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Sovereign Wealth Funds as instruments for the energy transition: the case of the Espírito Santo Decarbonization Fund

Nayara Maia

Operations and Process Manager
Forum of Brazilian Sovereign Wealth Funds (FFSB)

Leandro Ferreira

Executive Director
Forum of Brazilian Sovereign Wealth Funds (FFSB)

Gabriela Vichi

Chief Operating Officer
Development Bank of Espírito Santo (Bandes)

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Policy Brief



1. Introduction

Transformations in the industrial and energy sectors are fundamental to achieving sustainable development goals and mitigating the current environmental and climate crisis and, at the heart of this agenda, the process of decarbonizing economies is an urgent issue. Initiatives such as Race to Zero and Race to Resilience, promoted by the United Nations Framework Convention on Climate Change (UNFCCC), seek to engage governmental and non-governmental actors in a collective commitment to intensify efforts towards the energy transition. In the case of the Race to Zero, the aim is for its signatories to reduce greenhouse gas (GHG) emissions by half by 2030, reaching zero by 2050[1].

[1] Source: UNFCC Climate High-Level Champions (https://www.climatechampions.net/campaigns/race-to-zero/)

In this scenario, Sovereign Wealth Funds are emerging as actors with great potential to catalyze these changes. Internationally, these funds are increasingly required to support the transition to a fairer, carbon-neutral economy committed to the UN Sustainable Development Goals (SDGs) (Dixon, 2025). Furthermore, by directing investments towards sustainable projects and committing to the climate agenda, these instruments combine the application of resources in the present, which are the result of the exploitation of finite resources, with their long-term objectives, overcoming the false dilemma of "spending versus saving" (Teixeira; Vichi; Paz, 2024).

Added to this is the growing demand, linked to the legitimacy of these instruments, for them to act in their territory as a strategic investment tool, allowing not only the preservation and appreciation of savings, but also investment in the real economy (Barbary and Schena, 2024). The expectation is that the resources will be capable of allowing economic diversification in relation to the chain of exploitation of non-renewable resources, as well as effectively generating jobs and alternatives for sustainable growth.

In Brazil – which already has 5 active sub-national funds maintained with oil revenues, as well as another 3 with resources from mining that are in the process of being set up – the subject, although recent, has taken shape and some initiatives deserve to be highlighted. This is the case of the recently created Espírito Santo Decarbonization Fund, set up with resources from the Espírito Santo State Sovereign Fund (Funses), which is the subject of this policy brief.

Our aim in this article is to present a brief overview of the Decarbonization Fund (Funses III), highlighting it as part of a broader development strategy adopted by Espírito Santo (ES) and, based on its example, to reflect on the potential of Brazilian Sovereign Wealth Funds to finance the energy transition.

2. The Espírito Santo Sovereign Fund and the development agenda

Created in 2019, the Espírito Santo Sovereign Fund (Funses) currently has a balance of over R$ 2 billion (BRL)[2], divided into its two lines of action: the creation of intergenerational savings and the promotion of the state's economic development. Endowed with a fairly robust institutional structure, Funses relies on the banks Banestes (Banco do Estado do Estado do Espírito Santo) and Bandes (Banco de Desenvolvimento do Espírito Santo) to manage these resources, which come from oil royalties and special participations[3]. With its experience as a commercial bank, Banestes acts mainly in the strategy of preserving and capitalizing savings through Financial Investment Fund instruments, in multimarket format, in accordance with the regulations established by the Securities and Exchange Commission.

Defined as its Development Agent, Bandes is responsible for investing Funses resources in assets that strengthen and diversify Espírito Santo's economy. Since 2022, the bank has operated the Funses 1 Equity Investment Fund (FIP), a venture capital-type fund[4] with a duration of 10 years, aimed at investing in companies established in Espírito Santo or which move their tax headquarters to the state. With an initial investment of R$250 million, Funses 1 has already accelerated 227 companies - 200 digitally (without investment) and 35 with investment[5].

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[2] Total assets on 07/17/2025: R$ 2.082.466.202,44 (https://fundosoberano.es.gov.br/)

[3] For the specifics of FUNSES's resources origin, see: https://fundosoberano.es.gov.br/origem-dos-recursos

[4] Venture capital funds are investment funds focused on startups and early-stage companies with high growth potential.

[5] Sources: Funses (https://fundosoberano.es.gov.br/) and Bandes (https://www.bandes.com.br/Site/Dinamico/Show/1092/fundo-soberano).

Expanding Bandes' role as the operator of Funses and bringing the Espírito Santo Sovereign Fund closer to investments related to the sustainability agenda, Funses Debentures was launched in 2023, with an investment of R$250 million to finance innovative projects and increase productivity in the industry, energy, health and education sectors, from companies committed to the ESG (Environmental, Social and Governance) agenda. On the occasion of the launch, Marcelo Saintive, Bandes' CEO, stated that “The balance of environmental, social and governance aspects in business management is a competitive differentiating factor in the market, as well as a cutting-edge trend in the economy, as it has an impact on sustainable development” (BANDES, 2023).

3. Funses III: the Espírito Santo Decarbonization Fund

Created in 2025, the Decarbonization Fund (Funses III), operated by Bandes and with an initial contribution of R$500 million from the Sovereign Fund, is part of a broader effort: the Espírito Santo GHG Emissions Decarbonization and Neutralization Plan, launched in November 2023. Inspired by the state's official adherence to the Race to Zero and Race to Resilience campaigns, the plan presents diagnoses, routes and strategies for fulfilling the commitment to reduce GHG emissions by 27% by 2030 and neutralize them by 2050, covering four areas: Energy and Industry; Transport; Waste; and Agriculture, Forestry and Other Land Use (AFOLU).

It is worth noting here that the Energy and Industry sector accounts for the majority of GHG emissions in Espírito Santo (56%), which shifts the focus of the state’s decarbonization efforts from issues such as deforestation and the expansion of livestock farming, which dominate the national agenda, to the industrial

and energy sectors, drawing attention to the importance of understanding regional particularities when designing the necessary policies and instruments.

Designed to be a blended finance[6], Funses III is structured as a Receivables Investment Fund (FIDC, Fundo de Investimento em Direitos Creditórios in portuguese), whose aim is to finance projects in line with the guidelines and targets of the ES Decarbonization Plan. In this format, the Sovereign Fund acts as an anchor investor, and the expectation is to attract resources from new shareholders, such as companies, banks and interested organizations.

[6] Blended finance is a financing model that combines public, development, or philanthropic resources with private capital to leverage projects with social and economic impact potential.

General Characteristics of Funses III	
Structure	● Receivables Investment Fund (FIDC). ● Blended finance structure: BRL 500 million from the anchor investor (Funses) + resources from national and international investors to be contributed via capital calls.
Term	• 8 to 15 years, including possible extensions.
Target Return	• Capital preservation, with accumulated returns equivalent to the average IPCA (Brazilian Consumer Price Index) for the Fund's period plus 1.5% per year.
Classification	• Shall be classified as a Sustainable Investment Fund, according to ANBIMA rules.
Expected Impact on the State of Espírito Santo	• Reduction of GHG emissions; • Incentive for the creation of new green value chains; • Strengthening of sustainable neo-industrialization; • Preservation of capital invested by Funses in the long term.

Authors' elaboration based on information provided by Bandes in: https://bandes.com.br/Site/Dinamico/Show/1943/descarbonizacao.

In addition to all the guidelines contained in the Decarbonization Plan, the creation of the new fund involved preparatory phases of research, demand mapping, discussion and collaboration with various actors. These stages involved exploratory workshops, qualitative interviews, research and discussion of international benchmarks, as well as collaboration with organizations such as the Institute for Climate and Society (iCS), the Open Society Foundations and the National Bank for Economic and Social Development (BNDES).

In line with the ES decarbonization goals, the fund's target portfolio includes projects in areas with the greatest potential for accelerating the energy transition and reducing GHG emissions, as shown in the table below:

Energy	Industry	AFOLU
● Renewable energy (solar, wind, biogas, biomethane); ● Biomass, biofuels, and alternative fuels.	● Clean technologies for industrial production; ● Port and industrial park electrification.	● Reforestation and ecosystem restoration; ● Sustainable agricultural practices and regenerative agriculture.

Authors' elaboration based on information provided by Bandes in: https://bandes.com.br/Site/Dinamico/Show/1943/descarbonizacao.

4. Decarbonization as an agenda for institutional investors

The model adopted by the state of Espírito Santo for Funses III makes use of innovations in which productive processes are placed at the center through the support made possible by sophisticated financial market instruments. The levels of

governance required to manage the risk-return binomial (Teixeira, 2025) require the development of state capacities that are highly path-dependent (Pierson, 2000). The existence of Banestes and Bandes as highly developed governance structures, regulated by the legislation of the National Financial System, is fundamental to the strategy adopted.

This does not mean, however, that the example cannot be followed by similar structures, especially when promoting the sharing of capacities between different institutions. Subnational sovereign wealth funds, such as those brought together in the Brazilian Forum of Sovereign Wealth Funds, can find in a model of inter-institutional cooperation a way to adopt economic diversification and decarbonization strategies in a format that can follow the thesis established by Funses III.

This strategy can be induced in Brazilian federalism through vertical agreements between municipal and state funds and the National Development System, which includes public, commercial and development banks. Measures to regulate these funds can and should include benchmarks for investments classified as sustainable (ANBIMA, 2023). Incorporating the environmental perspective as a factor in the risk matrix is also a measure that is increasingly being incorporated into the concerns of institutional investors.

It is in this direction, for example, that the revision of Resolution 4.994 of 24/3/2022 of the National Monetary Council is taking place, carried out by CMN Resolution 5.202 of 27/3/2025, which sets out the guidelines for the investment of the funds guaranteeing the plans administered by closed supplementary pension entities. These regulations apply to most of the so-called Pension Funds, which had been waiting for years for a reform proposed by the players involved in their ecosystem.

The new resolution points decisively towards environmentally-oriented asset classes. It authorized investments of up to 3% of the net worth of these pension plans in Decarbonization Credits - CBIO and Carbon Credits, included alongside structured assets such as the FIPs themselves. This is a small proportion, but it could be a benchmark for the path to be taken by sub-national Sovereign Wealth Funds. Both in the case of Funses and in the case of the other states and municipalities that hold these resources, which come from the exploitation of resources such as oil, gas and minerals, the thesis of applying the resources to sustainable development projects is strengthened, overcoming the contradiction regarding the origin of these resources.

It is worth noting that, in addition to the sectors targeted by the Espírito Santo Decarbonization Fund's investment thesis - energy, industry, transport and AFOLU - its construction is accompanied by an exclusion list that includes investments in activities, undertakings and items that are not supported: “exploration, drilling and production of crude oil and natural gas, generation of thermoelectric power exclusively using coal or oil derived from oil and production of coal dedicated exclusively to thermoelectric power plants”.

The sectoral exclusion list, the identification of priority investment segments, as well as the thesis of environmentally-oriented investment, should be established taking into account the peculiarities and regional characteristics of the socio-economic development of each territory. In addition, environmentally-oriented investments should be associated in their risk-return analysis with the expectation of a fair and positive social and environmental impact, which will also require the follow-up and monitoring of these projects, demonstrating to both public and private investors the results of their investments.

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About the Authors



Nayara Maia is a Master's candidate in Regional Development, Environment and Public Policy at the Graduate Program in Regional Development, Environment and Public Policy of the Federal Fluminense University (PPGDAP/UFF) and holds a Bachelor's degree in International Relations. She works as a Research Assistant at the Brazilian Network for the Integration of Peoples (Rebrip) and on a sustainable green finance project led by the Centre for Sustainable Finance (CSF) at the School of Oriental and African Studies (SOAS), University of London, in partnership with the Research Group on Financialization and Development (FINDE/UFF).



Leandro Ferreira is a PhD candidate in Economic Development at the State University of Campinas, holds a Master's degree in Public Policy from the Federal University of ABC, and a Bachelor's degree in Public Policy Management from the University of São Paulo. He is a researcher at the Center for Studies on Inequality and Development (CEDE/UFF) and previously served as President of the Brazilian Basic Income Network. He has professional experience in executive branch governments and in legislative bodies across different levels of government in Brazil.



Gabriela Vichi is an economist with a Bachelor's degree from the Federal University of Espírito Santo and a Master's degree in Economic Development from the Federal University of Paraná. She has worked as an Economic Analyst at the Federation of Industries of the State of São Paulo (FIESP), a Project Analyst at Sebrae Espírito Santo, and Business Environment Manager at the Federation of Industries of Espírito Santo (Findes). Since 2023, she has served as Chief Operating Officer of the Banco de Desenvolvimento do Espírito Santo (Development Bank of Espírito Santo). In 2024, she co-authored the book Women in Espírito Santo – Accelerating and Inspiring Careers.

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About FFSB

The Forum of Brazilian Sovereign Wealth Funds (FFSB) was established through a partnership between the Federal Fluminense University and the Jain Family Institute, bringing together Brazilian states and municipalities that manage sovereign wealth funds. Today, the initiative is supported by the Institute for Climate and Society (iCS) and the Open Society Foundations (OSF).

FFSB serves as a permanent platform for knowledge exchange and collaboration among experts, academics, and fund managers. Its mission is to monitor, guide, and promote best practices in the management of financial assets, based on an agenda that prioritizes sustainable local development.

comunicacao@fundos-soberanos.org.br

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