

World Bank Outcome Bond Accelerates Reforestation of the Amazon Rainforest

In August 2024, the World Bank issued a \$225 million **Amazon Reforestation-Linked Outcome Bond**. The bond mobilized \$36 million to support reforestation of degraded land in Brazil, providing investors with a return linked to **Carbon Removal Units (CRUs)** generated by the project.

Overview

The Amazon rainforest is one of the world's largest carbon sinks. While deforestation has slowed in recent years, there is still a pressing need to restore its native landscapes.

The World Bank's outcome bond enables high grade fixed-income investors to participate in an Amazon reforestation project with measurable carbon removal outcomes. It is expected to fund the restoration of thousands of hectares of forest in Brazil. The bond also supports the development of the nature-based CRU market.

Reforestation Project

The project developer Mombak, a private company based in Brazil, is dedicated to carbon removal by acquiring or establishing long-term partnerships with landowners of degraded lands, reforesting these areas with native tree species. As the trees mature, they absorb carbon from the atmosphere and generate CRUs, which can be sold to create revenue.

To mitigate the uncertainty around future CRU prices, Mombak secured a CRU forward purchase agreement with Microsoft, which has committed to buying up to 1.5 million CRUs from Mombak at pre-agreed prices through 2032. Microsoft a major CRU buyer, evaluates the projects to ensure integrity of the CRUs and to assess environmental and social risks.

In addition to capturing carbon, the projects reforestation efforts enhance biodiversity by planting a wide variety of native plants, while also supporting the socio-economic development of local communities through for example long-term employment opportunities for locals.



Financial Transaction

In connection with the issuance of a nine-year \$225 million outcome bond, the World Bank executed a forward flow agreement with HSBC, which in turn contracted with Mombak. The transaction structure, shown on the next page, includes key features as follows:

- Investors are guaranteed return of principal at maturity and will receive a guaranteed fixed annual coupon of 1.745% plus a variable coupon tied to production of CRUs from the project.
- Bond investors forego a portion of their regular coupons (*the difference between the coupon on a regular World Bank bond and the 1.745%*). An interest rate swap converts these foregone coupons into \$36 million, which is expected to be disbursed to Mombak in 11 scheduled installments, contingent on Mombak meeting agreed milestones. Any undisbursed funds at the end of 2026 are returned to bond investors in January 2027.
- In exchange for this upfront funding, Mombak commits to deliver a portion of future CRU revenue from Microsoft to IBRD (through HSBC) which will be used to fund the bonds variable coupon. Due to the lag between tree planting and CRU production, the first CRU-linked payment is expected in July 2028. If Mombak underperforms in CRU production, investors will earn a lower than expected (or no) CRU-linked coupon.

Outcome

In addition to funding the World Bank's sustainable development activities through the bond proceeds, this outcome bond enables private investors to support a specific development project.

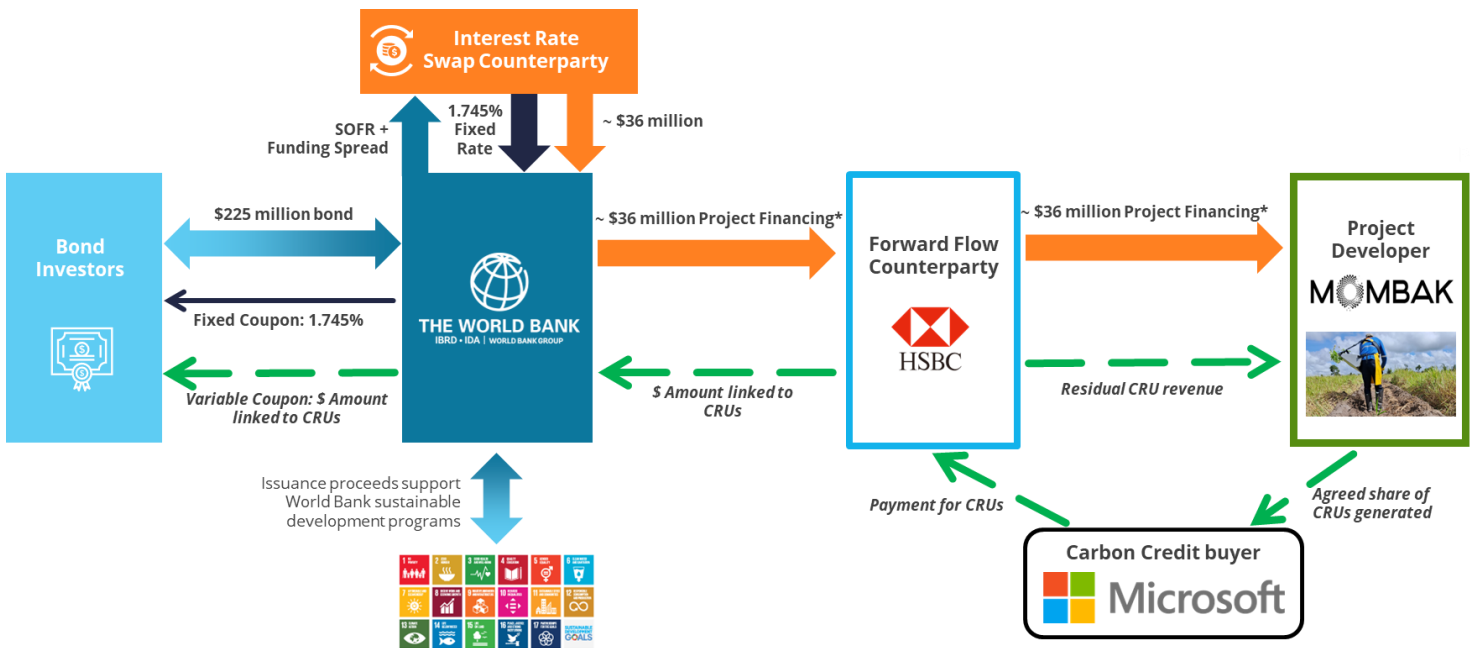
The transaction demonstrates the scalability of outcome bonds, being the largest outcome bond issued by the World Bank to date. Fourteen institutional investors across North America and Europe, including pension funds and asset managers, have participated in the bond.

Reforestation, carbon removal, and bio-diversity outcomes will materialize as the project proceeds. Investors will be rewarded with a higher-than-normal World Bank return if the reforestation project achieves the expected outcomes.

Key Terms

Size / Maturity	USD 225 million / 9-year
Issue Price	100%
Specified Denomination	USD 100, 000
Redemption Amount	Redemption at Par
Issue Date	August 20th, 2024
Maturity Date	July 31st, 2033
Interest Payments	Fixed Interest Payments of 1.745% + CRU-Linked Interest Payments (starting in July 2028), paid annually
Lead Manager	HSBC

Overview of Transaction Structure



*Any amount not disbursed to Mombak by 31 December 2026 is returned to bond investors