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The Green Bond Market in Brazil

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In recent years, market players have given growing importance to linking the conduct of their business to sustainability-related variables. In this context, the financial and capital markets have been looking for different ways of incorporating ESG (Environmental, Social and Governance) factors into their analyses, products and means of raising funds, including via green bonds.

In the emerging world of "sustainable finance", companies and financial institutions have developed securities that allow funds raised in the market to be allocated to the financing of sustainable businesses. Raising those funds, in Brazil or internationally, can be done in various ways, according to the particularities of each type of security: green, social, sustainable and sustainability-linked bonds, according to the classification established by Brazil's stock market, the B3 – *Brasil, Bolsa, Balcão*[1] or international classifications.

In this context, one of the financing alternatives is the issuance of green bonds. Green bonds, also known as climate bonds, are debt securities issued to raise funds for financing or refinancing "green" projects – i.e. projects or assets that have positive features from an environmental and/or climate point of view,[2] in line with the four main components of the Green Bond Principles, which are the following:[3]

1. **Use of proceeds** for green projects, which should be appropriately described in the security's legal documents, indicating the project's environmental benefits;
2. **Process for project evaluation and selection of green projects**, which should be disclosed by the issuer, together with the project's sustainability objectives and the criteria for determining eligible projects;
3. **Management of proceeds**, in such a way that the proceeds are allocated to a separate account or whose destination to green projects can be tracked;
4. **Reporting**. Issuers should make available updated reports on the use of proceeds from the green bonds.

The documentation for the bonds should refer to a framework aligned with the Green Bond Principles, which issuers undertake to respect. In many cases, the market requires that firms specializing in ESG analysis be hired to certify compliance with those principles and issues an opinion on conformity to the required standards. Also, the Green Bond Principles recommend that the management of proceeds be audited by an external auditor, or another accredited third party, to verify the correct allocation of funds.[4]

Green bonds by Brazilian Issuers

Although Brazil represents only 1% of the global green bond market,[5] Brazilian companies have been showing a growing interest in issuing green bonds.

The first issuance of green bonds by a Brazilian company occurred in 2015, when the food producer BRF S/A raised €500 million in the European market with a seven-year maturity green bonds issue. In its market releases, that company stated that the proceeds from the bonds would be used to finance energy efficiency, greenhouse gas emission reduction, and other climate-friendly projects.[6]

In 2016, institutional investors that manage a total of BRL 1.8 trillion in assets – including fund managers, insurers and pension funds – signed a declaration in which they committed to the development of a market for green bonds in Brazil.[7] In 2018, with the development of the market, B3 allowed green, social or sustainable bonds to be identified as such in its trading platforms.[8] It is worth mentioning that B3 is promoting debates and initiatives to demystify and foster more issuances locally in partnership with market organizations specialized in the theme.[9]

In 2020, Brazilian companies raised USD 5.3 billion through 37 issues of sustainability-linked securities, which correspond to more than double of funds raised in 2019.[10] As of February 2021, a total of USD 9 billion had been issued in green securities, with the agribusiness sector representing more than 27% of the total.[11]

Financial institutions have also participated in the green bond market, and have issued their own green securities to raise funds to finance sustainable projects. At the end of 2020, for example, Bradesco, one of Brazil's largest banks, issued BRL 1.2 billion in ESG-linked bonds,[12] and at the beginning of 2021, Banco BTG Pactual, a major investment bank, raised USD 500 million in the international market through a green bond issue.[13]

Brazilian Regulation

In Brazil, regulations governing green bonds include Decree 10.387/2020, published on June 5, 2020, which addressed projects that generate significant environmental or social benefits among the projects considered as priority projects for the purposes of Article 2 of Law 12.431/2011 and regulations under Decree 8.874/2016. Decree 10.387/2020 also establishes which projects will be considered to produce significant environmental benefits in the urban mobility, energy, and basic sanitation sectors.

As a result, securities falling within the definition under Article 2 of Law 12.431/2011 and are issued to finance projects that generate significant environmental or social benefits will enjoy more favorable taxation, encouraging the development of Brazil's green bond market.

The market for green securities, and ESG securities, in general, has grown rapidly in Brazil, mirroring an international trend. Although there are challenges in the way of this market's maturity, including on the transparency regarding the positive results from the green projects financed with green bonds, it seems to be an irreversible and welcomed development of the financing business, in Brazil and internationally.

NOTES:

[1] B3. ESG Products and Services. Available at <https://www.b3.com.br/en_us/b3/sustainability/esg-products-and-services/green-bonds/>.

[2] According to the Guidelines for Issuing Green Bonds in Brazil (Guia de Emissão de Títulos Verdes) prepared by FEBRABAN (Federation of Brazilian Banks) in 2016 .

[3] These are voluntary principles that recommend transparency and disclosure of proceeds from green bonds, contributing to the development and integrity of the green bond market. For more information see the guidebook prepared by the International Capital Market Association in conjunction with the Climate Bonds Initiative. Source: GBP (June 2021) <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Green-Bond-Principles-June-2021-140621.pdf>.

[4] For more information, please access: GBP (June 2021) <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Green-Bond-Principles-June-2021-140621.pdf>.

[5] Valor Econômico. Emissões de títulos verdes já superam US$ 5,3 bi. Available at: <https://valor.globo.com/publicacoes/suplementos/noticia/2021/02/02/emissoes-de-titulos-verdes-ja-superam-os-us-53-bi.ghtml>.

[6] Valor Econômico. BRF capta €500 milhões com emissão inédita de bônus 'verdes'. Available at <https://valor.globo.com/financas/noticia/2015/06/01/brf-capta-eur-500-milhoes-com-emissao-inedita-de-bonus-verdes.ghtml>.

[7] Climate Bonds Initiative. Investor Statement. Available at <https://www.climatebonds.net/market/country/brazil/investor-statement>.

[8] B3. ESG Products and Services. Available at <https://www.b3.com.br/en_us/b3/sustainability/esg-products-and-services/green-bonds/>.

[9] B3. ESG Products and Services. Available at <https://www.b3.com.br/en_us/b3/sustainability/esg-products-and-services/green-bonds/>.

[10] Valor Econômico. Emissões de títulos 'verdes' já superam os US$ 5,3 bi. Available at <https://valor.globo.com/publicacoes/suplementos/noticia/2021/02/02/emissoes-de-titulos-verdes-ja-superam-os-us-53-bi.ghtml>.

[11] Climate Bonds Initiative. Mercado brasileiro de títulos verdes bate a marca dos 9 bilhões de dólares. Available at <https://www.climatebonds.net/resources/press-releases/2021/06/mercado-brasileiro-de-t%C3%ADtulos-verdes-bate-marca-dos-9-bilh%C3%B5es-de>.

[12] Exame. Bradesco amplia atuação em ESG e emite R$ 1 bi em títulos verdes. Available at https://invest.exame.com/esg/bradesco-amplia-atuacao-em-esg-e-emite-1-bilhao-em-titulos-verdes

[13] Valor Econômico. BTG capta US$ 500 milhões em títulos verdes no mercado internacional. Available at <https://valor.globo.com/financas/noticia/2021/01/08/btg-capta-us-500-milhes-em-ttulos-verdes-no-mercado-internacional.ghtml>.

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