect communities from climate hazards such as flooding and coastal erosion. The health sector adaptation plan (PA3.2) aims to strengthen institutional responses to climate-induced health risks such as extreme heat. While some policy actions relate to climate-sensitive sectors like forestry and land use—these actions are designed to reduce exposure and increase resilience over time. Therefore, taken together, the CPBF actions contribute to long-term adaptation outcomes and climate hazards are not expected to undermine their development objectives when implemented as designed.

8. The assessment's results confirm that the Program aligns with the climate mitigation and climate adaptation and resilience goals of the Paris Agreement, according to the Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment of New Operations – Policy-Based Lending (PBL), version 1.0, June 2023.

9. **Climate Finance.** According to the Annex C.5 of the 2022 Joint Report of Multilateral Development Banks' Climate Finance, policy-based lending, which includes climate-related prior actions, can be reported as climate finance. The proportion of the reported climate financing is the same as the proportion of the climate-related policy actions.

10. Among the 12 Prior Actions (PAs), 10 (83%) support climate mitigation, 8 (67%) support climate adaptation and 6 (50%) contribute to both, delivering dual climate benefits.

11. The Program allocates 100% of AIIB financing (USD1,000 million) to climate finance. Of this, climate mitigation accounts for 65% (USD646 million), supported by policy actions (PAs) 1.1–1.4, 2.1–2.2 and 3.3–3.6. Climate adaptation accounts for the remaining 35% (USD354 million), supported by PAs 1.3–1.4 and 3.1–3.6. Within these figures, USD333 million[3] (33% of total financing) delivers dual benefits, contributing simultaneously to both mitigation and adaptation through PAs 1.3–1.4 and 3.3–3.6.

[2] Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment of New operations – Direct Investment Lending - List of Activities Considered Universally Aligned with the Paris Agreement's Mitigation Goals or Not Aligned with the Mitigation Goals, Version 1.0, June 2023.
[3] These dual benefits are fully integrated into the mitigation and adaptation totals reported, not additional to them.

Annex 4: Prior Actions and Analytical Underpinnings

Prior Action (PA)	Analytical Underpinnings
Pillar 1 – Sustainable Finance: Direct Public and Private, National and International Financial Resources to Sustainable Activities, Low Carbon Growth, Resilience, Ecological Transformation and Biome Regeneration.	
PA 1.1: To create a regulated carbon market in Brazil, the government enacted the law to set up the Brazilian Emissions Trading System (SBCE).	(a) Paris Agreement, in particular its Article 6. (b) Word Bank state of carbon pricing reports, various years. (c) IMF Staff Climate Notes, various issues on carbon pricing. (d) World Bank Partnership for Market Readiness and Partnership for Market implementation TA outcomes. (e) A report prepared for the Ministry of Industry and Trade (MDIC) with a review of global experiences with carbon markets and acceptance of carbon offsets: "Recommendations for the accreditation of independent carbon certification standards for the SBCE."
PA 1.2: To operationalize the "SBCE Law," the Government of Brazil has committed to establish the SBCE Interim Managing Body, with a clear mandate and sufficient resources.	(a) Paris Agreement, in particular its Article 6 and Article 13. (b) World Bank Partnership for Market Readiness and Partnership for Market implementation TA outcomes. (c) Reviews of the implementation of the European Union Emissions Trading System (EU ETS).
PA 1.3: To fast-track private investment flows into projects that advance Brazil's climate and ecological transformation goals, at least six sectoral ordinances for priority sectors and the criteria and conditions for qualifying projects for tax incentives, including green criteria, were issued by the sectoral Ministries. The sectoral ordinances include simplified procedures for ministerial approval of projects involving public services owned by subnational entities.	(a) Borensztein, Eduardo, Eduardo A. Cavallo and Pablo Pereira Dos Santos 2022. Infrastructure Bonds. The Case of Brazil. (b) Montes, L., P. Santos, B. Lavigne, B. Werneck, J. Deguirmendjian and R. Furtado. 2024. Infrastructure Financing: New Options and Incentives for Financing in Brazil. (c) Brazil's Updated NDC, 2024. (d) World Bank, 2023. Country Climate and Development Report (CCDR). (e) Brazil's ETP, 2024.
PA 1.4: To mobilize private capital for climate and ecological transformation projects, the government has provided a blended finance facility with concessional rate and longer-maturity term credit line, through the enactment of ordinances to launch specific auction under Eco Invest, for the productive and ecological conversion of degraded land, including in the Amazon Biome.	(a) Iyer, K. and Vaze, P. 2024. "Landscape of Blended Finance and the Role of Public Finance," Background Paper for the Asian Development Bank's (ADB) Asia-Pacific Climate Report (2024). (b) Convergence Blended Finance (2024). The State of Blended Finance 2024 (Climate Edition). (c) Kwon, T., Panulo, B., McCallum, S., Ivankovik, K. and Essa, Z. "Blended Finance: A Toolkit for Unleashing Impact at Scale." Center for Sustainable Finance and Private Wealth and University of Zurich. (d) Organization for Economic Cooperation and Development (OECD), 2023. Scaling Up the Mobilisation of Private Finance for Climate Action

Prior Action (PA)	Analytical Underpinnings
	in Developing Countries (Challenges and Opportunities for International Providers). (e) Brazil's Updated NDC, 2024. (f) CCDR, World Bank, 2023. (g) Brazil's ETP, 2024.
Pillar 2 – Energy Transition: Promote Innovative Technologies in the Area of Sustainable Bioenergy with Competitive Cost and Value Chains.	
PA 2.1: To further foster the development of sustainable bioenergy, the Government of Brazil established the Fuels of the Future Program. The Law created the National Sustainable Aviation Fuel Program (ProBioQAV), among other bioenergy and decarbonization programs. **PA 2.2:** To regulate the certification of the efficient production or import of biofuels, including Sustainable Aviation Fuels (SAF), and the accreditation of inspection firms, ANP establishes methodologies for calculating well-to-wake greenhouse gas (GHG) emissions and efficiency criteria for biofuels.	(a) Fuel of the Future Act (Lei 14.993/24 Combustível do Futuro). (b) Progress in Commercialization of Biojet /Sustainable Aviation Fuels (SAF): Technologies and policies. IEA Bioenergy Task 39 Nov 2024. (c) Combustível sustentável de aviação no Brasil. BNDES. Set 2024. (d) Economic Analysis of Different Sustainable Aviation Fuel (SAF) Production Pathways – GiZ. (e) SAF Sustainability Certification Guidance - June 2024 – IATA. (f) Net zero 2050: sustainable aviation fuels- IATA. (g) Sustainable aviation fuels: Key opportunities and challenges in lowering carbon emissions for aviation industry -DEC 2024. (h) Policy, regulation, development and future of biodiesel industry in Brazil.
Pillar 3 – Green and Resilient Infrastructure: Build Resilience of Critical Natural Assets and Infrastructure to Mitigate and Address Potential Impacts of Climate Change as well as Protect and Restore Critical Natural Ecosystems.	
PA 3.1: To develop the National Adaptation Plan for the Health Sector, the Government of Brazil enacted Law No. 14,904 on June 27, 2024.	(a) Law No. 14.904/2024 – Establishes mandatory adaptation planning for priority sectors. (b) Brazil's Climate Plan (in development, 2023–2035) – Adaptation strategy pillar. (c) Brazil's Second NDC (2024) – National commitment to increase resilience and protect vulnerable populations. (d) Interministerial Committee on Climate Change (CIM) – Coordination mechanism guiding the Climate Plan. (e) IPCC Sixth Assessment Report – Scientific basis for urgency in adaptation planning. (f) World Bank's Country Climate and Development Report (2023) – Economy wide policies for resilient and low-carbon growth.
PA 3.2: The National Adaptation Plan for the Health Sector was finalized and disclosed for public consultation.	(a) AdaptaSUS – Brazil's Sectoral Climate Adaptation Plan for Health (2025). (b) Law No. 14.904/2024 – Legal framework for mandatory climate adaptation planning. (c) Brazil's Climate Plan (in development)– Adaptation strategy pillar.

Prior Action (PA)	Analytical Underpinnings
	(d) Brazil's Second NDC (2024) – Includes commitments on health system adaptation. (e) Ministry of Health's Public Consultation Portal (March–April 2025). (f) Technical consultations with national and subnational health institutions (e.g., Fiocruz, CONASS, COSEMS) during the preparation of AdaptaSUS (April–May 2025). (g) AIIB's infrastructure for planetary health report (2025).
PA 3.3: Interministerial ordinance 1,309/2025, by MMA and MDA, detailed the procedures for recognizing the user rights of public forests by traditional communities, administratively streamlining their connection to the land and their role as protectors of the forests via collective agreements.	(a) Interministerial Ordinance No. 1,309/2025. (b) Decree No. 12,046 on Sustainable Management of Public Forests. (c) Reforming forest tenure Issues, principles and process report – FAO (2011). (d) Forest-based Economies and Land Tenure in the Brazilian Amazon – IPAM (2022). (e) Land tenure drives Brazil's deforestation rates across socio-environmental contexts – Nature review – Andrea Pacheco (2022). (f) Impact of land tenure on deforestation control and forest restoration in Brazilian Amazonia – Gilberto Camara (2023).
PA 3.4: Federal law for the management of public forests n. 12,046/2024, further detailed by Law 15,042/2024, that creates the SBCE, clarified the allocation of rights to carbon credits to concessionaries of public forest for restoration.	(a) Brazil's Updated NDC (2024) and National Climate Plan (in development). (b) Brazil's SBCE legal and regulatory framework (Law No. 15.042/2024 and decrees under implementation). (c) Paris Agreement, Article 6. (d) REDD+ under Article 5.2 and Article 6.2 of the Paris Agreement: Primer Report – Rainforest coalition (2024).
PA 3.5: To establish the National Program for Conservation and Sustainable Use of Mangrove (ProManguezal), the Government of Brazil enacted Law number 12,045 on June 5, 2024.	(a) Brazilian Decree No. 12.045/2024 – Establishes the legal foundation of ProManguezal. (b) Brazil's Second NDC (2024 Update) – Commits to safeguarding mangroves as part of its coastal resilience and blue carbon strategies. (c) Brazil's Ecological Transformation Plan (ETP) – aims to promote a change in economic, technological and cultural paradigms in favor of development through sustainable relationships with nature and its biomes. (d) Brazil's fifth phase of the Action Plan for the Prevention and Control of Deforestation in the Legal Amazon (PPCDAm). (e) Ramsar Convention on Wetlands – Highlights global trends in mangrove loss and the importance of governance and restoration planning in countries like Brazil with large remaining mangrove areas.

Prior Action (PA)	Analytical Underpinnings
	(f) Atlas of mangroves in Brazil – brings together information about mangroves' ecosystem, such as characteristics, history, legislation and threats (g) Scientific literature: - Donato, D. C. et al. 2011. "Mangroves Among the Most Carbon-rich Forests in the Tropics." *Nature Geoscience*, 4. pp. 293-7. - Rovai, A. S. et al. 2022. "Brazilian Mangroves: Blue Carbon Hotspots of National and Global Relevance to Natural Climate Solutions." *Frontiers in Forests and Global Change*, 4.
PA 3.6: Action Plan for the ProManguezal program was issued by Ministry of Environment and Climate Change (MMA).	(a) Decree No. 12.045/2024 – Establishes ProManguezal and mandates integrated biodiversity and climate monitoring. (b) Ordinance GM/MMA No. 1,1672/2024 – Defines the first phase of ProManguezal implementation, including conservation unit prioritization. (c) Brazil's Second NDC (2024 Update) – Commits to safeguarding mangroves as part of its coastal resilience and blue carbon strategies. (d) Brazil's Ecological Transformation Plan (ETP) – aims to promote a change in economic, technological and cultural paradigms in favor of development through sustainable relationships with nature and its biomes. (e) Brazil's fifth phase of the Action Plan for the Prevention and Control of Deforestation in the Legal Amazon (PPCDAm). (f) Atlas of mangroves in Brazil – brings together information about mangroves' ecosystem, such as characteristics, history, legislation and threats.

Annex 5: Environmental and Social Assessment Matrix

Prior Action	Social Assessment	Environmental Assessment
Pillar 1 – Sustainable Finance: Direct Public and Private, National and International Financial Resources to Sustainable Activities, Low Carbon Growth, Resilience, Ecological Transformation and Biome Regeneration.		
Prior Action 1.1: To create a regulated carbon market in Brazil, the Government of Brazil enacted Law No. 15,042 of 11 December 2024 to set up the Brazilian Emissions Trading System (SBCE).	**The likely overall social impact is positive.** The SBCE offers social and economic benefits, such as driving down greenhouse gas (GHG) emissions at scale, promote innovation in clean technologies, growth of sustainable industries and new employment opportunities in renewable energy, environmental monitoring and carbon credit certification, among others. It can also generate targeted social programs (technical training and community-based climate resilience initiatives) and enhance Brazil's credibility and attractiveness for climate finance and sustainable investment. However, the transition to a regulated carbon market may trigger distributional impacts, particularly for low-income populations and workers in emission-intensive industries. Nonetheless, Brazilian legislation provides foundations to mitigate these potential impacts. The Federal Constitution, the City Statute (Law No. 10,257/2001) and environmental regulations such as CONAMA Resolutions mandate public consultation and participation, equitable access to environmental benefits and protection of vulnerable groups. Furthermore, Law No. 13.334/2016 (PNDR) and Law No. 13.465/2017 include provisions for fair compensation, livelihood restoration and land regularization. These legal instruments help ensure that the carbon market transition is socially inclusive and equitable.	**The likely environmental impacts are positive and expected to generate significant environmental benefits.** The regulated carbon market catalyzes a national, time-bound effort in significant GHG reduction and removal and attaining carbon neutrality. It will be instrumental in attracting investments to catalyze the growth of sustainable industries and adopters of clean and green technologies that will redound in the reduction of GHGs and removal of emissions. The SBCE will set up mechanisms for targeted total emissions to ensure real reductions over time and provide incentives to encourage innovations in cleaner, cost-effective production technologies and pollution control that will spearhead new sustainable industries that will significantly limit, or avoid, the release of contaminants in the environment while promoting sustainable development and climate equity. The law also facilitates conservation and strengthening of native vegetation reservoir and carbon sinks including native forests and water. To ensure efficiency at implementation stage and prevent any over-allocation of permits, it is important that the Regulator apply an accurate emissions tracking system to safeguard the process.
Prior Action 1.2: To operationalize the "SBCE Law", the Government of Brazil has committed to establish the SBCE Interim	**Unlikely significant adverse social impact.** The creation of the Interim Managing Body ensures centralized and coordinated governance of the carbon market. Potential impacts associated with the	**The likely environmental impacts are low and will redound to significant environmental benefits.** The current institutional strengthening is rightly positioned to address market imperfections. Monitoring, reporting and verification (MRV)

Prior Action	Social Assessment	Environmental Assessment
Managing Body, with a clear mandate and sufficient resources.	concentration of regulatory power or inadequate public participation are addressed through Brazil's strong legal and institutional frameworks. The Federal Constitution guarantees democratic governance, access to information and social participation in public policymaking. Additionally, laws such as the City Statute (Law No. 10.257/2001), the Access to Information Law (Law No. 12.527/2011) and the Legal Framework for Civil Society Organizations (Law No. 13.019/2014) ensure transparency, public consultation and accountability in regulatory processes. These instruments require that decision-making bodies to operate with public oversight and stakeholder engagement. Moreover, grievance mechanisms and ombudsman services embedded in public administration help ensure that any adverse impacts, such as exclusion of vulnerable groups or unfair policy outcomes, can be identified and remedied in a timely and equitable manner.	processes can continue to be strengthened to help the Regulator receive and analyze credible data and reflect on further fine-tuning of the system.
Prior Action 1.3: To fast-track private investment flows into projects that advance Brazil's climate and ecological transformation goals, at least 6 sectoral ordinances for priority sectors and the criteria and conditions for qualifying projects for tax incentives, including green criteria, were issued by the sectoral Ministries. The sectoral ordinances include simplified procedures for ministerial approval of projects involving public services owned by subnational entities.	**Unlikely significant adverse social impact.** The sectoral ordinances provide greater clarity for investors, reduced administrative burdens and more predictable access to tax incentives for climate-aligned projects. By simplifying procedures, the policy supports faster implementation of clean energy, sanitation, sustainable transport and reforestation projects. The streamlining of procedures poses risks of weakening E&S due diligence if safeguards are not consistently applied. Additionally, while the ordinances promote investments, they may not always ensure inclusive stakeholder participation or the consideration of social equity in project selection. Brazilian legislation provides tools to help mitigate potential negative impacts of expedited project approval processes. The National Environmental Policy (Law No. 6.938/1981) and CONAMA Resolution No. 01/1986 establish clear requirements for environmental impact assessments	**The likely environmental impacts are moderate, provided that the appropriate policy and institutional measures are complied with in each of the six sectors.** The ordinances define general criteria and conditions for the classification and monitoring of investment projects considered to be priorities under the policy. Brazil has an extensive regulatory framework on ES assessment (CONAMA resolutions), resulting in a high material equivalence with AIIB's policy on CPBF. According to the Law creating Infrastructure Debentures 14,801, investment priorities will follow simplified procedures to report on the potential ES benefits prior to their application for financing. While investment applications for financing will follow simplified procedures that are exempted from onerous bureaucratic requirements, it is understood that Brazil's environment regulations will capture the potential multiplication of ES impacts that could cause environmental degradation. It is important that the application of relevant legal and regulatory frameworks continue to be monitored, so any policy gaps can be swiftly addressed.

Prior Action	Social Assessment	Environmental Assessment
	(EIAs) and licensing, regardless of whether a project qualifies for tax incentives. Law No. 10.650/2003 also ensures public access to environmental information, while the City Statute (Law No. 10.257/2001) and the Public Participation Framework (Law No. 13.019/2014) mandate social participation in the planning and approval of development projects.	
Prior Action 1.4: To mobilize private capital for climate and ecological transformation projects, the Government of Brazil – through the National Treasury Secretariat – has provided a blended finance facility with concessional rate and longer-maturity term credit line, through the enactment of ordinances to launch specific auction under EcoInvest, for the productive and ecological conversion of degraded land, including in the Amazon Biome.	**Unlikely significant adverse social impact.** The prior action offers significant benefits for rural communities, smallholder farmers and traditional populations. It can create jobs, improve livelihoods and enhance food security. In the Amazon, forest restoration initiatives can benefit Indigenous peoples and local communities by supporting forest-based economies and reinforcing traditional knowledge systems. With proper designs, these projects are unlikely to trigger social impacts, such as restricted access to land, changes in land tenure dynamics or the exclusion of vulnerable groups from financial benefits leading to land speculation or reinforcing unequal land ownership patterns. Brazilian legislation includes safeguards to mitigate social risks associated with land-use investments. The Forest Code (Law No. 12.651/2012) establishes legal parameters for conservation and land use. Law No. 11.326/2006 recognizes the role of family farmers and rural communities in sustainable development. In the Amazon, protection is reinforced by constitutional rights of Indigenous peoples and laws such as the Statute of Indigenous Peoples (Law No. 6.001/1973) and the National Policy on Territorial and Environmental Management of Indigenous Lands (PNGATI). These frameworks mandate consultation, safeguard traditional livelihoods and promote equitable benefit-sharing. Public auctions for land-use projects are subject to environmental licensing processes, which require	**The likely environmental impacts are moderate provided that the appropriate policy and institutional measures are complied with, particularly in the Amazon Biome.** It is expected that environmental outcomes are positive as the restoration of degraded land increases carbon stocks by regeneration of natural vegetation, besides promoting the ecological transformation. Brazil has an extensive regulatory framework on environmental assessment. Relevant regulations promoting positive land use change and the prevention of habitat fragmentation, biodiversity loss and ecosystem disruption, as well as biodiversity offsets will apply to adopt a holistic approach to environmental management and use of ecosystem services. The oversight role of the federal and state governments is important in the sustainable management of the investment priorities including the implementation of the applicable environmental regulations. When necessary, the appropriate instruments and measures may be identified to help strengthen the institutional arrangements and attendant national and local systems and procedures on environmental management. As a part of the ES monitoring during implementation, the responsible authority may consider carrying out a preliminary assessment to identify whether there are heightened environmental risk due to cumulative Impacts of the various project activities. If necessary, a next course of action could be formulated to further address the accumulation of environmental impacts and the avoidance of the breakup of ecological corridors that may occur due to the discrete development of separate public and private lands managed by different entities.

Prior Action	Social Assessment	Environmental Assessment
	environmental and social assessments, stakeholder engagement and grievance mechanisms.	
Pillar 2 – Energy Transition: Promote National Technologies in the Area of Sustainable Bioenergy with Competitive Cost and Value Chains.		
Prior Action 2.1: To further foster the development of sustainable bioenergy, the Government of Brazil established the Fuels of the Future Program, by enacting Law No. 14,993, 2024 on Oct. 8, 2024. The Law created the National Sustainable Aviation Fuel Program (ProBioQAV), among other bioenergy and decarbonization programs.	**Unlikely significant adverse social impact.** The development of sustainable bioenergy under the Fuels of the Future Program can deliver meaningful social benefits, particularly in rural areas where biofuel production can stimulate job creation, support smallholder farmers and generate local value chains. ProBioQAV can catalyze investments in technology, training and infrastructure, enhancing regional development and reducing inequalities. However, increased demands for bioenergy feedstocks, if not properly managed, may trigger unintended social impacts, such as land-use pressure, competition with food production and risks to traditional land users. In areas with weak land tenure or where vulnerable populations depend on subsistence agriculture, there is a risk of exclusion or displacement. Nonetheless, Brazil's legal and regulatory frameworks provide risk mitigation. The National Agroecology and Organic Production Policy (PNAPO) and the Biofuels Policy (RenovaBio, Law No. 13.576/2017) encourage sustainable and inclusive bioenergy practices. The Federal Constitution, the City Statute (Law No. 10.257/2001) and the Access to Information Law (Law No. 12.527/2011) guarantee public participation and transparency in environmental decision-making. The Forest Code and land use legislation also establish procedures for licensing and impact assessment that require stakeholder consultation and social safeguards.	**The likely environmental impacts are low and will result in positive environmental outcomes.** The Fuels of the Future Program and the ProBioQAV promote research, production, commercialization and use of SAF and includes directives to air operators to gradually reduce their GHG emissions, supporting Brazil's NDC and NAP objectives. It is important to address the potential environmental impacts by strengthening the applicable regulations in the sourcing of feedstocks and the production and use of SAF, including the guidelines and requirements on the certification process to ensure real emission reductions and the conservation of protected areas and the preservation of biodiversity and ecosystem services. It is also important to regulate industrial processing to generate the final product; land use changes; resource conflict and deforestation; high water and energy use; limited feedstock availability and scalability; risk of greenwashing; and potential slight increases in NOx emissions. Brazil's extensive regulatory framework on environmental and social assessment (CONAMA resolutions) applies to the SAF industry. The combination of dedicated federal ES laws and a multi-agency regulatory regime provides a multi-layered defense mechanism against potential environmental degradation. Activities during implementation will help identify sustainability measures that could be strengthened in the SAF industry if needed.
Prior Action 2.2: To regulate the certification of the efficient production or import of biofuels, including Sustainable Aviation Fuels	**Unlikely significant adverse social impact.** The Resolution can bring significant social benefits in rural and underdeveloped regions where biofuel feedstocks are produced. By incentivizing local biofuel	**The likely environmental impacts are positive and expected to generate significant environmental benefits.** The ANP will provide the policy certainty needed to scale ETP's action framework to attract private capital, alongside unlocking fiscal

Prior Action	Social Assessment	Environmental Assessment
(SAF), and the accreditation of inspection firms, ANP establishes methodologies for calculating well-to-wake GHG emissions and efficiency criteria for biofuels.	production and imports, it can generate employment in agriculture, processing industries and related logistics, contributing to poverty reduction and improved livelihoods. It also encourages capacity-building initiatives to enhance worker skills and labor conditions, supporting equitable participation of vulnerable groups, including smallholders and local communities, in the biofuel value chain. Potential social risks include land use conflicts, economic or physical displacement and pressures on community resources resulting from expanded biofuel feedstock cultivation and import activities. These can be mitigated through Brazilian legislation incorporated into Resolution 984, which requires comprehensive social and environmental impact assessments, stakeholder consultations and grievance mechanisms. The law mandates transparency in licensing processes and enforces compliance with labor rights and environmental safeguards. These measures can mitigate adverse impacts by ensuring affected communities are engaged, informed and have access to remedies.	incentives (tax exemptions, low-interest credit) and government support programs for businesses that proactively invest in biofuel. This includes establishing the values of the total equivalent emissions per unit of energy computed in the well-to-burn cycle of each technologies option for the purpose of accounting for decarbonization in the production and use of SAF. It has the same environmental implications of Prior Action 2.1, including the likely positive environmental impacts through the reduction of GHG emissions and the regulation of the sourcing, production and use of SAF, with the sustainability measures embedded in the SAF regulations. During implementation, the experience in applying the relevant environment regulations will help identify appropriate policy and management actions applicable to the SAF industry.
Pillar 3 – Green and Resilient Infrastructure: Build Resilience of Critical Natural Assets and Infrastructure to Mitigate and Address Potential Impacts of Climate Change as well as Protect and Restore Critical Natural Ecosystems.		
Prior Action 3.1 To develop the National Adaptation Plan for the Health Sector, the Government of Brazil enacted the law number 14,904 on June 27, 2024.	**The likely impacts are significant and positive.** The National Adaptation Plan (NAP) for the Health Sector delivers significant social benefits by strengthening health infrastructure and services, especially for vulnerable populations such as children, the elderly and marginalized communities who are disproportionately affected by climate-sensitive diseases. By proactively addressing health risks linked to climate variability, the Plan helps reduce morbidity and mortality, improve public health outcomes and enhance overall community resilience. Brazilian legislation mandates inclusive stakeholder engagement and prioritizes vulnerable groups in the planning and implementation phases to	**The likely environmental impacts are low and will redound to significant and positive environmental outcomes.** The NAP for the Health Sector will operationalize climate adaptation across government by requiring sectoral ministries to develop health-focused climate adaptation plans into a systematic health sector planning framework. The NAP comprises institutional measures and strategies to address climate change risks and inform national programs such as AdaptaSUS as well as strengthen institutional capacity, especially at the subnational level, for climate risk communication and service continuity in priority areas. The NAP for the health sector established the guidelines for the preparation of climate change adaptation plans, including identification, evaluation and prioritization of measures to address disasters and management

Prior Action	Social Assessment	Environmental Assessment
	ensure an equitable access to adaptation benefits and avoiding disparities in health service delivery across different regions and social groups. The law also requires monitoring and evaluation mechanisms to track progress and adjust strategies as needed, ensuring that social equity and human rights are upheld in climate adaptation efforts.	and reduction of climate risk due to the adverse effects of climate change. It defined principles, objectives and responsibilities for public agencies in charge of sectors most exposed to climate risks. It also established criteria for risk and vulnerability assessments, public participation and inter-ministerial coordination, thereby providing a framework for more consistent, science-informed adaptation action at national and subnational levels.
Prior Action 3.2 The National Adaptation Plan for the Health Sector was finalized and disclosed for public consultation.	**Low social impact. The social outcomes are significant and positive.** The NAP strengthens Brazil's ability to protect public health against climate-induced threats, such as heat stress, water- and vector-borne diseases and disruptions to healthcare infrastructure during extreme weather events. It particularly benefits vulnerable populations, including low-income communities, the elderly and Indigenous Peoples, by prioritizing resilience in public health services, improving early warning systems and fostering local health system preparedness. The Plan also promotes cross-sector collaboration between health, environment and disaster risk management institutions for holistic social outcomes. Brazilian legislation provides safeguards by requiring that national adaptation plans include participatory approaches to mitigate risks related to unequal distribution of resources, limited institutional capacity at the local level and the potential exclusion of marginalized communities. Legal frameworks also emphasize transparency, social inclusion and the development of locally tailored solutions.	**The likely environmental impacts are low and the environmental outcomes are positive.** The NAP follows the conclusion of the Health Sector Adaptation Plan, AdaptaSus, which set goals and strategies for 2025-2035, including strengthening the health surveillance and care; expanding health promotion and education actions; and Innovating in the adaptation of the Unified Health System (SUS) to climate change. It will substitute the Health Sector Plan for Mitigation and Adaptation to Climate, issued in 2013, with four axes of action: (a) health surveillance and early warning systems, (b) climate-resilient health care infrastructure and services, (c) public health education and (d) applied research and innovation. It details actionable strategies, implementation timeframes through 2035, aiming to strengthen service delivery, risk communication and infrastructure resilience across Brazil's most climate-vulnerable regions. The AdaptaSus plan includes institutional measures and strategies to address the health problems that can be created by climate change. In one year, Brazil would have a national early warning system for extreme heat, informed by climate data and predictive modeling. The system will help public health authorities anticipate health emergencies, target services to vulnerable populations and strengthen the resilience of healthcare infrastructure during extreme events.
Prior Action 3.3 Interministerial ordinance 1,309/2025, by MMA and MDA, detailed the procedures for recognizing the user rights of public forests by traditional	**The likely social impacts are low. The social outcomes are significant and positive.** The ordinance offers substantial social benefits by affirming the territorial rights of traditional populations (such as Indigenous Peoples, quilombola communities and extractivist groups), who have historically relied on	**The likely environmental impact is low. The significant environmental effects are positive.** Interministerial ordinance 1,309/2025 lays out provisions to implement sustainable forest management policies under Decree No. 12,046/2024, which operationalizes Law No. 11,284/2006, Brazil's mother law on the sustainable management of public forests.

Prior Action	Social Assessment	Environmental Assessment
communities, administratively streamlining their connection to the land and their role as protectors of the forests via collective agreements.	and cared for public forest lands. Recognizing user rights fosters social inclusion, legal certainty and cultural preservation, while enabling communities to sustainably manage natural resources and access government support programs. These arrangements not only safeguard livelihoods but also reinforce traditional knowledge systems and community-based forest stewardship. Brazilian legislation addresses risks and impacts related to disputes over land boundaries, exclusion of vulnerable groups during the formalization process and limited institutional capacity to implement agreements effectively at the local level, by requiring prior, informed and culturally appropriate consultations with traditional communities and by prioritizing collective governance models. The ordinance also supports conflict resolution mechanisms and collaborative management plans to ensure equitable participation, respect for customary practices and sustainable use of forest resources.	The Decree determines that public forests occupied or to be used by local communities will be identified for allocation to these communities. It aims to address barriers to formal recognition of community land and resource rights, which have hindered inclusive forest governance. Ordinance 1,309/2025 prescribes the procedures to allocate forests for sustainable production by local communities and supports Brazil's NDC commitments. It will strengthen community forest governance, enable sustainable use practices and contribute to forest-based mitigation and adaptation goals under Brazil's climate and biodiversity strategies. The Decree determines that the planning of the dimensions of public forests to be allocated to the local community, individually or collectively, taking into consideration the sustainable use of forest resources. The sustainable production, balanced with the protection of public forests at the local level following sustainability principles, is vital for the functional and efficient management of the public forests and protected areas.
Prior Actions 3.4 Federal law for the management of public forests n. 12,046/2024, further detailed by Law 15,042/2024, that creates the SBCE, clarified the allocation of rights to carbon credits to concessionaries of public forest for restoration.	**The likely social impacts are low. The social outcomes are significant and positive.** The legislation enables economic opportunities for local and traditional communities involved in restoration activities. These communities can now participate in carbon markets and benefit financially from the ecosystem services they help preserve. This mechanism promotes inclusive green development, linking climate mitigation with poverty reduction and support the sustainable use of forest resources through job creation, capacity building and strengthened territorial rights. Brazilian Law No. 12,651/2012 (Forest Code) and Law No. 11,284/2006 (Public Forest Management Law) provide safeguards against risks related to elite capture, reduced access to land for traditional users not engaged in concessions and insufficient benefit-sharing by requiring social and environmental safeguards in forest	**The likely environmental impact is low. The significant environmental outcomes are positive.** By formally recognizing that concessionaires engaged in forest restoration may be eligible to generate carbon credits and formalizing the methodologies for assessing the carbon credits generated in the forest concessions with other applicable standards, including REDD+, SBCE (created by Law 15,042/2024) offers a core instrument to attract private investment for ecological recovery at scale. It aims to reduce investor uncertainties and attract long-term private financing to support Brazil's nature-based climate goals. It strongly favors the reduction of emissions from deforestation while increasing the carbon stocks and carbon sequestration with the natural and enhanced regeneration of natural forests, mangroves and other protected biomes at the national and state levels.

Prior Action	Social Assessment	Environmental Assessment
	concessions, public consultations and equitable benefit-sharing mechanisms. Law No. 15,042/2024 further mandates transparency in SBCE operations and prioritizes the participation of traditional and local communities in concession agreements.	
Prior Action 3.5 To establish the National Program for Conservation and Sustainable Use of Mangrove (ProManguezal), the Government of Brazil enacted the law number 12,045 on June 5, 2024.	**The likely social impacts are low. The outcomes are significant and positive.** Mangrove ecosystems are vital to the livelihoods and cultural identity of traditional extractivist and coastal communities. ProManguezal promotes social inclusion by prioritizing the participation of these groups in conservation efforts and facilitating access to sustainable economic alternatives, such as community-based aquaculture, eco-tourism and non-timber forest product extraction. The program also contributes to climate adaptation by protecting coastal populations from erosion, storm surges and sea level rise, while enhancing food security and income diversification. Brazilian Law No. 11,428/2006 (Atlantic Forest Law) and Law No. 9,985/2000 (which established the National System of Conservation Units – SNUC) provide mechanisms for integrating traditional populations into conservation strategies through the recognition of sustainable use areas and participatory management. Law No. 12,045/2024 reinforces these provisions by requiring consultation, benefit-sharing and co-management arrangements with affected communities to prevent exclusion and ensure social safeguards are upheld.	**The likely environmental impacts is low. The significant environmental outcomes are positive.** Law 12,045/2024 mandates the establishment of the ProManguezal which aims at conservation, recovery and sustainable use of biodiversity and ecosystem services associated with the country's mangroves. Mangroves contribute to both climate mitigation and climate adaptation, making them vital ecosystems in the fight against climate change. Mangroves substantially increase carbon sequestration as they can sequester up to four times more carbon than terrestrial tropical forests and help reduce emissions from land use change. They also provide coastal protection, support livelihoods and supply continuous biodiversity and ecosystem services.
Prior Action 3.6 Action Plan for the ProManguezal program was issued by Ministry of Environment and Climate Change (MMA).	**The likely social impacts are low. The social outcomes are significant and positive.** The Action Plan enhances social benefits by detailing inclusive approaches for community participation in mangrove conservation. It promotes sustainable livelihoods through technical assistance, environmental education and support for traditional practices compatible	**The likely environmental impact is low. The significant environmental outcome is positive.** The Action Plan will help improve the conservation, recovery, and sustainable use of biodiversity and ecosystem services associated with mangroves. Nonetheless, the Action Plan will have to contain concrete results to produce restoration and protection, climate resilience and mitigation, community engagement and public

Prior Action	Social Assessment	Environmental Assessment
	with conservation, such as artisanal fishing and sustainable extractivism. By aligning environmental protection with socioeconomic development, the plan helps safeguard the rights, knowledge and well-being of traditional and coastal communities who depend directly on mangrove ecosystems. Brazilian laws such as Law No. 9,985/2000 (SNUC) and Decree No. 4,340/2002 require participatory planning in conservation initiatives and establish frameworks for co-management of protected areas, to minimize potential social risks related to restrictions on land or resource use and unequal access to program benefits. The Action Plan builds on these legal instruments by promoting community mapping, prior consultation and the formation of local management councils.	participation, and integrate evidence-based strategies into policy making.

Annex 6: Required Accompanying Document(s)

A. The Borrower's Development Policy Letter

MINISTÉRIO DA FAZENDA

OFÍCIO SEI Nº 59768/2025/MF

Brasília, na data da assinatura eletrônica.

Sr. Jin Liqun
Presidente
Banco Asiático de Investimento em Infraestrutura
Pequim, China

Assunto: Carta de Política de Desenvolvimento – Brasil: Programa de Financiamento Baseado em Políticas Climáticas (VERDES) para Reformas de Valorização do Desenvolvimento e Sustentabilidade Ecológica.

Referência: Ao responder esta Carta, favor indicar expressamente o Processo nº 17944.003906/2025-95.

Prezado Presidente Jin,

Em nome do Ministério da Fazenda do Governo Brasileiro, tenho a satisfação de apresentar as principais reformas apoiadas pelo Programa de Financiamento Baseado em Políticas Climáticas (CPBF) do AIIB. Esta iniciativa visa fortalecer o arcabouço institucional para finanças sustentáveis no Brasil, avançar no marco regulatório de descarbonização e promover a biodiversidade, a resiliência climática e a inclusão social.

O apoio fornecido pelo AIIB por meio do Programa "Brasil – Reformas de Valor Agregado para o Desenvolvimento e a Sustentabilidade Ecológica (VERDES)" no montante de USD 1 bilhão, oferece importantes recursos financeiros e técnicos. A operação do CPBF apoiará o Plano de Transformação Ecológica (PTE) do Governo e ajudará a avançar as Contribuições Nacionalmente Determinadas (NDCs) atualizadas do Brasil, no âmbito do Acordo de Paris, ao mesmo tempo em que promove o desenvolvimento inclusivo e sustentável.

Nos últimos dois anos, a economia brasileira demonstrou resiliência e progresso contínuo. Em 2023 e 2024, o PIB real cresceu 3,2% e 3,4%, respectivamente. As condições de emprego melhoraram significativamente, com a taxa de desemprego atingindo a mínima histórica de 6,6% em 2024. A inflação moderou e estabilizou-se em 4,8% ao final de 2024. O Brasil também manteve um desempenho comercial robusto, registrando um superávit de US$ 74,6 bilhões em 2024 — um dos maiores já registrados. Esses resultados forneceram uma base macroeconômica estável sobre a qual estamos agora acelerando as reformas estruturais e avançando em direção a um modelo de crescimento mais verde e inclusivo.

Desde o seu lançamento, o PTE tornou-se a espinha dorsal da estratégia brasileira para o desenvolvimento sustentável. O Plano alinha a transformação econômica com a preservação ambiental e a inclusão social, com base nos seis pilares: finanças sustentáveis; adensamento tecnológico; bioeconomia e sistemas agroalimentares; transição energética; economia circular; e infraestrutura verde e adaptação. Nesse contexto, o Brasil fez avanços significativos no estabelecimento de instituições facilitadoras, no lançamento de incentivos baseados no mercado para aumentar a participação do setor privado e na redução das emissões de GEE, especialmente do uso da terra. Notavelmente, a participação do Brasil em eletricidade renovável permanece entre as mais altas do mundo — cerca de 88% da geração de eletricidade — e o desmatamento na Amazônia caiu mais de 30% em 2023–2024.

O compromisso do Governo com o aprofundamento dessas reformas se reflete na estrutura do Programa VERDES CPBF, que é organizado em torno de três pilares que se reforçam mutuamente. Abaixo segue um resumo das ações e objetivos de reforma sob cada pilar e sua contribuição para a agenda mais ampla de clima e desenvolvimento.

Pilar 1: Fortalecimento do Marco Institucional para Finanças Sustentáveis.

Este pilar foca na construção de um arcabouço transparente e confiável para mobilizar capital em larga escala e direcionar fluxos financeiros para atividades sustentáveis. Reforça a confiança dos investidores, a responsabilidade e a alocação eficiente de recursos, assegurando um fluxo contínuo de investimentos verdes viáveis, com benefícios climáticos e ambientais mensuráveis.

Pilar 2: Avanço da Transição Energética por meio de Tecnologias Inovadoras e Competitivas em Bioenergia Sustentável.

Este pilar promove a transição para uma matriz energética de baixo carbono, fomentando a inovação, certificação e competitividade em bioenergia. Seu objetivo é substituir combustíveis intensivos em carbono por alternativas sustentáveis, reduzir emissões e consolidar a liderança do Brasil em energia renovável.

Pilar 3: Infraestrutura Verde e Resiliente

Focado em adaptação e resiliência, este pilar fortalece a infraestrutura crítica e a proteção de ecossistemas para salvaguardar serviços, comunidades e ativos naturais. Promove o uso sustentável da terra, a restauração e a preparação para riscos climáticos, assegurando o desenvolvimento de longo prazo alinhado às metas ambientais.

O Brasil está comprometido em atingir os objetivos do Programa VERDES CPBF. Essas reformas já estão em implementação e refletem a determinação do Governo em institucionalizar um modelo de crescimento verde e inclusivo.

O cumprimento dessa agenda exige comprometimento contínuo em alto nível e colaboração com investidores privados e parceiros de desenvolvimento, de modo a estimular o investimento na economia verde. O Governo reconhece o valioso papel dos bancos multilaterais de desenvolvimento no enfrentamento das significativas necessidades de infraestrutura previstas no PTE.

Atenciosamente,

Documento assinado eletronicamente

FERNANDO HADDAD

Ministro de Estado da Fazenda

sei! assinatura eletrônica

Documento assinado eletronicamente por **Fernando Haddad**, **Ministro(a) de Estado**, em 13/10/2025, às 13:00, conforme horário oficial de Brasília, com fundamento no § 3º do art. 4º do Decreto nº 10.543, de 13 de novembro de 2020.

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MINISTÉRIO DA FAZENDA

OFÍCIO SEI Nº 59770/2025/MF

Brasília, on the date of electronic signature.

Sr. Jin Liqun
President
Asian Infrastructure Investment Bank
Beijing, China

Subject: Development Policy Letter – Brazil: Climate Policy-Based Financing Program (VERDES) for Development Valuation Reforms and Ecological Sustainability.

Reference: When responding to this Official Letter, please expressly indicate Process No. 17944.003906/2025-95.

Dear President Jin,

On behalf of the Ministry of Finance of the Brazilian Government, I am pleased to present the key reforms supported by AIIB's Climate Policy-Based Financing (CPBF) Program. This initiative aims to strengthen the institutional framework for sustainable finance in Brazil, advance the decarbonization regulatory framework, and promote biodiversity, climate resilience, and social inclusion.

The support provided by AIIB through the USD 1 billion "Brazil Value-Enhancing Reforms for Development and Ecological Sustainability (VERDES) Climate Policy-Based Financing (CPBF) Program", offers important financial and technical resources. The CPBF operation will support the Government's Ecological Transformation Plan (ETP) and help advance Brazil's updated Nationally Determined Contributions (NDCs) under the Paris Agreement, while also promoting inclusive and sustainable development.

Over the last two years, Brazil's economy has demonstrated resilience and continued progress. In 2023 and 2024, real GDP grew by 3.2 percent and 3.4 percent, respectively. Employment conditions improved significantly, with the unemployment rate reaching a record-low of 6.6 percent in 2024. Inflation moderated and stabilized at 4.8 percent by the end of 2024. Brazil also maintained a robust trade performance, recording a US$74.6 billion surplus in 2024—one of the highest on record. These results have provided a stable macroeconomic foundation on which we are now accelerating structural reforms and advancing toward a greener, more inclusive growth model.

Since its launch, the ETP has become the backbone of Brazil's strategy for sustainable development. The Plan aligns economic transformation with environmental preservation and social inclusion, based on the six pillars: sustainable finance; technological densification; bioeconomy and agri-food systems; energy transition; circular economy; and green infrastructure and adaptation. Under this framework, Brazil has made significant advances in establishing enabling institutions, launching market-based incentives to enhance private sector participation, and reducing GHG emissions, especially from land use. Notably, Brazil's renewable electricity share remains among the highest globally— about 88 percent of electricity generation — and Amazon deforestation dropped by over 30 percent in 2023–2024.

The Government's commitment to deepening these reforms is reflected in the structure of the VERDES CPBF Program, which is organized around three mutually reinforcing pillars. Below is a summary of the reform actions and objectives under each pillar and their contribution to the broader climate and development agenda.

Pillar 1: Strengthening the Institutional Framework for Sustainable Finance.

This pillar focuses on building a transparent, credible framework to mobilize capital at scale and direct financial flows toward sustainable activities. It reinforces investor confidence, accountability, and efficient resource allocation, ensuring a steady pipeline of bankable green investments with measurable climate and environmental benefits.

Pillar 2: Advancing Energy Transition through Competitive Innovative Sustainable Bioenergy Technologies.

This pillar drives the shift to a low-carbon energy matrix by fostering innovation, certification, and competitiveness in bioenergy. Its objective is to replace carbon-intensive fuels with sustainable alternatives, reduce emissions, and consolidate Brazil's leadership in renewable energy.

Pillar 3: Green and Resilient Infrastructure

Focused on adaptation and resilience, this pillar strengthens critical infrastructure and ecosystem protection to safeguard services, communities, and natural assets. It promotes sustainable land use, restoration, and climate-risk preparedness, ensuring long-term development aligned with environmental goals.

Brazil is committed to achieving the objectives of the VERDES CPBF Program. These reforms are already being implemented and reflect the Government's determination to institutionalize a green and inclusive growth model.

Achieving this agenda requires sustained high-level commitment and collaboration with private investors and development partners to stimulate investment in the green economy. The Government recognizes the valuable role of multilateral development banks in addressing the significant infrastructure needs under the ETP.

Sincerely,

Documento assinado eletronicamente

FERNANDO HADDAD

Minister of Finance

B. International Monetary Fund Assessment Letter

PRESS RELEASE

PR 25/252

IMF Executive Board Concludes 2025 Article IV Consultation with Brazil

FOR IMMEDIATE RELEASE

- The Executive Board of the International Monetary Fund (IMF) concluded the 2025 Article IV consultation with Brazil on July 14, 2025.
- Brazil's economy has grown strongly over the past three years, surprising on the upside. Inflation rebounded in 2024 amid strong demand, a rise in food prices, and currency depreciation, exceeding the target tolerance interval. IMF staff expects growth to moderate in the near term as inflation converges to target, and then strengthen to 2.5 percent over the medium term.
- The pivot to a monetary policy tightening cycle in September 2024 was appropriate and consistent with bringing inflation and inflation expectations back to the 3 percent target. The authorities' efforts to continue improving the fiscal position, while trying to meet social spending and investment needs, are welcome and further steps are warranted. The authorities are advancing their sustainable and inclusive growth agenda.

Washington, DC – July 17, 2025: The Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation for Brazil.[1] The authorities have consented to the publication of the Staff Report prepared for this consultation.[2]

Brazil's economy has grown strongly over the past three years, surprising on the upside, and, as expected, is showing signs of moderation. The expansion has reflected strong consumption supported by fiscal stimulus on the demand side, and supply-side factors.

Growth is projected to moderate from 3.4 percent in 2024 to 2.3 percent in 2025, amid tight monetary and financial conditions, a scaling back of fiscal support, and heightened global policy uncertainty. Over the medium term, growth is forecasted to recover to 2.5 percent, supported by the normalization of monetary policy and supportive structural factors, notably the implementation of the efficiency-enhancing VAT reform and the acceleration in

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent. The staff report will be shortly published on the www.imf.org/Brazil page.

hydrocarbon production. Inflation is expected to reach 5.2 percent by end-2025, before gradually converging to the 3 percent target by end-2027.

The balance of risks to the growth outlook is tilted to the downside amid heightened global policy uncertainty. Risks to the inflation outlook are broadly balanced. In the near term, higher growth could stem from stronger-than-expected household consumption in the context of a still tight labor market. Over the medium term, upside risks stem from faster implementation of productivity-enhancing reforms and the Ecological Transformation Plan. Downside risks stem externally from a slowdown in major economies amid heightened global trade tensions and policy uncertainty; and domestically from larger-than-expected effects from monetary policy tightening and the possibility of a lower-than-envisaged fiscal effort, which—while supporting near-term growth—could increase policy uncertainty, resulting in higher borrowing costs, weaker investment, and ultimately lower growth.

Executive Board Assessment[3]

Executive Directors welcomed the Brazilian economy's strong growth performance and falling unemployment and poverty in recent years, and commended the progress in structural reforms which has helped lift medium-term growth prospects. Noting downside risks, including from the recent increase in global policy uncertainty and heightened trade tensions, Directors encouraged the authorities to ensure the continued convergence of inflation to target, secure fiscal sustainability, and continue structural reforms to tackle long-standing challenges.

Directors commended the authorities' efforts to continue improving the fiscal position and recommended further steps to put public debt on a firm downward path, facilitate a lower path of interest rates, and open space for priority investments. They concurred that measures to mobilize revenues, including rationalizing inefficient tax expenditures and tackling budget rigidities, would support these efforts. Directors considered that the ongoing VAT reform would simplify the tax system and boost productivity, and recommended personal income tax reforms to enhance the tax system's progressivity and domestic revenue mobilization. An enhanced fiscal framework with a strong medium-term anchor would reinforce credibility and sustainability.

Directors commended the Central Bank of Brazil's (BCB) clear commitment to price stability and indicated that the monetary policy tightening has been appropriate and consistent with bringing inflation back to the 3 percent target. Directors also noted that the continued credibility of both fiscal and monetary policy frameworks will be important for anchoring inflation expectations. They agreed that the flexible exchange rate regime and adequate FX reserves remain valuable shock buffers. Directors encouraged the authorities to continue to gradually phase out the financial transaction tax, which would eliminate a multiple currency practice.

Directors welcomed that the financial system remains resilient, with banks highly liquid and adequately capitalized. While commending the authorities' implementation of regulatory changes aimed at further strengthening financial sector resilience, Directors encouraged close

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[3] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

monitoring and oversight of household credit risks, including in light of the recently enhanced private payroll loan program. Directors also welcomed the authorities' leadership in the financial innovation agenda, which has promoted financial inclusion, efficiency, and competition. They concurred that providing the BCB with greater administrative and financial autonomy would support continued progress with technological innovations.

Directors commended the authorities on their leadership in multilateral cooperation, including their implementation of Brazil's Ecological Transformation Plan and their progress in reducing deforestation. They positively noted that Brazil is on track to meet its Nationally Determined Contribution targets. Directors also emphasized that continued efforts to simplify regulations, strengthen the anti-corruption and AML/CFT frameworks, increase labor force participation, especially for women, and facilitate skills upgrading would further raise medium-term growth prospects, while extending gains in social inclusion.